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March 21, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Greece - Supplementary Background Material for the GATT

The attached paper has been prepared by the staff to supply more recent background information on Greece in connection with the forthcoming consultations between the CONTRACTING PARTIES to the GATT and Greece. In the absence of objection from an Executive Director by noon on Friday, March 28, 1986, the paper will be transmitted to the CONTRACTING PARTIES for their information and use.

Mr. Stanyer (ext. 8818) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

GREECE

Supplementary Background Material for GATT

Prepared by the European and the
Exchange and Trade Relations Departments

Approved by Brian Rose and J. T. Boorman

March 19, 1986

This supplement updates the Fund report of April 30, 1985, entitled
"Greece--Recent Economic Developments."

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Introduction

After several years of stagnant output, economic activity recovered in 1984 with GDP growing by 2.6 percent. Growth was buoyed in 1984 by a strong recovery in agriculture and a pickup in industrial output due mainly to an increase in external demand. Domestic demand, which had declined in 1983, also recovered. In 1985, despite a further strengthening of domestic demand, GDP growth slackened to 1.8 percent, as a result of a slowing of external demand and a weather-induced weakening of agricultural output. In 1984 and 1985 public investment continued to grow strongly and although private investment declined further in both years, the reduction in 1985 was much smaller than in previous years. Consequently, and for the first time in six years, total fixed investment increased in 1985 by 1 percent. In 1984, reflecting the abundant harvest, stockbuilding recorded a positive contribution to growth, which continued in 1985. But in 1985 this was partly due to a buildup of inventories of imported goods so that the substantial contribution to GDP growth from the external sector which was recorded in the previous two years did not continue last year when imports grew rapidly and export growth moderated.

In both 1984 and 1985 the net public sector borrowing requirement increased, reaching 15.6 percent and 18.0 percent of GNP, respectively, on a cash basis. In both years initial plans had been for a reduction in the fiscal deficit. Likewise, in both years the growth in broad money, of 29 percent in 1984 and 26 percent in 1985, exceeded the increases which were projected in the annual monetary programs, with faster than projected monetary growth a consequence of bank finance of the larger than projected budget deficits. The deviations of fiscal and monetary developments from initial objectives were particularly marked in the first half of 1985 as the outturn for the year as a whole reflected the impact of measures to restrain government expenditures and to curb bank liquidity which were introduced only after mid-year. Inflation has remained high and the 12 month rate of consumer price increase, which averaged 19 percent in 1984 and 1985, reached 25 percent in both December 1985 and January 1986. The recent acceleration reflects last October's 15 percent devaluation of the drachma and substantial increases in administered prices in the final quarter of 1985.

In 1984, the external current account deficit widened slightly by US\$0.3 billion to US\$2.1 billion (6.4 percent of GNP) before deteriorating sharply in 1985 to US\$3.3 billion (10.1 percent of GNP). Strengthened by a rapid growth of export volumes, the trade deficit remained stable in 1984, while rising interest payments and a decline in the dollar value of transfers received from the EC led to a decline in the invisibles surplus. In 1985, there was a marked increase in the deficit on merchandise trade, while the decline in the surplus of net invisible receipts continued. The growth of imports accelerated in volume terms at the same time as that of exports declined and the terms of trade worsened significantly. In addition to deteriorating cost competitiveness and some adverse movement in the relative cyclical position of the Greek economy, exchange rate expectations played an

important role in the deterioration of the current account in 1985. Autonomous capital inflows were also negatively affected by perceptions of exchange risk. In consequence, compensatory net foreign borrowing by the public sector increased from US\$1.6 billion in 1984 to US\$2.0 billion in the first 11 months of 1985. The stock of external debt is estimated by the staff to have reached US\$15.2 billion (47 percent of GNP) at end 1985 compared with US\$8.3 billion (22 percent of GNP) four years earlier. Public sector foreign debt now accounts for three quarters of the total external debt of Greece.

In October 1985 the Greek authorities announced a series of measures aimed at reducing inflation and stabilizing external debt by 1988. The measures included devaluation of the drachma; the imposition of an import deposit scheme; sizeable increases in administered prices; a strict incomes policy involving far-reaching reform of the system of wage indexation; increases in some bank-lending rates together with a planned deceleration of monetary growth; and the presentation of a budget which targets a 4 percentage points reduction in the PSBR in 1986, to be followed by a similar reduction in 1987.

I. Domestic Economy

1. Developments in aggregate demand

a. Overview

In 1984, GDP at constant prices grew by 2.6 percent after an increase of 0.3 percent in 1983. GNP growth in 1984 was, however, only 1.8 percent after having declined steadily in the preceding three years, as rising interest payments on foreign debt and declining receipts from shipping have led to sharply reduced net factor income from abroad (Tables 1 and 2). The main contribution to the growth of GDP came from exports of goods and services, with the external balance contributing 2.0 percentage points to the growth of GDP. This reflected buoyant agricultural output (agricultural exports represent over one quarter of total exports) and a recovery in foreign demand. Total domestic demand increased by 1.1 percent in 1984, contributing about 1 percentage point to GDP growth. ^{1/} This recovery from a modest contraction in 1983 was due primarily to a turnaround in the stock cycle. Stockbuilding gave a positive impetus to growth in 1984 of 0.4 percentage point, after three successive years of contributing negatively to output growth. In addition, growth in public sector spending on consumption and investment, taken together, increased. Private sector consumption also picked up, rising by 1.1 percent in 1984 compared with 0.7 percent in 1983. The decline in private sector investment accelerated in 1984, reflecting the steady decline in enterprise profits and a sharp contraction of private housebuilding.

In 1985, preliminary data show GDP growth of 1.8 percent. GNP growth is likely to have been significantly less because net factor income from abroad is expected to have declined further in 1985. Total domestic demand growth picked up moderately to 2.0 percent. Public sector consumption and investment continued to expand rapidly in real terms, although at a slower pace than in 1984, while private consumption again grew modestly, by around 1 percent. Private investment recorded a considerably lower decline than in 1984, reflecting more moderate fall in construction expenditures. Stockbuilding contributed a further 0.5 percent to GDP in 1985, with inventory accumulation being boosted by anticipatory imports ahead of the October devaluation and imposition of import restrictions. The contribution of the net foreign balance to GDP growth was negative (0.2 percentage point) in 1985, after having been strongly positive in the previous two years. This resulted from the strong pickup in import volumes and a moderation in export volume growth.

^{1/} There was a negative contribution to growth from the statistical discrepancy of about 0.5 percentage point.

b. Consumption

In 1984, real personal disposable income grew by 2.4 percent but a rise in the saving ratio kept the increase in private consumption to 1.1 percent. This reflected the impact of the large increase in agricultural incomes stemming from the buoyant harvest in 1984 and the relatively high saving propensity of farmers. In 1985, private consumption rose by 1.2 percent, approximately in line with the growth of real incomes.

Public consumption increased by 3.9 percent in constant prices in 1984 and by an estimated 3.5 percent in 1985. In part, this can be explained by increased hirings in the public sector. During the first ten months of 1985, 10,000 new jobs were created in the government sector equivalent to 0.4 percent of the total labor force. During the last four months of 1985 public consumption was restrained somewhat as a result of cutbacks in "elastic" consumption expenditures (supplies, overtime) by the government. As a share of GDP (in constant prices), public consumption rose from 14.6 percent in 1980 to 16.7 percent in 1985.

c. Investment

During the 1970s, gross fixed capital formation grew at an average annual rate of 4.0 percent, whereas during the 1981-85 period it declined at an average rate of 3.4 percent (Tables 1 and 2). This is attributed to a persistent decline in private sector investment. Both residential investment by households and business investment expenditures have fallen sharply, with the latter related to the steady decline in enterprise profits over the past decade. Although public investment has risen as a share of GDP in recent years, it has not been sufficient to compensate for the decline in private investment from 14.9 percent in 1980 to 9.8 percent in 1985.

In 1984, gross fixed capital formation declined by 4.6 percent, reflecting a 12.2 percent decline in private investment which more than offset a 10.9 percent rise in public investment. The decline in private investment is explained by the continued compression of enterprise profits and the impact of a strike which contributed to a 22.9 percent contraction in residential investment (Tables 5 and 6). Agriculture continued to benefit from resources made available through the EC's agricultural programs and Greece's central government investment budget, resulting in a 21.2 percent increase in agricultural investment.

In 1985, gross fixed investment increased (by 1.1 percent) for the first time in six years. This was accounted for by a 5.4 percent growth in public investment. The growth of public sector investment is in line with the authorities' 9 percent average growth target for the 1983-87 five-year plan period. Public investment was concentrated on social infrastructure projects, including schools, hospitals, roads and bridges. Private investment declined less sharply than in preceding

years (by 1.2 percent) with private construction expenditures declining in volume terms by 4 percent in 1985, after a 23.7 percent reduction in 1984. Private investment by manufacturing enterprises (mainly oil refineries) recovered somewhat. However, this reflects government participation in the investment plans of these private enterprises.

d. Foreign balance

In 1984, the net real foreign balance made a 2.0 percentage points contribution to GDP growth (Tables 1 and 2). This reflected a strong export performance combined with moderate import growth. A much improved agricultural harvest (6.4 percent growth in real terms) (Table 8) and a pick up in export market growth account for much of the buoyancy of exports of goods and services, which rose by 11.4 percent in volume terms on a national accounts basis. The growth of merchandise exports was a major driving force behind the upturn in manufacturing production, especially in sectors such as basic metallurgy (up by 12 percent) (Table 9), which are almost totally dependent on exports. The rebound in tourism (11 1/2 percent growth in gross receipts in U.S. dollar terms) was another important factor behind the contribution of the foreign balance to GDP growth in 1984.

In 1985, the net foreign balance made a negative contribution (0.2 percentage point) to GDP growth. This turnaround from the preceding year is accounted for by the strong recovery in the volume of imports of goods and services which are estimated to have grown by 6.4 percent in constant prices and a slowdown in export volume growth. The increase in imports reflects, in part, anticipatory imports ahead of the adjustment measures which were implemented in October 1985. The rate of growth in the volume of exports of goods and services slowed to 6.1 percent on a national accounts basis in 1985. ^{1/} This reflected some slowdown in the growth of Greek export markets and a stagnation in agricultural production. Recorded expenditure by tourists did not rise as rapidly as would have been expected on the basis of the increase in the number of tourist arrivals (see Chapter V).

Net factor income from abroad has made a negative contribution to GNP growth in each year since 1980 (Tables 1 and 2). This is due primarily to reduced earnings from shipping and increased interest payments on the growing stock of net external liabilities. These factors are expected to have led to a further drag on GNP growth in 1985.

^{1/} The customs data for merchandise trade in 1985 suggest a much stronger growth of import volumes and a slower growth of export volumes than do the national accounts data for trade in goods and services (see Chapter V).

2. Developments in aggregate supply

a. Overview

In 1984, there was a modest recovery in domestic supply, and real GDP at factor costs grew by 2.8 percent (Tables 7 and 8). Agricultural production grew strongly, by 6.4 percent, and output in industry increased by 2.6 percent, with manufacturing output up 1.9 percent as exports expanded rapidly. Construction output declined sharply due to the impact of labor disputes while the output of services continued to grow steadily.

In 1985, output growth slowed; preliminary estimates indicate that real GDP at factor costs grew by 1.8. Agricultural output increased by only 0.5 percent, due to the effect of drought. The slowdown in exports was mirrored in slower industrial output growth. The services sector continued to expand, reflecting an increase in supply of public services and the rebound in tourism.

b. Industry and construction

In 1985, industrial production comprised roughly one-fourth of GDP, when measured at factor costs. Approximately 80 percent of industrial output originated from the manufacturing sector (Table 7). Industrial output declined at an average annual rate of 1.5 percent in the three years to 1983. In 1984, industrial production grew by 2.6 percent (the first increase since 1980) with manufacturing output increasing by 1.9 percent and export oriented industries (basic metallurgy, metal products, and chemicals) recording the strongest growth rates (Table 9).

In 1985, industrial production continued to grow but by only 1 percent (Tables 7 and 8). This slower growth reflects the weaker export performance in 1985. However, construction output recovered, growing by 2.0 percent, after a 6.6 percent decline in 1984 (Table 8). The issue of new construction permits, which is a crude leading indicator of construction activity in Greece, rose by 14 percent in 1985.

The "problem enterprises" continued to be a major issue for industrial policy in 1985. In October, it was announced that six loss making enterprises would be liquidated and that a decision had been taken to capitalize part of the debt of other loss making enterprises which are officially categorized as "problematic." Half of such capital injections would be provided by the budget and half by the National Bank of Greece, which is the commercial bank most heavily exposed to these enterprises. However, by early 1986 the government had not decided which enterprises would be closed down and was still assessing the viability of individual "problem" enterprises. The government has decided that any enterprise of national strategic importance, for example in the armaments industry, will not be closed down.

c. Agriculture

Agricultural production (along with forestry and fishing) accounts for around 14 percent of GDP (Tables 7 and 8), and has been volatile in recent years, rebounding from a 6.8 percent decline in 1983 to a 6.4 percent increase in 1984. The large decline in agricultural production in 1983 was due to bad weather. In addition to more favorable climatic conditions, the buoyant agricultural performance in 1984 also reflected successful crop restructuring. This involved increased cultivation of cotton and sunflower in areas which were previously sown with soft wheat. The fastest growing crops in 1984 were citrus fruits and tobacco, as well as wheat, whereas sugar beet and currants and sultanas recorded the sharpest declines.

In 1985, agricultural output grew by only 0.5 percent, in comparison with a 2.0 percent official target. This shortfall is attributed to the impact of drought. The production of grains showed the greatest reduction, with grain yields declining by almost 28 percent. The fastest growing crops in 1985 were sugar beet, cotton, sunflower and tobacco, which benefited from an expansion of the area under cultivation (at the expense of soft wheat). Livestock production declined by 1.2 percent in 1985.

d. Services

During the 1980s, the importance of services relative to the other sectors has increased steadily in Greece (Tables 7 and 8) reaching 56.3 percent of GDP in 1985. The growth in services has stemmed from two main sources, namely, the increased supply of public services by the government, of which health and education have had especially large increases over the 1984-85 period; and the transportation and communications sectors, particularly when the tourist industry rebounded in 1981 and again in the period 1984-85.

II. Employment, Income, and Prices

1. Developments in the labor market

There is a considerable degree of uncertainty surrounding the reliability of labor market statistics in Greece. Therefore, any conclusions to be drawn are tentative. Despite the Greek authorities' effort to bolster employment, the strong increase in labor costs, the slackness in economic activity, and a return to Greece of workers from abroad, have all contributed to a marked weakening in the labor market. As a result, the rate of total unemployment has doubled during the 1980s, rising from 4.0 percent in 1981 to 8.1 percent in 1984 (Table 10). Labor market statistics for 1985 are scant. However, the 1986 Budget document indicates that the rate of total unemployment remained at about the same level as in 1984. 1/ The government adopted several measures in 1984 to alleviate youth unemployment. These measures generally took the form of subsidies to employers for hiring persons under 25 years of age. Youth employment in the construction sector was also aided by the extension of an employment program subsidized by the Organization of Employment Offices. 2/

2. Incomes

In 1984, average earnings in the nonagricultural sector increased sharply, by 23.2 percent, implying a rise of almost 4 percent in real terms (Table 3). This reflected the carry-over effect of delayed indexation adjustments falling due in the first half of 1983, wage-drift, and seniority payments in the public sector. In manufacturing, hourly wages increased by 26.3 percent in 1984. With an increase in productivity of 2.8 percent, unit labor costs in manufacturing rose by 22.9 percent, compared with an increase of 18.3 percent in 1983 (Table 10).

Total household income increased by 22.8 percent in 1984, after a rise of 18.6 percent in 1983 (Table 3). With direct taxes increasing by almost 30 percent, disposable income grew by 21.3 percent. Allowing for the increase in consumer prices, real disposable income, which had fallen by 1.3 percent in 1983, recovered by 2.4 percent in 1984. A breakdown of total household income by origin (Table 3) shows that in 1984 agricultural income grew at the highest rate, by 29.3 percent, boosted, inter alia, by a strong growth of agricultural output. Income from property and entrepreneurship, on the other hand, grew at a rate substantially lower than the average, by 16.8 percent. This continued a

1/ Preliminary results of a survey conducted in Greece indicate a modest decline in the rate of total unemployment.

2/ In 1984, Dr 12 billion were allocated from the public investment budget to increase youth's employment in the construction sector.

trend that has been in evidence, since the mid-1970s of income distribution shifting in favor of dependent employment income and away from income from property and entrepreneurship.

In the first half of 1985, hourly wages in manufacturing increased by 21.2 percent, and with a decline in productivity, these translated into a 24.4 percent rise in unit labor costs (Table 10). For the year as a whole, average earnings in the nonagricultural sector are estimated to have increased by 21 percent in 1985, which implies a rise of more than 1 percent in real terms. The slowdown in agricultural production observed in 1985 led to a 18 percent increase in agricultural income or a 1 percent decline in real terms. Government transfer payments to the household sector grew by 26 percent and disposable income is estimated to have increased by around 20 percent, a small increase in real terms.

3. Incomes policy

The stabilization package of October 11, 1985 introduced major changes to the system of wage indexation that has applied since 1982; the changes have taken effect from January 1, 1986. The previous system had provided automatic wage indexation at four-monthly intervals (January, May, and September), based on the increase in the consumer price index during the preceding four months. The mechanism was applied in both the private and public sectors, although it was not mandatory in the former. It provided full compensation for lower-income workers and was tapered to provide less than full adjustment for higher incomes by adhering to the following scale: (a) the fraction of the salary up to Dr 50,000 per month received full adjustment for the increase in consumer prices; (b) the portion of the salary between Dr 50,000 and Dr 75,000 received 50 percent adjustment; (c) the portion of the salary between Dr 75,000 and Dr 100,000 received 25 percent adjustment; (d) and no adjustment was given for the portion of the salary above Dr 100,000.

Under the new scheme, wages and salaries are to be set every four months on the basis of an official target for the inflation rate for the following four-month period, adjusted to exclude imported inflation. The latter is to be measured by the change in the final imported products component of the wholesale price index over the previous four months, which has a 19 percent weight in the aggregate index. The wage and salary adjustments thus determined are to be the maximum legally permissible in both the public and private sectors in 1986 and 1987, except for the effects of some salary restructurings in the public sector which had been granted prior to October 1985 and whose implementation was postponed for six months. Wage increases exceeding the limits will be treated as illegal and noncomplying firms will be subject to fines and will not be entitled to deduct as costs in deriving their profits for taxation purposes the average increases in excess of the legal limits. In addition, the salaries of public and private sector employees which exceed Dr 150,000 (US\$1,050) per month will not be adjusted for inflation until May 1, 1986. The government has

announced that there will be an adjustment to wages at the end of 1986 if actual nonimported inflation deviates from the rate which was projected. The new system continues to use the tapering-off provisions of the former arrangement.

In January 1986, the Greek authorities announced that the reference point for maximum wage and salary adjustments is 4.5 percent for the first four months of 1986. This was determined on the basis of a forecast rise in the consumer price index of 7.5-8.5 percent during the first four months of 1986, and a 21.2 percent increase in the imported goods component of the wholesale price index between September and December 1985. The salary adjustments granted by this formula are substantially lower than those which would have been granted under the previous system on the basis of the 14.8 percent increase in consumer prices over the last four months of 1985.

4. Prices

The period between 1981 and 1984 was characterized by a modest decline in the rate of inflation in Greece, with the average rate of change in consumer prices falling from 24.5 percent in 1981 to 18.5 percent in 1984 (Table 11). However, during the same period the rate of inflation measured by consumer prices in other EC countries fell from 11.1 percent in 1981 to 6.1 percent in 1984. In 1985, consumer price inflation increased to 19.3 percent as an annual average and to 25.0 percent on a December over December basis. ^{1/} This compares with an annual average target of 17 percent (or 16 percent on a December over December basis) sought by the Greek authorities at the beginning of 1985. The acceleration in the second half of 1985 reflected the impact of devaluation; a realignment of public sector tariffs and other administratively controlled prices as well as the passing on to consumers of some costs arising from the imposition of the import deposit scheme in October 1985.

From January 1985 until the June parliamentary elections the consumer price index had increased in line with the official target for the year. However, this was accomplished by restraining administered prices with detrimental consequences for the public sector deficit. In August 1985, the Greek authorities initiated a series of realignments of administered prices. The prices of petroleum products were raised on average by 16 percent, having been increased by 15 percent in January 1985; the price of bread rose by 8 percent and the price of sugar, which is controlled by a state monopoly, rose by 16 percent. Cement prices rose by an average of 15 percent. Further administrative price increases took place in December 1985. The price of petroleum products went up again, by 15 percent on average; dairy product prices rose by an average 16 percent and those of household electric appliances made in Greece rose by 22 percent. These administered price increases

^{1/} The twelve months increase was also 25.0 percent in January 1986.

themselves reflect in part the impact of the 15 percent devaluation of the drachma in October 1985. Between August and December 1985 the consumer price index rose by 14.8 percent. 1/

Among the separate categories of the consumer price index, clothing and footwear increased the most on an annual average basis (by 22.1 percent) in 1985, followed by other goods and services (20.9 percent). Transportation and communications rose the least (16.8 percent). The average wholesale price index rose by 20.6 percent (or 28.2 percent on a December over December basis). Largely as a result of the devaluation, imported final products recorded the largest average increase (23.3 percent), followed by exported products (22.1 percent). Domestic primary products rose the least (17.7 percent).

For 1986 the Greek authorities envisage that as the result of the adjustment program, inflation measured by the consumer price index will decline to 16 percent on a December over December basis.

1/ The impact of the devaluation on prices was lessened by the decision not to adjust at the same time the parity (the so-called "green" drachma exchange rate) used to translate EC agricultural support prices in to drachma terms.

III. Public Finance

1. Introduction

Between end-1980 and end-1985 (staff estimate) the ratio of public sector debt to GNP doubled, to over 80 percent of GNP, while the foreign debt of Greece more than doubled to 47 percent of GNP, with almost all of this increase representing public sector foreign borrowing. During this period, the PSBR increased to an annual average of over 14 percent of GNP and although public sector fixed investment has increased as a share of GNP since the late 1970s, ^{1/} the rise of government borrowing since then is largely accounted for by a deterioration in the balance of current receipts and expenditures. A rapidly growing element in this is represented by interest payments, which have been increased not only by the growing debt stock but also by higher interest rates. Public sector interest payments increased from 5.0 percent of GNP in 1981 to over 8 percent of GNP in 1985.

A key element in the October 1985 package of measures to stabilize foreign borrowing and to reduce the rate of inflation is the objective of reducing the net PSBR, which reached 18 percent of GNP on a cash basis in 1985, by at least 4 percentage points of GNP in 1986 and by a similar amount in 1987. This is to be achieved at a time of increasing interest payments and, for the first time since accession to the EC in 1981, of a decline in nominal terms in net budgetary receipts from the EC. The projected increase in central government expenditures is to be held below the expected rise in prices, while direct tax revenues are projected to rise rapidly reflecting a renewed drive to collect outstanding back taxes and to reduce tax evasion, as well as the effects of fiscal drag. Borrowing by the government's extrabudgetary accounts and by the public enterprises is to be curtailed.

2. 1984 outturn

Revised data for 1984 show the net PSBR on a cash basis of 15.6 percent of GNP (Table 12). Accruals basis data show a corresponding deficit of 14.3 percent of GNP, an increase of 2.7 percentage points from 1983 (Table 13). The original budget plans for 1984 had projected a net PSBR of 12.5 percent of GNP. The overshooting of the deficit in 1984 was due to the unplanned losses which emerged in the government's off-budget petroleum account. This account reflects transactions arising from the government's monopoly of the domestic oil market. While part of the deficit arose from the financing of higher levels of petroleum stocks, the major share represented the subsidization of petroleum prices, which were not changed in line with import costs.

^{1/} Public sector fixed investment (on an accruals basis) increased from around 5.6 percent of GNP in 1979-80 to 7.7 percent of GNP in 1984-85.

3. Fiscal developments in 1985

a. 1985 initial budget projections

The 1985 budget projected a reduction in the net PSBR to 12.2 percent of GNP (on an accruals basis). The major saving to achieve the reduction was to arise from the planned elimination in 1985 of the deficit (1.7 percent of GNP in 1984) in the government's petroleum account. Expenditures and revenues of central government were projected to rise by 26.6 percent 1/ and 29.8 percent, respectively (see Tables 16, 17, and 18), both significantly faster than the projected increase in nominal GNP (under 20 percent). Particularly large increases were foreseen in outlays on debt interest payments (44 percent), on health and social welfare programs (41 percent) and on national (rather than EC financed) agricultural subsidies (40 percent). Funding for these increased expenditures was to come in large part from a projected surge in direct tax receipts. This was to occur despite a major reduction in individual real personal income tax obligations 2/ and was to be achieved through a crackdown on tax evasion and a more efficient processing of outstanding tax returns. This was also expected to boost indirect tax revenues, which were scheduled to rise by 25.5 percent even though tax rates were not raised. The principal change in indirect tax schedules was a 10 percentage points cut in the "regulatory tax" on June 1, 1985 which led to a loss of revenue of about Dr 6 billion in 1985. This tax was introduced in June 1984, in agreement with the EC, and consolidates various indirect taxes and duties to the extent that they discriminate against imports. 3/

The 1985 budget projected a small increase in the combined operating deficits of the public enterprises and public entities (social insurance funds, etc.), although their net borrowing requirement was projected to increase from the equivalent of 2.5 percent of GNP in 1984 to 3.0 percent, reflecting a 37 percent increase in their fixed investment expenditures, which were expected to reach 5.1 percent of GNP (Tables 20, 21, and 23). Their combined operating deficits were again expected largely to be accounted for by the deficits of two social insurance funds, the Workers' Social Insurance Organization (IKA) and the Farmers' Social Insurance Organization (OGA). In addition, some

1/ Expenditures, excluding amortization, of the ordinary and public investment budgets and the special account for agricultural product guarantees. The latter reflects the channeling through the budget of EC agricultural subsidies.

2/ See Recent Economic Developments, page 40 and Table 30.

3/ The regulatory tax is classified as a transaction tax in Table 18 and the reclassification of indirect taxes following its introduction accounts for the disparate rates of change in indirect tax receipts in 1985 shown in Table 18. This tax was reduced by 10 percentage points on July 2, 1984 and by a further 15 percentage points on March 1, 1986 and is to be phased out completely by January 1, 1989.

public enterprises were expected to incur substantial operating losses, notably the urban transport system, the state railways, and the Hellenic Aerospace Industry.

b. 1985 provisional outturn

The net PSBR is estimated to have reached 18.0 percent of GNP in 1985 on a cash basis (Table 12). On an accruals basis the PSBR is reported at 15.2 percent of GNP, 3.0 percentage points higher than originally projected (Table 13). 1/ This overrun was almost entirely on account of the central government. There was a particularly marked deterioration in central government finances in the first half of 1985. In the second half of the year, tax receipts picked up significantly and measures were taken to curtail "elastic" current expenditures. For the year as a whole, central government expenditures, excluding amortization, were Dr 37 billion - or 0.8 percent of GNP - higher than envisaged in the 1985 budget. This overrun, equivalent to 2.8 percent of 1984 expenditures, is slightly more than the extent to which inflation exceeded its initial projection. 2/ On the other hand, despite the faster inflation, central government revenues fell significantly short of initial projections.

The shortfall of Dr 98 billion--or 2.2 percent of GNP--in central government revenues in 1985 compared with initial budget projections is mostly explained by the failure of the government's drive in 1985 to collect arrears and back taxes to come close to the level of receipts incorporated in the 1985 budget. The government attributes responsibility for this shortfall in part to the lessened vigor of the drive to collect taxes during the election period in 1985 and to the effects of a delay (due to the elections) in gaining Parliamentary approval for the 1985 tax bill. In addition, payments of personal income tax falling due in 1985 lagged initial estimates.

As was envisaged in the 1985 budget, government expenditures grew substantially in real terms last year. Salary and pension payments increased by 28.4 percent, with the salary bill alone growing by 30.9 percent. Part of this rapid growth is explained by a rise in government sector employment, which increased by 10,000 or 5.2 percent in the year to October 1985. In addition, compensation payments in 1985

1/ The difference between the cash basis and accruals basis data for the PSBR in 1985 largely reflects oil-related payments totaling Dr 74.8 billion (1.7 percent of GNP) which are included in the cash basis data for the central government's ordinary budget, but excluded on an accruals basis in the attached tables. Timing discrepancies and the more complete institutional coverage of the cash basis data (e.g., they include the local authorities) are less important in explaining the discrepancy between the two sets of data for 1985.

2/ The average annual increase in consumer prices was 19.3 percent in 1985 compared with an initial projection of 17 percent.

boosted by the effects of the introduction of new salary scales in the government sector, which involved making some payments backdated to January 1984.

The pattern of government expenditures in 1985 continued to reflect the government's priority of developing Greece's social infrastructure. Health expenditures are estimated to have increased by 34.7 percent reflecting preparations for the introduction of a National Health Service, and education outlays rose by 26.7 percent. In both cases, however, the new services procured by these substantially increased allocations will have been diminished by the real increases in remuneration paid to employees in these sectors.

Subsidies and transfer payments--other than social security--grew rapidly in 1985. Tax rebates are expected to have reached Dr 104 billion or 2.3 percent of GNP, and more than twice the level envisaged in the 1985 budget. This overrun alone is equivalent to the overrun on aggregate central government expenditures, and occurred because the 1985 budget had incorporated measures to reduce export subsidization which were not implemented. In addition, there was a substantial reduction in the time taken to process applications for export subsidies in 1985. National subsidies for agriculture increased by 67.8 percent in 1985, and EC agricultural subsidies 1/ by 26.4 percent: both of these representing significantly higher levels of transfer to agriculture than was initially expected. Within the total in the ordinary budget for national subsidies to agriculture, the amounts allocated to cover deficits of government agricultural procurement agencies increased in 1985 by substantially more than was initially projected.

Debt service payments continued to grow rapidly in 1985. Amortization payments, which are classified as expenditures rather than financing items in the official budget tables (which show the derivation of the gross central government borrowing requirement) increased much more rapidly (in drachma terms) than was assumed in the 1985 budget, reflecting the effect of the depreciation of the value of the drachma. This has also led to increased interest payments on external debt, although interest payments on domestic debt increased by less than initially expected. 2/ In 1985, interest payments are estimated to have risen by 41.2 percent and to have represented 13.0 percent of central government expenditures excluding amortization, compared with 11.9 percent in 1984. This increase was entirely accounted for by the increase in the stock of debt.

1/ Recorded in the Special Account for Agricultural Product Guarantees.

2/ This occurred despite the larger than projected budget deficit and is explained by a shift from financing with 12-month treasury bills to 3- and 6-month bills. The borrowing requirement is greatest at the end of the year and interest on bills is paid upfront.

Outlays of the public investment budget increased by 24.2 percent in 1985 and represented 14.9 percent of total central government expenditures. Total investment budget outlays in 1985 were in line with initial projections, with the Dr 16 billion reserve incorporated in the initial budget (and equivalent to 5.8 percent of total investment budget expenditures) being absorbed by greater than budgeted disbursements to a number of sectors of the economy (Table 19).

c. Extrabudgetary accounts

Central government finances in Greece are heavily influenced by the trading position of government monopolies and support programs which regulate trade in various agricultural products and petroleum. In 1985, the government's extrabudgetary agricultural procurement accounts showed a surplus of Dr 10 billion, reflecting the sale in 1985 of stocks purchased following the good 1984 harvest. With a smaller harvest for several products, such stockpiling was reduced in 1985. By contrast, the oil account represented a substantial burden on government finances in 1985, with the ordinary budget on a cash basis including transfers of Dr 75 billion to meet obligations incurred by the oil account in 1985 and 1984. After receipt of these transfers, the oil account's net balance improved by Dr 5 billion in 1985 (Table 12).

d. Public enterprises and entities

In 1985, a major deterioration occurred in the financial position of the public enterprises and entities, with their combined operating deficits widening from Dr 90.3 billion in 1984 to Dr 134.1 billion in 1985, instead of Dr 100.0 billion as envisaged in the 1985 budget. These larger than projected operating deficits were partly offset by increased transfers from the central government (Tables 20, 21, and 22). As anticipated, social insurance fund deficits accounted for most of this (and for most of the deterioration compared with initial plans), together with the operating losses of the public transportation enterprises. ^{1/} The insurance fund deficits were essentially financed by transfers from the budget. Investment outlays of the public enterprises rose by 31.7 percent, a substantial increase in volume terms, even though the level of investments was 3.4 percent lower than originally anticipated (Table 23). At the same time, receipts of grants from both the public investment budget and the EC increased rapidly in 1985 and this stemmed the increase in the combined net borrowing requirement of the public enterprises and entities from the equivalent of 2.8 percent of GNP in 1984 to 3.9 percent in 1985 on a cash basis, and from 2.5 percent in 1984 to 3.4 percent in 1985 on an accruals basis.

^{1/} I.e., the State Railways; Olympic Airways; and the Urban Transport Organization.

e. Financing the PSBR in 1985

The tendency for increasing reliance to be placed on foreign rather than domestic sources of finance for the PSBR continued in 1985, when net foreign borrowing of over US\$2 billion accounted for 35 percent of the PSBR (Table 12). Three quarters of this amount represented foreign borrowing by central government. Domestic finance of the PSBR continued to rely on bank lending, although in July 1985 sales of treasury bills to the nonbank private sector were introduced and totaled Dr 15 billion by year-end. Domestic bank lending to the public sector continued to consist primarily of purchases of treasury bills. The Bank of Greece's net drachma lending to the public sector represented 8.9 percent of the 1985 net PSBR while the commercial banks and specialized credit institutions met 54.1 percent of the PSBR (Tables 12 and 27).

4. 1986 budget proposals

a. Objectives

The 1986 budget proposals seek to reduce the net PSBR by 4 percent of GNP from 15.2 percent of GNP in 1985, to 11.1 percent in 1986 on an accruals basis (Table 13). The government's monetary program for 1986 implies a larger reduction in the cash basis net PSBR from 18 percent of GNP in 1985 to around 11.1 percent of GNP. Total central government expenditures (excluding amortization payments) are projected to rise by 20.1 percent compared with an official projection for the increase in nominal GDP of 20 percent, while revenues are projected to increase by 33.3 percent. The rise in nominal expenditures is dominated by a substantial increase in interest payments: all other outlays are projected to rise by 17.5 percent on average. Nevertheless, social spending is to be maintained in real terms. The growth in revenues is largely attributed to a surge in direct tax revenues, which is heavily reliant upon the hoped for results of a renewed drive against tax evasion, the speedier collection of outstanding back taxes and arrears as well as fiscal drag--income tax brackets are to be frozen and tax allowances raised only modestly. The government is projecting a significant reduction in the deficits of the public enterprises and public entities (social insurance funds, etc.). Their combined net borrowing requirement is projected to fall, on an accruals basis, from the equivalent of 3.4 percent of GNP in 1985 to 2.1 percent in 1986; this is largely to be realized through a reduction in their current operating deficits and has been facilitated by the substantial increases in administered prices in the last months of 1985. It is intended that the petroleum account will be in balance in 1986. This objective will be helped by the recent weakening of world oil prices and by the intention of the authorities that domestic oil prices should henceforth be more flexible to facilitate the gradual liberalization of the domestic oil market. From the beginning of 1986, oil companies have been permitted to import 10 percent of their requirements directly from abroad, bypassing the state oil refineries; by mid-year this is to increase to 15 percent and to reach 100 percent by the end of the decade.

b. Revenues

The following are the principal features of the revenue projections in the 1986 budget (see Table 18).

(1) Measures to improve the administration of the tax system

The success of the government's objectives for reducing the PSBR in 1986 will depend to an important extent on the success of a series of measures to increase receipts of tax arrears and back taxes from an estimated Dr 51.7 billion (1.2 percent of GNP) in 1985 to Dr 111.0 billion (2.1 percent of GNP) in 1986. ^{1/} Measures to clarify tax obligations in earlier years are to be introduced to bring to a speedy conclusion many disputed tax demands which are at present subject to litigation. It is also expected that tax collection will be enhanced as a result of increased fines for nonsubmission or submission of misleading tax declarations; by an extension of the system of tax deduction at source; by stricter appraisal of real estate values for tax purposes; by new procedures for assessing income other than salaries; and by measures specifically intended to improve tax collection in wholesale and retail trade.

In addition, the authorities are strengthening the personnel and computer resources devoted to administration of the tax system. These are intended not only to reduce significantly outstanding tax cases and to broaden the government's revenue base through more effective enforcement of existing taxes, but also to provide the administrative apparatus required for the successful introduction of a system of value added tax, which is now scheduled for January 1987. Furthermore, the government has announced that it is considering a far reaching reform of direct taxation, and, in particular, income tax.

(2) Freezing of income tax brackets

Despite the rapid inflation, income tax brackets are to be the same in 1986 as in 1985, although there will be some increase in tax-free allowances and the possibility of deducting from taxable income an increased range of essential household expenditures. ^{2/} A wage earner supporting a spouse and two children will not pay income tax on annual earnings below Dr 725,800 (US\$4,900), which represents an increase of just over 7 percent. ^{3/} In consequence, there will be a significant increase in real tax burdens, particularly at higher income levels, and

^{1/} In Table 18, receipts of arrears and back taxes are classified within "other direct" or "other indirect" taxes.

^{2/} Payments for rent and for use of child care facilities, for example, are tax deductible.

^{3/} The general tax allowance has been raised by 17.6 percent to Dr 300,000; the additional allowances for head of family, spouse, and first three children are to remain unchanged in nominal terms.

also an increase in the number obliged to pay tax (as the threshold is to rise by less than the expected rise in incomes). In the agricultural sector fiscal drag will be offset by increases in the proportion of investment outlays which farmers may deduct from taxable income. Overall, personal income tax revenue (excluding payments of arrears and back taxes) is projected to increase by 33.6 percent in 1986.

(3) Exceptional profit tax

An exceptional tax is being levied in 1986 on the self employed and corporations at a graduated rate from 3 percent to 10 percent of their tax payments made in 1984. This supplementary profit tax, which is to apply in 1986 only, is expected to raise Dr 26 billion in 1986. 1/

(4) Indirect taxation

Apart from an increase in the specific tobacco tax, the 23.7 percent rise in indirect tax receipts projected for 1986 rests upon the growth in receipts from ad valorem taxes as well as the above mentioned drive to collect outstanding arrears and back taxes. In addition, the regulatory tax on imports was cut by 15 percent on March 1, 1986.

(5) Investment budget receipts

Receipts of the investment budget are projected to jump from Dr 16.7 billion in 1985 to Dr 41.0 billion in 1986. This increase reflects additional EC funding for investment projects in Greece with additional grants expected from the EC's Regional Fund in addition to receipts of Dr 15 billion anticipated in 1986 with the start of the EC's Integrated Mediterranean Program.

c. Expenditure

The expenditure projections for 1986 of the ordinary and public investment budgets are dominated by a 34 percent increase in debt service payments (Table 17). Counteracting this are increases in expenditures on investments, certain subsidies and remuneration of employees and pensioners which are substantially below the expected average rate of inflation. In this respect, the principal expenditure reducing measure affecting the 1986 budget is the change in the mechanism for indexing wages including government pensions, which was implemented from January 1986. The importance of this measure is due to the 32 percent share of direct remuneration costs in central government expenditures. 2/ Whereas the latter are expected to grow by 20.2 percent, salary and pension costs are projected to increase by 16.4 percent.

1/ Classified within "other direct taxes" in Table 18.

2/ Expenditures excluding amortization.

Central government expenditures excluding interest as well as amortization payments are to rise by 17.5 percent. Within this, expenditure for education is to rise by 22.4 percent, for health by 29.7 percent and for social insurance by 19.1 percent, while tax rebates (largely to exporters) and national subsidies for agriculture are to decline in nominal terms. The increase in the allocation for education principally reflects the rise in wage costs, which is affected in 1986 by the restructuring of salary scales in the education sector during 1985. In the health sector, the government plans a significant extension of the provision of services. By contrast, the increase in social insurance costs represents increased subsidies to cover operating deficits of the various social insurance funds.

Payments from the budget to the EC represent another rapidly growing category of expenditure in the 1986 budget. Payments are projected to rise from Dr 40.9 billion in 1985 to Dr 74.6 billion in 1986, resulting in the first reduction, when expressed in drachmas, in net budget receipts from the EC since Greece joined the Communities in 1981. In 1986 these are expected to be equivalent to be Dr 103 billion or 1.9 percent of GNP, compared with Dr 106 billion, or 2.3 percent of GNP in 1985. The increase in budget payments by Greece principally reflects an increase in the share of hypothetical receipts of VAT to be transferred to the EC and also the end of the five year transitional period during which a declining proportion of Greece's payments were rebated.

In contrast to the foregoing, national subsidies for agriculture and tax rebates are to decline slightly in nominal terms in 1986, implying substantial reductions in real terms. Nevertheless, budget subsidies for the agricultural special management accounts are, however, expected to rise in 1986, by around one third, after the substantial increase in 1985. Dr 32 billion of this allocation of Dr 40.2 billion for 1986 represents a subsidy to cover losses expected to be incurred by government administration of trade in fertilizers despite a 30 percent increase in fertilizer selling prices in September 1985.

The combination of continued adherence to the government's social policy priorities and reductions in allocations to other sectors is reflected in the pattern of allocations for 1986 in the Public Investment Budget (Table 19), which in aggregate rise by 15.8 percent. ^{1/} Nevertheless, the budget incorporates an allocation of Dr 29 billion (0.5 percent of GNP) to finance the restructuring of so-called "problem" enterprises. ^{2/}

^{1/} The projected increase in investment budget outlays has been reduced by providing for a reserve of Dr 7.0 billion (2.2 percent of investment budget outlays) compared with Dr 16.0 billion in 1985.

^{2/} This amount is included in the allocation for industry, energy, and handicrafts in Table 19.

d. Public enterprises and public entities

The 1986 budget projects a narrowing in the combined operating deficits of the public enterprises and public entities (Table 22) to Dr 101.1 billion (1.9 percent of GNP) compared with an estimated outturn for 1985 of Dr 134.1 billion (3.0 percent of GNP). The bulk of these deficits reflects the operating deficits of two government social insurance funds, the Workers' Social Insurance Organization (IKA) and the Farmers' Social Insurance Organization (OGA). However, no improvement is expected in 1986 in the operating deficits of these two funds, whereas the government is projecting a substantial improvement in the operating results of most state enterprises, other than the three biggest loss makers, the Urban Transport Organization; the Greek State Railways; and the Hellenic Aerospace Industry. Particularly large improvements are targetted for the Public Power Corporation, for the Hellenic Telecommunications Organization and for Olympic Airways.

The budget projects an increase in investment outlays of the public enterprises and entities of just 7.0 percent in 1986 (Table 23), representing a substantial decline in volume terms. Receipts of grants from the Ordinary and Investment budgets as well as from the EC are projected to grow by over 20 percent in 1986, so that net borrowing from domestic banks (by the state enterprises and entities) and from abroad (by the state enterprises) is projected to decline from 3.4 percent of GNP in 1985 to 2.1 percent in 1986.

e. Financing the PSBR in 1986

As in previous years, the PSBR in 1986 will be financed largely through the banking system, including funds borrowed from abroad by the Bank of Greece on behalf of the central government, in addition to some direct borrowing from abroad by the public sector. However, the sale of short-term treasury bills to the nonbank private sector, which was introduced in 1985, is to be extended in 1986 and the authorities have also announced their intention to sell medium-term government paper to the private sector. However, private sector lending to the public sector is expected to finance only a small part of the projected budget deficit.

IV. Money and Credit

1. Introduction

In 1984 and 1985 the growth of broad money (M3) at 29.4 percent and 26.0 percent, respectively, exceeded the increases which were projected in the annual monetary programs (Table 25). ^{1/} The rapid growth of M3 and of the net foreign liabilities of the banking system have been associated with a fast growth of bank claims on the public sector. In October 1985, the Bank of Greece tightened the liquidity of the banking system while at the same time it raised preferential interest rates charged to non-banks, and the extent of interest rate subsidization was further reduced in January 1986. These measures not only led to a reduction in the growth of the monetary aggregates towards the end of 1985, but also marked an important step toward a more uniform interest rate structure. Another development in 1985 with importance for the development of the financial system was the introduction of sales of treasury bills to the non-bank private sector and the plan for 1986 to tap private savings by offering for sale longer term government securities.

2. Recent monetary and credit developments

Revised data for 1984 show the outturn for the monetary and credit aggregates to have been essentially as described in Recent Economic Developments (pp. 58-60). They show an increase in the broad money supply of 29.4 percent, instead of the Government's monetary program projection of 21.7 percent. The drachma value of foreign exchange deposits increased by 35.8 percent in 1984 after a 46.9 percent increase in 1983 (Table 25). The pattern of financial developments in 1984 remains as described earlier: domestic credit expansion of 26.2 percent, rather than the program target of 19.8 percent, arose from bank financing of the larger than assumed PSBR, in conjunction with some overshooting of credit to the private sector. This gave rise to a greater-than-planned deficit in the overall balance of payments and faster than projected monetary growth.

Monetary growth was particularly rapid early in 1985 but slowed significantly in the final months of the year. The year-on-year growth rate for M3 slowed from 30.8 percent in September 1985 to 26.0 percent in December and for credit to the private sector from 23.5 percent to 19.9 percent, respectively. The corresponding projections in the 1985 monetary program had been 23.1 percent (for M3) and 18.1 percent (for private sector credit). The reduction in monetary and credit growth in the last four months of the year is attributable to the impact of measures introduced specifically to curtail the liquidity of the banking system. In addition it seems that the monetary and credit aggregates

^{1/} For an account of the role of the annual monetary program, see Recent Economic Developments, pages 46-48.

were inflated by roundtripping prior to increases in subsidized interest rates in October (see below). The underlying cause for the rapid growth of M3 was however the burgeoning PSBR and, as a result, credit to the public sector, including foreign borrowing, exceeded its monetary program projection by Dr 248 billion, or 5.5 percent of GNP (Table 24). This was reflected in increased borrowing in foreign currency and also drachmas by both the central government and the rest of the public sector. Net drachma lending to the public sector other than central government increased by 52.2 percent in 1985, while for the public sector as a whole the increase was 30.2 percent, compared with a program projection of 21.7 percent (Table 25).

Despite an accumulation of free liquid reserves in the banking system, the commercial banks did not exceed the target for private sector credit in 1985, in part because of an increased unwillingness to lend to enterprises in financial difficulties. Lending by the specialized credit institutions accounted for the overrun that did occur on credit to the private sector (Tables 25 and 29). Credit to agriculture was particularly buoyant during 1985 although its growth rate eased back to 25.1 percent in the twelve months to November (Table 28). By contrast, long-term credit to industry continued to fall short of the levels implied by the requirement for commercial banks to earmark 15 percent of their drachma deposits for medium- and long-term loans to industry. In the same way, commercial banks did not extend prescribed levels of credits to the handicrafts sector.

In view of the relatively easy liquidity position of the banking system, the Bank of Greece called in October for immediate repayment of a Dr 30 billion undated credit which had been extended to the commercial banks in 1980. Further liquidity was withdrawn from the commercial banks as a result of the decision to institute a 16 percent minimum lending rate for short-term credits since this led to a repayment by the commercial banks of Dr 8 billion in interest-free credits extended by the Bank of Greece to the commercial banks when these make loans at preferential interest rates. 1/

Further liquidity has been withdrawn by the import deposit scheme, which led to the accumulation of deposits at the Bank of Greece of Dr 21 billion by end-December and Dr 38 billion, or 1.0 percent of M3, by February 12, 1986. The Bank of Greece has not offset this withdrawal of liquidity. Nevertheless, in December, there were reductions in so-called secondary reserve requirements when the requirement to earmark 1 percent of drachma deposits for credits to "problem" enterprises and 0.5 percent of drachma deposits for credits to vegetable and fruit processing enterprises were abolished (Table 30). Commercial banks which had not extended the prescribed amounts of credits under these two

1/ This system of "reserves" and "rebates" by which the effective yields to commercial banks of extending loans at varying interest rates are equalized is described in Recent Economic Developments, pages 48-49.

requirements were freed in December 1985 of the need to maintain these amounts in low interest accounts at the Bank of Greece and this freed up approximately Dr 8 billion of liquidity. In addition, as a result of the shortfall in long-term loan extensions from the level implied by the requirement to earmark 15 percent of drachma deposits for long-term loans to industry, it was decided to permit commercial banks to invest in treasury bills excess funds arising from this shortfall (and held at the Bank of Greece in low interest accounts), up to an amount of 4 percentage points of their drachma deposits. Whereas the 15 percent requirement would have implied that Dr 98 billion would have been maintained in low interest rate deposits at the Bank of Greece at end December 1985, in fact, only Dr 50 billion was so deposited.

A major innovation in 1985 was the introduction from July 1985 of direct sales of marketable treasury bills to the nonbank private sector. In recent years funding for the government sector has relied exclusively on domestic bank finance or external borrowing. By end-1985 non-bank purchases of treasury bills totaled Dr 15 billion. At a later stage it is planned to introduce treasury bills with 24 months' original maturity and the government has announced plans to offer three-year public sector debt for sale to the nonbank private sector in 1986.

In November 1985, as part of the broader package of economic stabilization measures, the Bank of Greece introduced a minimum lending rate to apply to short-term loans and which primarily affects credit to agriculture. It has been set at 1 percentage point above the rate on savings deposits and so is currently 16.0 percent as compared with the rate of 20.5 percent which applies to short-term credits to industry. The new rate replaced a number of subsidized rates applying for short-term agricultural loans, which ranged between 12.0 and 14.0 percent. Given the structure of deposit rates, this will have reduced the scope for roundtripping, which is thought to have inflated the level of credit extended to the agricultural sector earlier in 1985.

3. The monetary program for 1986

The 1986 monetary program of the Greek authorities projects an increase in M3 of 20 percent in the year to December 1986 compared with the target and outturn for December 1985 of 23.1 percent and 26.0 percent, respectively. Nominal GDP is officially projected to rise by 20 percent, with consumer price inflation targetted to be reduced to 16 percent by December 1986. The projected slowdown in monetary growth in 1986 is to be facilitated by increased reliance on nonbank purchases of public sector debt, including treasury bills and three-year public sector paper. Domestic credit expansion is projected to be 17 percent (from 24.8 percent in 1985), with credit to the private sector rising by 15 percent (19.9 percent in 1985). Drachma lending by the banking system to the public sector is forecast to rise by 19 percent in 1986 compared with 30.2 percent in 1985 (Table 25).

In January, there were further increases in some interest rates for the handicraft sector and the tobacco trade (Table 32), and since January all government agricultural purchasing agencies are obliged to borrow on terms comparable with those applying to short-term credits to industry (Tables 31 and 32). Apart from these adjustments in January, interest rates are to be unchanged for the time being, with interest rates on drachma term deposits varying between 15 percent and 20 percent (Table 33), 1/ and with most loans to the private sector now attracting rates of 16.5 percent (for short-term agricultural credits); 18.5 percent (for long-term industrial credits) or 21.5 percent (for short-term credits to industry). 2/ Lower rates apply for long-term loans to agriculture, and for some housing loans (Table 32). All of these interest rates are below the current rate of inflation, but positive real rates of interest would be implied by the Government's target of 16 percent inflation by end-1986.

1/ Interest receipts are not subject to income tax in Greece.
2/ Interest rates plus commission.

V. External Sector

1. Balance of payments

a. Overview

The Greek balance of payments has traditionally been characterized by substantial trade deficits largely financed by surpluses in the service and transfer accounts and by net private capital inflows. The invisibles surpluses reflect earnings from tourism and shipping, emigrants' remittances and, recently, receipts of EC transfers. During the 1970s, inflows of direct and real estate investment, and foreign currency deposits of Greek workers abroad made a 4 1/2 percent of GNP average current account deficit compatible with a slow growth in the stock of external debt. However, during 1981-85 the average current account deficit increased to an annual average of about 6 1/2 percent of GNP (Table 34). At the same time, inflows of direct and real estate investment declined so that the financing of the current account deficit relied increasingly on net foreign borrowing by the public sector, causing the stock of external debt in percent of GNP to more than double during the period 1981-85.

In 1984, the current account deficit widened slightly from US\$1.9 billion in 1983 to US\$2.1 billion before deteriorating sharply in 1985 to US\$3.3 billion or 10.1 percent of GNP. The widening current account deficit in 1985 is chiefly attributable to a marked worsening of merchandise trade; but in addition, net invisible receipts also declined due to higher net interest payments and lower emigrants' remittances. Whereas in 1983 and 1984, merchandise export volumes surged, in 1985 they increased by only 3.9 percent (Table 35). ^{1/} At the same time, while import volumes grew by 0.5 percent in 1984, they increased by 21.2 percent in 1985, largely reflecting erratic movements in oil trade. ^{1/} In addition to the accumulating impact of deteriorating cost competitiveness, the trade balance was adversely effected in 1985 by a shift in the relative cyclical position of the Greek economy as export market growth slowed and domestic demand growth in Greece picked up. Moreover, between January and November of 1985, the calculated terms of trade worsened by 9.2 percent when compared with the same period in 1984 after a 5.8 percent deterioration in 1984. This cannot easily be explained on the basis of price developments in partner countries and, in part, it may reflect a degree of capital flight in the form of over-invoicing of imports and under-invoicing of exports. In addition, the trade balance seems to have been adversely affected by anticipatory imports and a buildup of leads and lags in payments ahead of the October 1985 devaluation and imposition of import restrictions. The trade balance deteriorated from US\$5.4 billion, or 16 percent of GNP, in 1984 to US\$6.3 billion, or 19 percent of GNP, in 1985.

^{1/} Data on a custom basis, excluding imports of ships. First 11 months only for 1985, compared with same period in 1984.

Some of these speculative factors also seem to have contributed to a reduction in "nondebt" financing inflows in 1985, and particularly to a reduction in the net inflows of foreign exchange deposits maintained at Greek banks. In consequence, compensatory net foreign borrowing by the public sector increased sharply in the first 11 months of 1985 to US\$2.0 billion. The external debt of Greece is estimated to have reached US\$15.2 billion (47 percent of GNP) at end 1985 (Table 36), compared with US\$8.3 billion (22 percent of GNP) at end 1981, and the public sector now accounts for almost three quarters of the external debt of Greece.

b. Foreign trade ^{1/}

(i) Exports

Having fallen sharply in the preceding two years, export volumes surged by a cumulative 39 percent in 1983 and 1984 (Table 35). ^{2/} In 1984, as in earlier years, the growth of export volumes seems to have been associated with a compression of export profit margins, as drachma export unit values increased by less than unit labor costs. Measured by exchange rate adjusted relative unit labor costs, the competitiveness of Greek industry had deteriorated steadily in the years prior to last October's devaluation and reform of the wage indexation system, apart from a short-lived improvement following the earlier devaluation in January 1983. Notwithstanding adverse competitiveness trends, exports were supported in 1984 by a stronger growth of foreign markets, with partner country non-oil import volumes expanding by 5.4 percent compared with just over 2 percent in each of the preceding two years. This, together with an apparent trimming of export profit margins, enabled a particularly rapid growth in exports of manufactured goods (especially metals and also clothing). Agricultural exports also grew strongly, reflecting a more aggressive export promotion policy, which helped to treble the value of exports of animal and vegetable oils (mainly olive oil) in 1983, and in 1984 a buoyant harvest. Additionally, in 1984 exports of petroleum products rose, on a customs basis, by US\$180 million or 23 percent in U.S. dollar value terms.

In 1985, the strong performance of the previous two years slackened. Export volumes are estimated to have grown by 3.9 percent in 1985, reflecting a decline in export market growth to 2.3 percent in volume terms; the loss to Turkey and to some newly industrialized

^{1/} The description of balance of payments developments in 1985 in the remainder of this chapter refers to the first 11 months (compared with the same period of 1984) unless otherwise indicated.

^{2/} Data on a custom basis. The balance of payments data imply significantly different growth rates, see the discussion of statistical problems in Greek external statistics, in *Recent Economic Developments*, p.67.

countries of market shares in cement and textiles, which accounted for 20 percent of total exports in 1984; and a more modest growth of agricultural output (which accounts for one-fourth of total exports). In spite of the growth in volumes, the value of total exports, in U.S. dollar terms, declined by 6.6 percent in 1985 as implied export average values declined by 10.1 percent. By contrast, the export prices of competitor countries are estimated by the Fund staff to have been unchanged in 1985. The apparent relative decline in Greek export prices, which also occurred in 1983 and 1984, seems to be explained both by some under invoicing of exports and also by particularly weak prices in some of the product markets in which Greece competes, in addition to any price discounting which may have occurred.

Increases in volume were recorded by most categories of exports in 1985 (Table 37), including a 3.3 percent growth in manufactured goods, which represent 30 percent of total exports, and a 2.4 percent increase in exports of food and live animals (22 percent of exports). Nevertheless, with weak export prices, the U.S. dollar value of both of these categories declined in 1985. Exports of animal and vegetable oils fell by around US\$100 million to US\$180 million in 1985.

In 1984, industrial countries accounted for almost two-thirds, and EC countries for about half, of the Greek merchandise exports (Table 38). Oil-exporting countries made up 12 1/2 percent, while non-oil developing countries accounted for 15 percent and state trade countries for 5 percent of Greek exports. In 1984, while total exports rose by 9 percent in U.S. dollar terms, exports to industrial countries rose by 18 percent and exports to EC countries rose by 12 1/2 percent in U.S. dollar terms. During 1985, when total export values in U.S. dollar terms declined by 6 1/2 percent, exports to industrial countries fell by 7 percent and within this, exports to EEC countries by 9 percent. However, the largest reduction in exports was to oil exporting countries (24 1/2 percent). Exports to state trading countries rose by 17 1/2 percent, and exports to non-oil developing countries rose by almost 3 percent.

(ii) Imports

In 1984, the volume of total imports ^{1/} increased by 0.5 percent with the principal categories of manufactured goods (representing over 40 percent of imports) showing little change (Table 39), while imports of chemicals (9 percent of imports) increased strongly. Customs data show a small decline in the value and volume fuel imports in 1984. By contrast, settlements data in the balance of payments show a 13.6 percent increase in the value of fuel imports in 1984 (Table 34). ^{2/}

^{1/} Excluding imports of ships.

^{2/} Apart from timing differences, the coverage of the settlements data for imports of fuels is more complete than the customs data (see Recent Economic Developments, page 67).

Customs data show import volumes to have surged by 21.2 percent in the first 11 months of 1985, having increased by only 0.5 percent in 1984, (Table 35). However, the incomplete 1985 data are distorted by the erratic pattern of oil imports, which accounted for 27 percent of total imports in 1984. The data for imports excluding oil show an 8.7 percent volume increase, compared with 0.9 percent in 1984. The growth of total imports during the first 11 months of 1985 is exaggerated by the more than doubling in the volume of oil imports in this period shown by the customs data, which is biased by a concentration of oil imports in December 1984 and the low base in the rest of that year. Settlements data for the balance of payments show a rise of only 8 percent in the U.S. dollar value of fuel imports in 1985 compared with 90 percent in the customs data. For the year as a whole, the volume of non-oil imports are expected to show a stronger rise than indicated by the data for the first 11 months as imports in October and November were delayed pending final decisions on the categories of goods subject to (or exempt from) the 40 percent or 80 percent import deposit requirement, which was introduced in October (see Chapter VI).

The increase in non-oil import volumes in the first 11 months of 1985 reflects more buoyant domestic demand in the first half of the year, and in particular increased imports in anticipation of the measures (which included both a devaluation and import restrictions) which were implemented in October 1985. This led to a significant increase in imports of consumer durable goods; imports of automobiles, which had been unchanged in volume terms in 1984, rose by 48 percent during the first half of 1985. In addition, there were sharply increased imports of some basic foodstuffs, notably wheat and sugar. Investment goods imports did show some increase in both volume and U.S. dollar value terms in 1985 despite the continued weakness of domestic investment in new equipment.

Greece's entry to the EC in 1981 has implied a considerable change in the geographical distribution of imports (Table 38). The share of EC countries in Greek imports rose from 41 percent of the total in 1980 to about 51 percent in 1984. By contrast, the share of non-EC industrial countries dropped from 24 percent in 1980 to 18 percent in 1984, and the share of non-oil developing countries (especially in the Middle East and in Africa) declined from 20 1/2 percent in 1980 to 8 percent in 1984. ^{1/} During 1985, import values rose in U.S. dollar terms by 15 percent. Reflecting the increase in fuel imports on a customs basis, the largest increase was observed for imports originating from oil exporting countries (118 percent). Imports from non-oil developing countries increased by 6 1/2 percent and those from industrial countries by 3 percent, with imports from EC countries also up by 3 percent. Imports from state trading countries declined by 6 percent.

^{1/} Total imports, including imports of ships.

c. Services and transfers

The surplus in the services account has traditionally largely offset Greece's deficit on foreign trade. However, the surplus in the services account almost halved between 1981 and 1985 with the surplus declining by US\$156 million in 1984 to US1.6 billion and by a further US\$220 million during the first 11 months of 1985 (Tables 34 and 40). This has resulted from the combination of increased interest payments on external debt and from dwindling receipts from shipping.

Transportation (mainly shipping) receipts declined by 40 percent in U.S. dollar terms between 1981 and 1984, with an estimated further decline of 5 1/2 percent in 1985. This can be largely attributed to the international shipping crisis following the deceleration in world trade between 1981 and 1983 and the consequent decline in the size of the Greek fleet. However, despite a recovery in world shipping in 1984 Greece's transportation receipts declined by 16 percent during that year. As the Greek shipping industry is essentially an offshore industry, these firms only repatriate the amount of foreign exchange required to pay for the acquisition of goods and services from Greece. Since most of these expenses are denominated in drachmas (including the wages of Greek seamen), the depreciation of the drachma against the U.S. dollar in 1985 contributed to the decline in shipping receipts in U.S. dollar terms.

Travel receipts recovered in 1984 with the U.S. dollar value of gross receipts increasing by 11 1/2 percent and the number of arrivals of foreign visitors rising by 14 1/2 percent (Table 41). This rebound in tourism reflected both recovery of real disposable incomes in OECD countries and an improved price competitiveness, the latter brought about by a combination of depreciating exchange rate and price controls for hotel services. As a result, the market share of Greece in OECD tourism increased. In 1985, travel receipts are estimated to have increased by 9 1/2 percent in U.S. dollar terms and the number of arrivals of foreign visitors to have risen by almost 17 percent. The decline in recorded receipts per visitor in 1985 is attributed in part to leakages of foreign exchange receipts which bypass the banking system. The widespread expectation of a devaluation of the drachma intensified this phenomenon in 1985.

The deficit in net investment income continued to increase in 1984 by US\$150 million to US\$950 million and to US\$1,010 million in 1985 (Tables 34 and 40). These increases principally reflected the rapid increase in the stock of external debt in 1984 and 1985. 1/

1/ It is estimated that about 70 percent of Greece's external debt was on floating interest rates terms at end 1985.

Private transfers, which consists almost entirely of emigrants' remittances, dropped from US\$1.1 billion in 1981 to US\$0.9 billion in 1984 and fell by over US\$100 million in 1985. The decline reflects the effect of the appreciation of the U.S. dollar during that period (most Greek workers abroad are living in European countries) and the long-term decline in the number of Greek workers abroad.

Official transfers, which since Greece's entry to the EC in 1981 have consisted mainly of EC agricultural subsidies, rose from about US\$160 million in 1981 to US\$835 million in 1983. After a slight decline in U.S. dollar terms (US\$715 million) in 1984, official transfers recovered somewhat to US\$768 million in 1985.

d. The capital account

In 1984, net private capital inflows of \$0.9 billion, financed about 40 percent of the current account deficit (Table 34). These net inflows would have been higher had it not been for a substantial outflow on account of net long-term lending abroad by Greek banks. The foreign borrowing requirement of an expanding public sector deficit led to an increase in net official borrowing from US\$1.4 billion in 1983 to US\$1.6 billion in 1984. The Bank of Greece--including borrowing on behalf of the Government--accounted for 45 percent of this borrowing, with public enterprises covering the remainder. Unlike in 1983, net short-term borrowing by the Bank of Greece was substantial (US\$0.3 billion) in 1984. In 1984, Japanese banks and yen-denominated loans provided a large share of lending to Greece. There was no significant change in the terms and condition on the foreign loans obtained by Greece in comparison with previous years. The net outflow represented by errors and omissions remained high at US\$312 million.

The net inflow of private capital was maintained in 1985, with long-term borrowing from abroad by Greek banks offsetting a sharp decline in 1985 in the growth of deposits of foreign exchange at Greek banks (mostly by Greek nationals overseas). However, net private capital inflows financed only about one quarter of the (record high) current account deficit in 1985. The decline in net inflows of foreign exchange deposits by almost US\$230 million is thought to reflect withdrawals to meet the increased demand in the parallel market for foreign exchange arising from an expectation of a devaluation of the drachma during 1985. Net official borrowing rose to US\$2.0 billion and gross foreign borrowing by the public sector increased by 39 percent to US\$2.7 billion. Short-term official borrowing declined markedly in the first eleven months of 1985. Japanese banks and yen-denominated loans continued to make up a large share of external borrowing. Net errors and omissions swung from an outflow of US\$312 million in 1984 to an inflow of US\$106 million in 1985.

In view of Greece's balance of payments difficulties, the Council of the EC agreed to grant an ECU 1.75 billion loan to Greece on November 18, 1985. This loan is to be disbursed in two identical tranches in

early 1986 and early 1987: The first tranche is being disbursed in four different parts; The first was an ECU 350 million floating rate note disbursed on January 30, with a seven-year maturity; the second and third were scheduled to be disbursed on February 20, 1986, and consist of credits for US\$150 million loan, with five-year maturity and for DM 500 million maturing in February 1992; and the final segment was to be disbursed before end-March 1986 and involves the amount of SF 227 million maturing in December 1992.

2. Official Reserves ^{1/}

Following a fall in official reserves of about US\$500 million during 1981-82, reserves (gold valued at SDR 35 per ounce) increased by US\$91 million during 1983-84. In 1985, they declined by US\$74 million in 1985 (Table 42) to US\$1.0 billion or the equivalent of 5.1 weeks of merchandise imports.

3. External debt

The external debt of Greece, as estimated by the staff, ^{2/} has almost doubled since 1981, increasing from US\$8.3 billion (22 percent of GNP) at the end of 1981 to US\$15.2 billion (47 percent of GNP) at the end of 1985 (Table 36). The large accumulation of external debt by Greece reflects the financing requirements of a widening current account deficit combined with a decline in nondebt financing during the 1980s.

Foreign exchange deposits with commercial banks and specialized credit institution rose from US\$4.6 billion in 1981 to US\$5.4 billion at end-1984 and to an estimated US\$5.5 billion in 1985. These deposits have not been included in the debt estimates because a large share is known to be held by Greek residents (including Greek seamen) and the remainder mainly by Greek nationals abroad.

The composition of Greece's external debt reflects the increasing borrowing requirement of the public sector, particularly after 1984. At the end of 1985, the public sector foreign debt represented 73 percent of total external debt of Greece. Of this, the Bank of Greece (including that held on behalf of the central government) accounted for 39 percent, followed by public enterprises with 30 percent.

^{1/} Data for 1985 in the rest of this chapter refer either to the full year, or end-year, as appropriate.

^{2/} The staff estimate include, in addition to the official debt data (estimated at US\$13.9 billion at end-1985); (1) nonguaranteed liabilities of the private, nonfinancial sector and (2) short-term debt of the financial sector. The staff estimate excludes (1) military debt, (2) debt of Greek offshore shipping companies, and (3) foreign exchange deposits of commercial banks and specialized credit institution. See Recent Economic Developments, pages 76-77.

As of December 31, 1984, approximately 80 percent of outstanding external public debt was denominated in U.S. dollars, whereas 12 percent of the debt was denominated in deutsche mark. However, Japanese Yen denominated loans have accounted for the bulk of the new loans contracted by Greece during 1984 and 1985, reflecting the increased participation of Japanese banks in lending to Greece.

The external debt servicing of Greece's medium- and long-term debt rose from US\$2.0 billion (21 percent of current receipts) in 1984 to at least US\$2.2 billion (24 percent of current receipts) in 1985 (Table 44). 1/ Amortization of public and publicly guaranteed medium- and long-term external debt outstanding at end-1985 is scheduled to rise from US\$1.0 billion in 1986, to US\$1.4 billion in 1987 and US\$1.8 billion in 1988 before declining to US\$1.6 billion in 1989 and US\$1.4 billion in 1990. Actual amortization of public and publicly guaranteed medium- and long-term debt in 1985 was US\$0.8 billion.

4. Exchange rate and competitiveness

Exchange rate policy has resulted in substantial swings in Greek competitiveness. 2/ Between 1981 and 1982, exchange rate policy aimed at reducing the rate of inflation, leading to a real appreciation of the drachma of 9 percent between the first quarter of 1979 and the fourth quarter of 1982 on the basis of relative consumer prices, and of 36 percent on the basis of relative unit labor costs (Chart 1). The much sharper appreciation in terms of relative unit labor costs is partly the result of administrative price controls and reflects the rapid increase in real wages during the period. The difference between movements in prices and costs indicates a severe compression of enterprise profits, which is also supported by other information on manufacturing profits. To improve competitiveness, the drachma was devalued by 15.5 percent on January 9, 1983. However, as cost and price inflation in Greece continued to be higher than in partner countries the drachma appreciated again in real effective terms from January to July 1983 when the drachma was temporarily pegged to the U.S. dollar, which appreciated strongly. This offset to a large extent the effect of the January devaluation of the drachma. Consequently, in August 1983 the authorities began a period of more active exchange rate management aimed toward strengthening competitiveness. In the following two years, the authorities pursued a policy of gradually depreciating the drachma in nominal effective terms. In the second and third quarters of 1985, this appears to have been facilitated by the weakening in the U.S. dollar vis-à-vis other major currencies.

1/ These data include debt service on military debt.

2/ Since 1975, a managed float of the drachma has been in operation, partially based on a basket of 15 currencies of Greece's main competitor countries. Although a member of the EC and, since July 1, 1985, also a participant in the EMS Agreement, Greece does not participate in the narrow margin arrangements within the EMS.

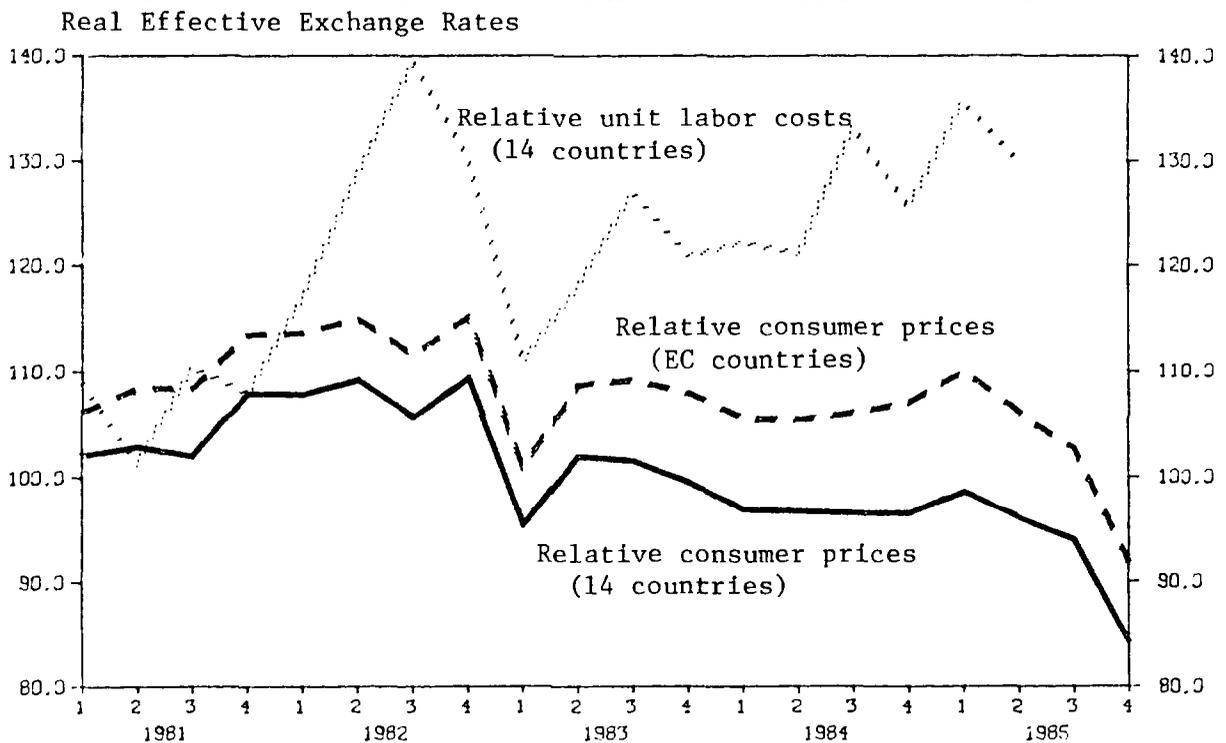
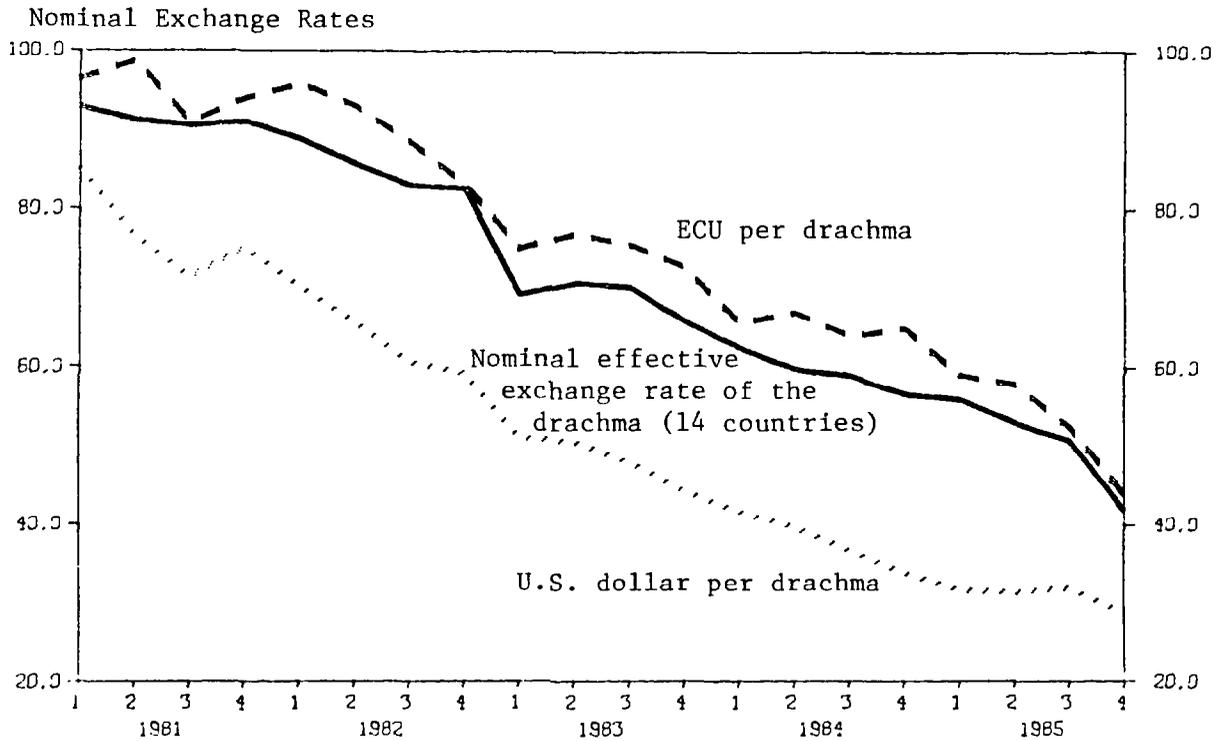
Only in September 1985 did the real effective exchange rate of the drachma reach the post-devaluation level of January 1983 in terms of relative consumer prices. In terms of relative unit labor costs, the value of the drachma in real effective terms in the second quarter of 1985 (latest data) was 17 percent above its post-1983 devaluation level. The competitiveness of Greece relative to other countries of the EC is of particular importance. The loss of Greek competitiveness vis-à-vis EC countries after January 1983 was considerable. Between the first quarter of 1983 and the third quarter of 1985 the real effective exchange rate measured by relative consumer prices appreciated against EC countries by around 2 percent, and measured by relative unit labor costs it appreciated by 21 percent (to 1985 Q2 only).

In order to improve competitiveness, the drachma was devalued by 15 percent on October 11, 1985 moving from Dr 132.56 to the U.S. dollar to Dr 155.95 to the U.S. dollar. On December 31, 1985, the exchange rate was 147.76 drachmas to the U.S. dollar. During 1985, the drachma depreciated by 13 percent against the U.S. dollar and by 31 percent against the European Currency Unit (ECU) (Chart 1).

Chart 1.

GREECE

Exchange Rate Developments 1/2/
(1980 = 100)



Sources: IMF, International Financial Statistics; and staff estimates.
1/ An increase (decrease) in the indices indicate an appreciation (depreciation) of the drachma.
2/ Data on unit labor costs for 1985 for Greece are preliminary staff estimates.



VI. Exchange and Trade System 1/

1. Overview

Between 1979 and October 1985, the exchange and trade system of Greece was liberalized, partly in connection with Greece's entry into the EC as of January 1, 1981. All bilateral payments agreements were terminated by January 1984 and the temporary import barriers raised in 1979 in the form of an import deposit scheme; a consumption tax levied on imported luxury goods; and a voluntary agreement between the government and some producers restricting certain imports were eliminated by end-1980. Between 1981 and 1984 bank prior approval requirements for imports were lifted. On January 1, 1984 restrictions on permissible methods of import payments were lifted and at the same date a time limit of 60 days from arrival date at the first Greek port was imposed for import settlements. The number of goods subject to licensing was sharply reduced between 1979 and 1985. Quantitative import restrictions on five commodities, 2/ accounting for around 1 percent, of total imports were removed on December 31, 1985. Greece does, however, continue to provide various export subsidies.

2. Developments in 1985

In connection with the adjustment measures introduced by the Greek authorities on October 11, 1985, the drachma was devalued by 15 percent and an import deposit scheme was introduced effective October 14, 1985. The scheme requires importers to maintain a noninterest bearing deposit, in drachmas, with the Bank of Greece for a period of six months amounting to 40 percent or 80 percent of the c.i.f. value (excluding import duties) of selected imports which are financed using foreign exchange obtained from official sources. For goods which were clearly in transit at the time of the announcement of the deposit requirement, waivers were generally given exempting such goods from the deposit scheme. Essential imports (including oil, other raw materials, most food products) and re-exports are exempted from the scheme. Imports which are deemed to be nonessential are subject to an 80 percent deposit requirement and other imports to a 40 percent deposit requirement. Included in the list of goods subject to an 80 percent deposit are luxury goods, final consumption goods (including cars, video and television equipment) and some specialty food products. The list of goods subject to a 40 percent deposit includes most other consumer goods, some food items, some intermediate goods, and some capital goods. Other capital goods are exempt from the scheme. Imports made by

1/ For a more comprehensive description of Greece's exchange and trade system see the IMF, Annual Report on Exchange Arrangements and Exchange Restrictions (1985).

2/ Porcelain wash basins and similar goods; tiles; cast-iron sanitary wear; taps, cocks, valves and similar appliances; and furniture other than for medical use.

the public sector (including public sector enterprises) are exempt from the deposit requirement even if they fall within the categories listed above. Out of total imports in 1984 of US\$9.7 billion, US\$2.5 billion are in categories covered by the scheme, with US\$1.9 billion in the 40 percent category and US\$0.7 billion in the 80 percent category. Because of the various exemptions from the scheme, particularly that applying to the public sector, a total of US\$2 billion of imports in 1984, or around 20 percent of total imports, would have been subject to the deposit requirement.

The import deposit is placed in drachma in cash at the Bank of Greece. Proof of payment of the deposit is required before approval is granted to release foreign exchange to pay for the import. Once proof of deposit is provided, approval for the import may be applied for and is granted automatically 1/ and thus the import transaction may be concluded without delay. The deposit cannot be used toward a payment falling due within the period of six months. Imports of goods for commerce which do not use official channels to obtain the necessary foreign exchange give rise to an obligation either to convert into drachma an amount of foreign exchange equivalent to twice the c.i.f. value of the merchandise, or to make the same deposit as if foreign exchange was being formally requested.

There has been no official announcement on the duration of the scheme. In the first four months of the scheme's operation, that is up to February 12, 1986, Dr 38 billion, equivalent to US\$260 million, had been placed in import deposits. These deposits would have been made on the basis of imports of around US\$520 million, as the average deposit requirement for eligible imports is 50 percent. The import deposit scheme appears to involve a multiple currency practice under Article VIII, section 3, of the Fund Articles of Agreement. In view of Greece's balance of payments difficulties the EC Commission granted approval of the import deposit scheme on a temporary basis on November 22, 1985. On the same date, the EC Commission authorized Greece to maintain restrictions, on a temporary basis, on transactions by Greek residents with other EC countries involving capital movements and the purchase of foreign exchange for tourist travel.

The EC Commission also authorized Greece to continue making subsidy payments to exporters on the basis of the domestic value added of the export until December 31, 1986. It specified that the individual rates of subsidy, which range between 6.6 percent and 26.4 percent of the f.o.b. value of exports, should not be increased.

Two other important developments took place in 1985. Starting on May 7, resident Greek nationals were permitted to open one- to three-months deposit accounts in foreign currencies with local banks. (Previously only deposit accounts for six- or twelve-months were

1/ Subject to licensing requirements for certain imports, see below.

permitted.) On July 15, Greece became a participant in the EMS Agreement, but chose not to participate in the narrow margin arrangements within the system.

3. Situation at end of 1985

There still exist procedures for approving all imports, which is granted automatically. The system is administered by the banks and is used to determine whether the documentary evidence exists to ensure that foreign exchange is being requested for purposes that meet the requirements of the exchange control regulations. An importer may seek this approval after goods have arrived at the docks in Greece.

In addition to the generalized approval procedures through banks, there is a system of import licenses for selected commodities (the so-called Lists A and B). These include textiles, certain foodstuffs, passenger cars, buses and certain types of machinery and spart parts. Since mid-1979, as part of the consolidation of trade regulations and harmonization of trade policies with those of the EC, the coverage of Lists A and B has been reduced from more than 500 items to about 30 items. Import license requirements for some items on Lists A and B (including textiles, cars, and certain types of machinery) are waived when the goods are imported from EC countries. Special regulations govern imports of certain items, such as goods under monopoly control (including petroleum), medicines, narcotics, sulfur and motion picture films. Final settlement of the value of imported goods must take place within 60 days of the date of arrival of the first Greek port. As described in the preceding section, a wide range of goods is subject to an import deposit scheme.

Payments for invisibles require approval, which is freely granted for expenses incidental to authorized transactions. For investments approved under LD 2687/53, payments of dividends on equity capital and interest on loans are restricted to 12 percent and 10 percent of the investment per year, respectively. For other investments, special approval is required and the maximum percentage of repatriated dividends is 6 percent on the amount of imported capital. In the case of enterprises engaged in exports, higher amounts may be repatriated, so long as these amounts do not exceed 30 percent of the firm's foreign exchange earnings during the same year. Banks are authorized to supply foreign exchange for a number of invisibles (such as travel, study, and medical treatment abroad) within specified limits. For tourist travel, an annual limit per person of ECU 760 (approximately US\$690) applies for travel to EC member countries; a significantly lower limit applies for travel to other countries.

Commercial banks may borrow convertible currencies abroad, provided that they extend medium- and long-term loans of equal amounts in foreign currency (or drachma loans with a foreign exchange clause) to productive enterprises in Greece to finance long-term investment. The exchange risk is borne by the borrowing enterprise. All other investments in

Greece by nonresidents are subject to approval. Investment proceeds may not be repatriated before one year after the date the capital was imported. Exceptions to the general regulations may be approved in the case of foreign capital imported to export sectors or other sectors of special importance to the economy.

Almost all exports require individual licenses but are free of quantitative restrictions. Export proceeds must normally be surrendered within 90 days from the date of shipment of the goods. Exporters are eligible for an interest rate subsidy amounting to 6 percent on export financing. Manufacturing exports receive an export subsidy amounting to 6.6 percent-26.6 percent on the f.o.b. value of exports, depending on domestic value-added. In addition, exporters of industrial products can add 3 percent of the export value to their costs for income tax purposes. Exports of most agricultural products benefit from price support measures in the context of the EC's common agricultural policy.

Exchange receipts derived from payments for services must be surrendered. Proceeds from shipping are exempt from this requirement but shipowners must cover their expenses for goods, services and taxes in Greece through the sale of foreign exchange to the Bank of Greece. Travelers may bring in a maximum of Dr 3,000 in Greek banknotes. Any surplus brought in by a nonresident must be deposited in a blocked account with the Bank of Greece and use is subject to prior approval by the Bank. Balances in blocked accounts as of December 31, 1980, held by private individuals residing in EC member countries were released in six equal annual installments during the period from January 1, 1981 to January 1, 1986. Residents of Greek nationality may import any amount of foreign currency, but it must be declared if they intend to take it out for the next journey. Transfers of capital abroad by residents require approval. The purchase abroad of securities or of real estate for personal use is normally not permitted.

Table 1. Greece: National Accounts

(In billions of drachmas)

	1981	1982	1983	1984	1985 <u>1/</u>	1981	1982	1983	1984	1985 <u>1/</u>
	At current prices					In constant 1970 prices				
Consumption	1,730.8	2,164.4	2,597.6	3,129.7	...	394.6	404.3	408.2	414.8	421.6
Private	1,362.3	1,694.8	2,023.3	2,413.9	2,906.3	320.9	329.3	331.6	335.2	339.2
Public	368.5	469.6	574.2	715.8		73.6	75.0	76.6	79.6	82.4
Gross fixed investment <u>2/</u>	456.4	513.5	622.1	703.1	...	85.8	84.1	82.5	78.7	79.6
Private	334.9	360.0	406.8	418.9	...	63.5	60.3	55.8	49.0	48.4
Public	121.5	153.5	215.3	284.2	...	22.3	23.8	26.7	29.6	31.2
Change in stocks	65.0	52.6	32.7	51.6	...	10.4	9.4	4.0	6.1	8.3 <u>3/</u>
Total domestic demand	2,252.2	2,730.5	3,252.4	3,884.4	...	491.3	496.6	494.4	499.6	509.5 <u>4/</u>
External balance	-123.9	-251.6	-308.1	-311.6	...	-17.9	-29.0	-25.3	-15.8	-17.0
Exports of goods and services	414.5	461.9	586.0	792.6	...	84.7	77.0	84.8	94.5	100.3
Imports of goods and services	-538.4	-713.5	-894.1	-1,104.2	...	-102.6	-106.0	-110.1	-110.2	-117.3
Statistical discrepancy	-81.4	68.9	121.5	199.5	...	-1.3	3.6	3.6	1.4	1.4
GDP at market prices	2,046.9	2,547.8	3,065.8	3,772.3	...	472.1	471.2	472.7	485.2	493.9
Net factor income from abroad	60.4	58.5	31.7	0.3	...	10.6	8.3	3.7	--	...
GNP at market prices	2,107.2	2,606.3	3,097.5	3,772.6	...	482.7	479.5	476.4	485.2	...
Depreciation	-175.5	-215.4	-272.6	-329.8	...	-35.1	-36.8	-37.9	-38.9	...
National income at market prices	1,931.7	2,390.9	2,824.9	3,442.8	...	447.6	442.7	438.5	446.3	...

Source: Ministry of National Economy.

1/ Provisional.2/ Excluding ocean-going ships.3/ Stocks and statistical discrepancy.4/ Includes statistical discrepancy.

Table 2. Greece: National Accounts

(At constant 1970 prices)

	<u>1985 1/</u> In percent of GDP	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985 1/</u>
		Percentage changes				
Consumption	85.4	2.0	2.5	1.0	1.6	1.6
Private	68.7	0.9	2.6	0.7	1.1	1.2
Public	16.7	6.8	1.9	2.1	3.9	3.5
Gross fixed investment	16.0	-7.5	-2.0	-1.9	-4.6	1.1
Private	9.8	-9.9	-5.0	-7.5	-12.2	-1.2
Public	6.2	0.1	6.7	12.2	10.9	5.4
Change in stocks <u>2/</u>	1.9	(-1.8)	(-0.2)	(-1.1)	(0.4)	(0.5)
Total domestic demand	103.3	-1.6	1.1	-0.4	1.1	2.0
Change in external balance <u>2/</u>	-3.4	(-1.4)	(-2.3)	(0.8)	(2.0)	(-0.2)
Exports of goods and services	20.3	-4.1	-9.1	10.1	11.4	6.1
Imports of goods and services	-23.7	3.4	3.3	3.9	0.1	6.4
GDP at market prices	100.0	-0.3	-0.2	0.3	2.6	1.8
Net factor income from abroad	...	-9.1	-21.6	-55.6	-99.0	...
GNP at market prices	...	-0.5	-0.7	-0.6	1.8	...

Sources: Ministry of National Economy; Bank of Greece, Monthly Statistical Bulletin; data supplied by the Greek authorities.

1/ Provisional.

2/ Figures represent percentage contribution to GNP, calculated as change in level of stockbuilding (or external balance) as percentage of GNP in the previous year. The statistical discrepancy is excluded from stocks, but is included in GDP/GNP.

Table 3. Greece: Household Income, Expenditure, and Saving 1/

	1984 In bns. of drachma at current prices	1980	1981	1982	1983	1984	Annual percentage change	
Agriculture income	585.9	36.9	21.9	29.3	11.2	29.3		
Wages and salaries in non- agricultural sector	1,575.0	20.4	23.8	27.9	20.2	23.2		
Income from property and entrepreneurship	911.0	17.6	22.3	9.8	18.4	16.8		
Current transfer from the Government, net	485.6	25.1	42.1	46.0	22.7	24.6		
Current transfers from the rest of the world, net	107.5	6.8	32.7	17.3	19.3	26.6		
Total income <u>2/</u>	3,665.0	21.9	25.1	24.3	18.5	22.8		
Less direct taxes, net	615.4	31.4	15.1	40.8	18.6	30.4		
Total disposable income <u>2/</u>	3,049.7	20.4	26.7	21.7	18.6	21.3		
Savings ratio		21.2	22.6	20.0	19.5	20.8		
Memorandum item:								
Real disposable income <u>3/</u>		-3.6	1.8	0.6	-1.3	2.4		

Sources: Ministry of National Economy, National Accounts Service; national forecasts.

1/ Including private nonprofit institutions.

2/ Excluding interest on external public debt.

3/ Increase in total disposable income adjusted for changes in consumer prices.

Table 4. Greece: Wages and Salaries in the
Nonagricultural Sector

(Percentage changes over previous period)

	1981	1982	1983	1984	1985 <u>1/</u>
Nominal wages and salaries					
All sectors					
Wage bill <u>2/</u>	23.9	37.9	20.2	23.2	20.0
Average earnings <u>3/</u>	24.0	26.1	17.2	...	...
Manufacturing (average) <u>4/</u>					
Wages (per hour)	27.2	33.5	19.4	26.3	21.2
Salaries (per month)	25.4	22.5	14.3	24.1	27.0
Retail trade (average)					
Salaries (per month)	21.8	37.5	22.1	25.9	25.8
Civil service					
Average earnings	25.9	28.7	18.7	...	...
Minimum wages and salaries					
Wages (per hour)					
Men	26.1	50.7	20.0	21.1	17.8
Women	26.1	50.7	20.0	20.0	17.8
Salaries (per month)	24.5	50.6	17.6	17.6	17.9
Memorandum items:					
Consumer prices (average)	24.5	20.9	20.2	18.5	19.3
Real wages and salaries					
All sectors					
Wage bill <u>2/</u>	-0.5	14.1	--	4.0	0.6
Average earnings	-0.4	4.2	-2.7	...	...

Sources: National Statistical Service of Greece, Monthly Statistical Bulletin; IMF, International Financial Statistics; data supplied by the Greek authorities.

1/ Provisional. With the exception of consumer prices, all figures are January-June averages.

2/ National accounts basis; excluding net income from abroad and wages of workers in the agricultural sector.

3/ Differences in rates of change between wage bill and average earnings are due not only to changes in employment but also to statistical discrepancies.

4/ Gross remuneration (including overtime) in establishments with ten or more employees.

Table 5. Greece: Gross Fixed Investment

(In millions of drachmas) 1/

	<u>At current prices</u>				<u>At constant 1970 prices</u>			
	1981	1982	1983	1984	1981	1982	1983	1983
Total	456,350	513,500	622,100	703,050	85,750	84,100	82,500	78,650
By type of purchaser								
Private	334,850	360,000	406,800	418,850	63,495	60,300	55,800	49,030
Public	121,500	153,500	215,300	284,200	22,255	23,800	26,700	29,620
By type of capital goods								
Dwellings and other buildings	194,920	196,660	236,996	239,606	33,088	29,650	30,715	26,892
Other construction and works	98,932	98,556	129,974	163,957	17,269	14,061	14,688	15,017
Transport equipment	49,045	78,217	66,205	68,319	12,445	16,427	11,252	9,617
Machinery and other equipment	113,453	140,067	188,925	231,168	22,948	23,962	25,845	27,124
By sector								
Agriculture, fishing, etc.	31,416	38,513	48,979	69,604	5,658	5,716	5,902	7,153
Mining and quarrying	35,876	22,283	22,081	22,368	6,613	3,479	2,983	2,469
Manufacturing	72,549	78,194	90,400	106,329	13,973	13,120	12,208	12,346
Electricity, gas, etc.	28,328	43,584	72,720	93,547	5,379	6,872	9,074	9,861
Transportation and communications	88,310	119,263	127,835	139,208	19,192	22,415	18,570	16,316
Dwellings	126,373	135,292	163,012	145,124	21,452	20,398	21,124	16,288
Public administration	2,983	3,839	5,652	7,849	549	594	733	880
Other service industries	70,515	72,532	91,421	119,021	12,934	11,506	11,906	13,337

Sources: Ministry of National Economy; Bank of Greece, Monthly Statistical Bulletin; and data supplied by the Greek authorities.

1/ Excluding ocean-going ships.

Table 6. Greece: Gross Fixed Investment ^{1/}

	1981	1982	1983	1984	1981	1982	1983	1984
	Percentage shares; at constant 1970 prices				Percentage changes; at constant 1970 prices			
Total	100.0	100.0	100.0	100.0	-7.5	-2.0	-1.9	-4.6
By type of purchaser								
Private	76.0	71.7	67.6	62.3	-9.9	-5.0	-7.5	-12.2
Public	24.0	28.3	32.4	37.7	0.1	6.7	12.2	10.9
By type of capital goods								
Dwellings and other buildings	42.0	35.3	37.2	34.2	-15.0	-10.4	3.6	-12.4
Other construction and works	16.9	16.7	17.8	19.1	10.2	-18.6	4.5	2.2
Transport equipment	15.1	19.5	13.6	12.2	-11.0	32.0	-31.5	-14.5
Machinery and other equipment	26.0	28.5	31.3	34.5	-4.9	4.4	7.9	4.9
By sector								
Agriculture, fishing, etc.	6.7	6.8	7.2	9.1	-8.3	1.0	3.3	21.2
Mining and quarrying	5.9	4.1	3.6	3.1	20.9	-47.4	-14.3	-17.2
Manufacturing	16.1	15.6	14.8	15.7	-6.2	-6.1	-7.0	1.1
Electricity, gas, etc.	7.2	6.4	8.3	12.5	-19.8	27.8	32.0	8.7
Transportation and communication	21.0	26.7	22.5	20.7	-1.2	16.8	-17.2	-12.1
Dwellings	29.4	25.5	24.7	20.7	-21.4	-4.9	3.6	-22.9
Public administration	0.5	0.7	0.9	1.1	13.9	8.2	23.4	20.1
Other service industries	13.2	13.7	14.4	17.0	5.5	-11.0	3.5	12.0

Sources: Ministry of National Economy, National Accounts Service; Bank of Greece, Monthly Statistical Bulletin; data provided by the Greek authorities.

^{1/} Excluding ocean-going ships; this table updates Table 6 of Recent Economic Developments.

Table 7. Greece: GDP by Sector of Origin
(In millions of drachmas; at constant 1970 prices)

	1981	1982	1983	1984	1985 <u>1/</u>
GDP at factor costs <u>2/</u>	416,515	416,169	417,529	429,150	436,800
Agriculture, forestry, and fishing	59,516	60,940	56,820	60,450	60,750
Industry	107,940	104,692	104,122	106,880	107,900
Mining and quarrying	5,727	5,720	5,656	5,900	5,900
Electricity, gas, water	14,149	14,616	15,171	16,130	17,150
Manufacturing	88,064	84,356	83,295	84,850	84,850
Construction	24,201	22,289	23,136	21,620	22,050
Services	224,858	228,248	233,451	240,200	246,100
Transportation and communications	41,277	41,510	42,651	45,200	47,450
Trade	49,924	50,323	50,927	63,750	64,400
Banking, insurance, etc.	10,462	10,406	11,619		
Ownership of dwellings	39,697	41,086	42,401	43,600	44,650
Public administration and defense	38,090	39,110	40,068	60,200	61,850
Health and education	17,814	18,289	18,729		
Other services	27,594	27,524	27,056	27,450	27,750

Sources: Ministry of National Economy; Bank of Greece, Monthly Statistical Bulletin; and data provided by the Greek authorities.

1/ Provisional.

2/ Figures in this table differ somewhat from those in Table 1 for real GDP, largely because those at market prices include indirect taxes, but exclude subsidies.

Table 8. Greece: GDP by Sector of Origin

(In percent, at constant prices)

	1981	1982	1983	1984	1985 1/	1981	1982	1983	1984	1985 1/
	Percentage changes					Percentage distribution				
GDP at factor costs 2/	-0.2	-0.1	0.3	2.8	1.8	100	100	100	100	100
Agriculture, forestry, and fishing	-1.6	2.4	-6.8	6.4	0.5	14.3	14.6	13.6	14.1	13.9
Industry	-1.1	-3.0	-0.5	2.6	1.0	25.9	25.2	24.9	24.9	24.7
Mining and quarrying	-8.3	-0.1	-1.1	4.3	--	1.4	1.4	1.4	1.4	1.4
Electricity, gas, water	3.1	3.3	3.8	6.3	6.3	3.4	3.5	3.6	3.8	3.9
Manufacturing	-1.2	-4.2	-1.3	1.9	--	21.1	20.3	19.9	19.8	19.4
Construction	-8.3	-7.9	3.8	-6.6	2.0	5.8	5.4	5.5	5.0	5.0
Services	1.5	1.5	2.3	2.9	2.5	54.0	54.8	55.9	56.0	56.3
Transportation and communication	3.5	0.6	2.7	6.0	5.0	9.9	10.0	10.2	10.5	10.9
Trade	-1.4	0.8	1.2)			12.0	12.1	12.2)		
Banking, insurance, etc.	-5.2	-0.5	11.7)	25.2	1.0	2.5	2.5	2.8)	14.9	14.7
Ownership of dwellings	4.2	3.5	3.2	2.8	2.4	9.5	9.9	10.2	10.2	10.2
Public administration and defense	3.8	2.7	2.4)	2.3	2.7	9.1	9.4	9.6)	14.0	14.2
Health and education	1.8	2.7	2.4)			4.3	4.4	4.5)		
Other services	-0.2	-0.3	-1.7	1.5	1.1	6.6	6.6	6.5	6.4	6.4

Sources: Ministry of National Economy; Bank of Greece, Monthly Statistical Bulletin; data provided by the Greek authorities.

1/ Provisional.

2/ Figures in this table differ somewhat from those in Table 1 for real GDP, largely because those at market prices include indirect taxes but exclude subsidies. The figures will also differ slightly from those in Table 9, because the figures in this table are based on value added, while those in Table 9 are based on total production value.

Table 9. Greece: Manufacturing Production

	Weight in Index 1970 <u>1/</u>	Percentage changes compared to the preceding year					
		1980	1981	1982	1983	1984	1985 Jan.-Sept.
Total	100.0	1.0	-1.3	-5.1	-0.5	2.8	0.5
Foodstuffs	11.9	-1.9	-1.1	-1.0	0.8	-1.0	5.8
Beverages	3.6	5.7	2.8	0.5	-1.1	3.9	10.3
Tobacco	3.2	1.3	-5.1	7.0	6.5	-2.2	2.6
Textiles	14.4	-1.6	0.2	-10.9	-5.9	0.6	1.7
Clothing and footwear	3.3	-6.1	-5.2	4.3	-8.9	0.7	2.6
Wood and cork	2.2	-5.8	-17.2	-3.2	2.4	-15.6	2.3
Furniture	1.5	-17.4	0.9	-8.9	-11.7	-13.1	14.1
Paper	2.3	0.4	-3.6	-7.9	-2.5	7.9	7.0
Printing and publishing	3.3	-2.3	8.1	3.7	4.2	3.4	4.3
Leather products	1.0	-6.5	-3.0	-10.6	-0.5	1.9	-7.0
Rubber and plastics	3.6	-7.5	4.0	10.9	-3.3	2.1	-9.4
Chemicals	8.5	1.0	0.9	1.8	0.9	9.2	0.2
Petroleum and coal production	3.1	-1.8	2.6	-9.4	-0.3	-2.3	4.3
Nonmetallic minerals	8.5	5.3	-2.3	-1.6	-3.3	0.4	-8.5
Basic metallurgy	10.1	1.7	-14.8	-19.4	31.6	12.3	1.4
Manufactured metal goods	5.3	4.9	8.6	-9.7	-5.8	15.8	-5.0
Nonelectrical machinery and appliances	2.5	-15.6	3.4	-9.5	-14.3	-3.8	-3.7
Electrical machinery and appliances	5.5	15.9	2.7	-10.4	0.6	-5.9	14.3
Transport equipment	5.6	11.2	3.7	-6.2	-14.4	-9.0	-19.4
Other	0.6	-3.1	-12.7	6.1	-7.2	26.0	-14.4

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

1/ In percent.

Table 10. Employment, Productivity, and
Unit Labor Costs in Manufacturing

(Annual percentage changes)

	1981	1982	1983	1984	1985 <u>1/</u>
Production	-1.2	-5.1	-0.5	1.5	-1.2
Employment	1.1	0.1	-1.2	0.4	-2.3
Hours worked per employee <u>2/</u>	-2.9	-2.3	-0.2	-0.9	3.8
Productivity <u>3/</u>	0.5	-3.0	0.9	2.8	-2.6
Hourly wages	27.2	33.5	19.4	26.3	21.2
Unit labor costs	26.6	37.5	18.3	22.9	24.4
Memorandum item:					
Value added per manhour <u>4/</u>	23.6	16.6	21.9	22.1	...
Total unemployment rate <u>5/</u>	4.0	5.8	7.8	8.1	...

Sources: National Statistical Service of Greece, Monthly Statistical Bulletin; United Nations, Monthly Statistical Bulletin; IMF, International Financial Statistics; and data supplied by the Greek authorities.

- 1/ Provisional estimate for average level for January-June period.
2/ For wage earners.
3/ Production per manhour.
4/ Based on gross value added in manufacturing, at current prices; national accounts basis.
5/ Total unemployment as percent of population aged 15-64.

Table 11 Greece: Price Developments

(Average percentage changes over preceding period, except as indicated)

	Weights <u>1/</u>	1981	1982	1983	1984	1985
Wholesale prices <u>2/</u>	100	25.9	16.0	19.8	21.4	20.6
Of which:						
Final products for home						
Consumption	87	26.1	17.2	19.8	20.2	20.3
Domestic industrial products	50	24.2	16.8	20.8	18.3	19.8
Domestic primary products	18	25.1	20.6	15.5	20.2	17.7
Imported final products	19	31.0	15.4	21.2	24.0	23.3
Exported products	13	25.1	8.1	19.6	29.6	22.1
Consumer prices	100	24.5	21.0	20.2	18.5	19.3
Of which:						
Food, drink, and tobacco	36	28.6	21.3	18.1	18.4	19.0
Housing	13	27.2	18.4	13.7	14.8	17.6
Clothing and footwear	13	21.5	27.8	22.3	26.2	22.1
Durable goods and household supplies	9	22.6	21.0	25.5	19.1	20.5
Transport and communication	13	13.7	15.3	21.0	11.7	16.8
Other goods and services <u>3/</u>	16	22.1	21.6	24.9	21.7	20.9
GDP deflator		20.0	24.7	19.9	19.9	...
Import prices <u>4/</u>		15.2	26.2	21.6	23.1	...
Private consumption deflator		23.4	21.2	18.6	18.0	19.0
Seasonally adjusted increase in consumer prices (over previous quarter)						
First quarter		6.8	3.7	5.1	4.0	4.4
Second quarter		4.2	5.9	4.8	4.2	3.1
Third quarter		5.2	4.6	4.5	4.8	5.6
Fourth quarter		5.8	3.9	4.4	3.9	...
Memorandum item:						
End-year increase						
Wholesale prices		21.5	15.2	23.2	19.8	28.2
Consumer prices		22.5	19.1	19.9	18.1	24.9

Sources: Bank of Greece, Monthly Statistical Bulletin; IMF, International Financial Statistics; and data supplied by the Greek authorities.

1/ Weights are based on 1970 for the wholesale price index, and 1982 for the consumer price index. Starting with 1984, the consumer prices data reported are based on the 1982 weights. Data for the preceding years are based on the 1974 weights.

2/ Preliminary estimates for the January-October, 1985 period.

3/ This category includes health and personal care, and education and recreation along with other goods and services.

4/ Implicit deflator for imports of goods and services.

Table 12. Greece: Public Sector Borrowing Requirement

(Cash basis)

	1980	1981	1982	1983	1984	1985 <u>1/</u>
	<u>In billions of drachmas</u>					
Public sector deficits <u>2/</u>						
Ordinary and investment budgets <u>3/</u>	101.6	210.0	225.2	289.2	390.4	650.0
Consumer Goods Account (excluding petroleum)	1.2	-46.0	20.5	9.4	-11.8	--
Petroleum Products Account	17.8	32.8	-8.7	-9.0	65.6 <u>4/</u>	-5.0
Special Accounts for Agricultural products and supplies	5.4	58.6	34.6	8.9	38.8	-10.0
Public enterprises	33.0	59.4	54.5	88.2	103.9	140.0
Local government and other public entities	-15.7	-12.5	2.5	-35.5	1.1	35.0
Net borrowing requirement (as a percentage of GNP)	143.2 (8.1)	302.3 (14.3)	328.5 (12.6)	351.2 (11.3)	588.0 (15.6)	810.0 (18.0)
	<u>Percentage shares</u>					
Financing						
Domestic loans	75.7	85.8	82.0	65.4	71.2	64.8
Bank of Greece <u>5/</u>	26.3	54.3	45.1	-2.5	14.6	8.9
Treasury bills <u>6/</u>	30.8	14.8	17.2	51.3	33.3	39.9
Financial intermediaries and other <u>7/</u>	18.6	16.7	19.7	16.6	23.3	16.0
Foreign loans	24.3	14.2	18.0	34.6	28.8	35.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum items: (in billions of drachmas)						
Debt repayment	20.8	42.3	49.3	64.8	89.3	139.5
Domestic	8.5	20.6	22.8	33.2	35.4	46.2
External	12.3	21.7	26.5	31.6	53.9	93.3

Sources: Bank of Greece, Annual Report; data supplied by the Greek authorities.

1/ Provisional.

2/ + = deficit, - = surplus.

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

4/ Of this amount approximately Dr 6.9 billion reflects inventory increases, and the remainder represents operational deficits and an increase in net claims of the oil management.

5/ Including Bank of Greece holdings of treasury bills.

6/ Commercial banks and specialized credit institutions only.

7/ Financing by commercial banks and specialized credit institutions other than treasury bills; net of amortization payments to private non-banking sector.

Table 13. Greece: Public Sector Borrowing Requirement

(Accrual basis; in billions of drachmas)

	1981	1982	1983	1984	1985		1986
					Budget est.	Prov. outturn	Budget est.
Central government gross borrowing requirement <u>1/2/</u>	261.1	244.3	307.3	393.2	459.4	612.8	574.7
Consumer Goods Account and Special Management Accounts <u>3/</u>	45.4	46.4	9.3	92.6	...	-15.0	...
Public enterprises' gross borrowing requirement <u>4/</u>	88.4	86.0	88.2	97.2	144.5	156.2	145.4
Public entities' gross borrowing requirement <u>5/</u>	<u>-5.0</u>	<u>18.0</u>	<u>15.9</u>	<u>39.6</u>	<u>41.3</u>	<u>61.3</u>	<u>55.8</u>
Public sector gross borrowing requirement	389.9	394.7	410.7	622.6	645.2	815.3	775.9
Amortization	45.0	46.3	62.0	84.5	96.8	130.7	170.1
Public debt	19.3	21.7	24.0	42.2	46.7	66.2	79.2
Public enterprises <u>4/</u>	25.7	24.6	33.8	30.0	36.0	47.0	66.0
Public entities <u>5/</u>	--	--	4.2	12.3	14.1	17.5	24.9
Public sector net borrowing requirement	344.9	348.4	358.8	538.1	548.4	684.6	605.8
(In percent of GNP)	(16.4)	(13.4)	(11.6)	(14.3)	(12.2)	(15.2)	(11.1)
Outstanding debt (end-year)	967.2	1,366.6	1,897.5	2,842.6	...	...	...
Domestic	696.7	965.0	1,210.2	1,722.3	...	...	...
External	270.5	401.6	687.3	1,120.3	...	...	...
External (In millions of U.S. dollars)	4,693.7	5,690.8	6,965.6	8,719.6	...	...	...
Interest payments	102.6	122.0	182.4	...	...	...	...

Source: Data supplied by the Greek authorities.

1/ Including operational deficits of Consumer Goods Account and Special Management Accounts; for 1984, however, excludes operational deficit of Petroleum Account.

2/ Including the servicing of the Dr 70 billion loan granted by the Bank of Greece to the Greek State in 1978.

3/ In general, covers working capital only, principally for financing of inventories and time lags in money flows; for 1984, includes operational deficit of the Petroleum Account.

4/ Covers 15 public enterprises for 1981, and 45 in subsequent years.

5/ Covers five major public entities.

Table 14. Greece: Financing of Public Sector Gross Borrowing Requirement
(Accrual basis; in billions of drachmas)

	1982	1983	1984	1985		1986
				Budget est.	Prov. outturn	Budget est.
Public sector gross borrowing requirement	394.7	420.7	622.6	645.2	815.3	775.9
Financing						
Domestic borrowing	303.3	274.5	378.2	432.0	482.2	568.3
Treasury bills	(64.3)	(170.2)	(209.9)	(...)	(...)	(...)
Bank of Greece	(178.7)	(68.4)	(116.4)	(...)	(...)	(...)
Commercial banks and specialized credit institu- tions 1/	(60.3)	(35.9)	(51.9)	(...)	(...)	(...)
Foreign borrowing	91.4	146.2	244.4	213.2	333.1	207.6
Memorandum item:						
Share of foreign borrowing in financing of gross borrowing requirement	23.2	34.8	39.3	33.0	40.9	26.8

Source: Data supplied by the Greek authorities.

1/ Financing other than treasury bills.

2/ Including foreign credits of public enterprises.

Table 15. Greece: Summary of Central Government Finance

(Accrual basis; in billions of drachmas)

	1982	1983	1984	1985		1986
				Budget est	Prov. Outturn	Budget est.
Revenue, total	<u>640.3</u>	<u>818.0</u>	<u>1,024.3</u>	<u>1,330.0</u>	<u>1,231.9</u>	<u>1,642.5</u>
Ordinary budget <u>1/</u>	589.1	733.4	929.3	1,215.0	1,110.0	1,489.5
Public investment budget	5.8	8.1	11.8	20.0	16.7	41.0
Special account for agricultural product guarantees	45.4	76.5	83.2	95.0	105.2	112.0
Expenditures, total <u>1/ 2/</u>	<u>884.6</u>	<u>1,125.3</u>	<u>1,417.5</u>	<u>1,789.4</u>	<u>1,844.7</u>	<u>2,217.2</u>
Ordinary budget	721.3	879.6	1,113.3	1,419.4	1,465.0	1,787.2
Public investment budget	117.9	169.2	221.0	275.0	274.5	318.0
Special account for agricultural product guarantees	45.4	76.5	83.2	95.0	105.2	112.0
Balance, total <u>2/</u>	<u>-244.3</u>	<u>-307.3</u>	<u>-393.2</u>	<u>-459.4</u>	<u>-612.8</u>	<u>-574.7</u>
Ordinary budget	-132.2	-146.2	-184.0	-204.4	-355.0	-297.7
Public investment budget	-112.1	-161.1	-209.2	-255.0	-257.8	-277.0
Special account for agricultural product guarantees	--	--	--	--	--	--
Gross borrowing requirement	<u>244.3</u>	<u>307.3</u>	<u>393.2</u>	<u>459.4</u>	<u>612.8</u>	<u>574.7</u>
Domestic borrowing	196.6	229.3	233.7	344.4	381.5	437.7
Treasury bills	(64.3)	(170.2)	(209.9)	...	(...)	...
Bank of Greece	(132.3)	(59.7)	(23.8)	...	(...)	...
Memorandum items:						
Outstanding debt (end-year)	928.3	1,269.4	1,882.8	...	...	...
Domestic	693.5	882.1	1,259.2	...	...	...
Of which:						
Bank of Greece <u>3/</u>	305.9	309.9	463.1	...	...	...
External	234.8	387.3	623.6	...	...	...
External (in millions of U.S. dollars)	3,327.2	3,925.2	4,853.7	...	...	...

Source: Data supplied by the Greek authorities.

1/ Including earmarked revenue and corresponding expenditure.

2/ Including the servicing of the Dr 70 billion loan granted by the Bank of Greece to the Greek state in 1978.

3/ Medium- and long-term debt only.

Table 16. Greece: Central Government Expenditures, Economic Classification

(Accrual basis)

	1982	1983	1984	1985		1986	1984	1985		1986
				Budget	Nov. est.	Budget		Budget	Nov. est.	Budget
	(In billions of drachmas)						(Percentage changes)			
Salaries and pensions	286.6	347.6	441.3	552.1	566.6	659.3	27.0	25.1	28.4	16.4
Active personnel	168.5	205.2	258.9	329.0	339.0	394.2	26.2	27.1	30.9	16.3
Pensioners	70.5	83.4	106.4	130.0	132.0	152.1	27.6	22.2	24.1	15.2
Allowance	27.1	36.0	51.8	67.4	70.5	85.5		30.1	36.1	21.3
Other	20.5	23.0	24.2	25.7	25.0	27.6	5.2	6.2	3.3	10.3
Public debt servicing	64.5	101.2	181.1	256.3	269.3	374.9	79.0	41.5	48.7	39.2
Restitution of revenue in favor of third parties	43.7	56.5	58.6	89.5	74.0	82.0	3.7	52.7	26.3	10.8
Tax rebates	40.2	57.1	62.7	48.0	104.0	93.0	9.8	-23.4	65.9	-10.6
Agricultural subsidies	67.6	51.1	55.0	76.9	92.3	91.6	7.6	39.8	67.8	-0.8
Grants	100.8	117.9	139.5	149.0	160.6	175.3	18.3	6.9	15.1	9.1
Other consumer expenditures	117.9	148.2	175.0	227.6	198.3	291.2	18.1	30.1	13.3	46.8
Reserve	...	--	...	20.0	--	20.0				
Total ordinary budget expenditures	721.3	879.6	1,113.2	1,419.4	1,465.0	1,787.2	26.6	27.5	31.6	22.0
Special account for agricul- tural product guarantees	45.4	76.5	83.3	95.0	105.2	112.0	8.8	14.1	26.4	6.5
Public investment budget	117.9	169.2	221.0	275.0	274.5	318.0	30.6	24.4	24.2	15.8
Total central govern- ment expenditures	884.6	1,125.3	1,417.5	1,789.4	1,844.7	2,217.2	26.0	26.2	30.1	20.2

Source: Data supplied by the Greek authorities.

Table 17. Greece: Central Government Expenditures, Functional Classification

	1982	1983	1984	1985		1986	1984	1985		1986
				Budget	Prov. Outturn	Budget		Budget	Prov. Outturn	Budget
	(In billions of drachmas)						(Percentage changes)			
Defense	133.4	152.8	191.6	215.9	214.9	247.9	25.4	12.7	12.2	15.4
Education	85.8	100.5	131.3	169.8	166.4	203.6	30.6	29.3	26.7	22.4
Health, social welfare and insurance	113.4	146.1	174.9	247.1	231.6	285.7	19.7	41.3	32.4	23.4
Agriculture	132.8	151.1	169.1	209.6	242.2	246.1	11.9	24.0	43.2	1.6
Debt service	91.3	130.3	208.3	287.5	300.5	402.7	60.1	38.0	44.3	34.0
Interest payments	67.9	106.2	163.8	236.4	231.3	317.9	54.3	44.3	41.2	37.4
Domestic	46.4	70.5	111.9	166.0	159.7	213.6	58.8	48.3	42.7	33.8
External	21.5	35.7	51.9	70.4	71.6	104.3	45.3	35.6	38.0	45.7
Amortization	21.7	23.9	42.2	46.7	64.7	79.2	76.6	10.6	53.3	22.4
Domestic	5.6	5.8	6.4	6.0	6.2	6.4	10.0	-6.0	-2.8	3.2
External	16.1	18.1	35.8	40.7	58.5	72.8	98.0	13.6	63.3	24.4
Other expenditure	<u>327.9</u>	<u>444.5</u>	<u>542.4</u>	<u>659.5</u>	<u>689.1</u>	<u>831.2</u>	22.0	21.6	27.0	20.6
Total expenditures	884.6	1,125.3	1,1417.6	1,789.4	1,844.7	2,217.2	26.0	26.2	30.1	20.2
Memorandum item:										
Total, excluding amortization	862.9	1,101.4	1,375.4	1,742.7	1,780.0	2,138.0	24.9	26.6	29.4	20.1

Source: Data provided by the Greek authorities.

Table 18. Greece: Central Government Revenues

(Accrual basis)

	1982	1983	1984	1985		1986	1984	1985		1986
				Budget	Prov. Outturn	Budget		Budget	Budget	Prov. Outturn	Budget
(In billions of drachmas)						(Percentage change)				
Ordinary budget	589.1	733.4	929.3	1,214.9	1,110.0	1,489.5	26.7	30.7	19.4	34.2
Direct taxes	<u>175.0</u>	<u>200.9</u>	<u>253.2</u>	<u>378.4</u>	<u>314.0</u>	<u>481.8</u>	<u>26.0</u>	<u>49.4</u>	<u>24.0</u>	<u>53.5</u>
Income taxes	122.4	140.7	186.6	253.8	242.9	326.7	32.6	36.0	30.2	34.5
Of which:										
Personal income tax	94.5	118.6	154.6	209.0	199.5	266.5	30.4	35.2	29.0	33.6
Other	27.9	22.1	32.0	44.8	43.4	60.1	44.8	40.0	35.6	38.6
Property taxes	7.6	11.7	13.3	15.6	13.5	15.4	14.0	16.9	1.0	14.3
Other direct taxes	29.0	48.5	53.3	109.0	57.6	139.7	9.8	104.6	8.1	142.7
Indirect taxes	<u>265.3</u>	<u>477.9</u>	<u>595.1</u>	<u>746.6</u>	<u>719.3</u>	<u>890.1</u>	<u>24.5</u>	<u>25.5</u>	<u>20.9</u>	<u>23.7</u>
Customs duties and agricultural levies	19.5	23.8	21.3	24.8	20.4	19.8	-10.5	16.4	-4.5	-2.9
Consumption tax on imports	54.7	104.1	107.0	95.8	105.3	130.2	2.8	-10.5	-1.6	23.6
Consumption tax on domestic products	93.3	177.3	246.2	297.3	285.6	353.2	38.8	20.8	16.0	23.7
Transaction tax	85.8	153.8	202.5	299.8	289.4	355.7	31.7	48.0	42.9	22.9
Other indirect taxes	12.0	18.9	18.2	28.9	18.8	31.3	-4.0	59.2	3.3	66.8
Nontax revenues	<u>33.5</u>	<u>54.6</u>	<u>80.9</u>	<u>89.9</u>	<u>90.7</u>	<u>117.7</u>	<u>48.2</u>	<u>11.1</u>	<u>12.1</u>	<u>29.7</u>
Public investment budget	<u>7.0</u>	<u>8.1</u>	<u>11.8</u>	<u>20.0</u>	<u>16.7</u>	<u>41.0</u>	<u>45.7</u>	<u>69.5</u>	<u>41.5</u>	<u>145.5</u>
Special account for agricul- tural product guarantees	<u>9.2</u>	<u>76.5</u>	<u>83.3</u>	<u>95.0</u>	<u>105.2</u>	<u>112.0</u>	<u>8.8</u>	<u>14.1</u>	<u>26.4</u>	<u>6.5</u>
Total central government revenues	<u>438.7</u>	<u>818.0</u>	<u>1,024.3</u>	<u>1,330.0</u>	<u>1,231.9</u>	<u>1,642.5</u>	<u>25.2</u>	<u>29.8</u>	<u>20.3</u>	<u>33.3</u>

Source: Data supplied by the Greek authorities.

Table 19. Greece: Public Investment Budget Expenditure
of the Central Government by Sector

(In billions of drachmas; at current prices)

	1982	1983	1984	1985		1986	(% change)
				Budget est.	Prov. Outturn	Budget est.	
Public investment program							
Agriculture	2.3	1.5	2.2	2.9	3.0	3.5	(16.7)
Forestry, fishing	1.9	3.8	6.0	6.4	8.6	6.5	(-24.4)
Land reclamation	8.0	9.5	8.9	13.0	14.0	15.0	(7.5)
Industry, energy, handicrafts	5.6	11.8	17.6	16.2	19.0	49.3	(159.5)
Transportation (excluding railways)	11.9	16.2	20.5	26.9	29.3	32.0	(9.4)
Railways	2.2	3.0	4.4	5.0	4.5	4.0	(-11.1)
Tourism, museums, monuments	2.2	2.8	4.0	4.0	4.7	4.5	(-3.2)
Education	10.4	11.3	18.2	19.7	18.4	23.1	(25.3)
Housing	2.2	2.1	2.9	3.4	4.0	4.0	(--)
Health, welfare	2.6	4.8	6.4	12.0	11.2	14.0	(25.0)
Water supply, sewerage	2.5	3.6	7.2	7.9	7.9	8.4	(7.0)
Public administration	1.3	2.1	2.5	3.5	4.5	4.1	(-8.0)
Research, technology, technical cooperation	3.1	3.1	4.3	6.5	6.8	7.2	(5.9)
Prefectural and border-aid projects	18.5	40.7	56.9	64.6	71.3	71.0	(-0.4)
Special projects in Athens and Thessaloniki	7.5	8.5	9.8	9.0	8.3	8.8	(6.0)
Miscellaneous (including amortization and interest payments)	35.7	44.4	49.1	58.0	59.2	55.6	(-6.0)
Reserve	--	--	--	16.0	--	7.0	
Total	117.9	169.2	221.0	275.0	274.5	318.0	(15.8)
(In percent of GNP)	(4.6)	(5.5)	(5.9)	(6.1)	(6.0)	(5.6)	

Source: 1986 Budget; data supplied by the Greek authorities.

Table 20. Greece: Borrowing Requirement of the
Public Enterprises 1/

(Accrual basis; in billions of drachmas)

	1982	1983	1984	1985		1986
				Budget est.	Prov. Outturn	Budget est.
Operating revenue	306.2	363.8	432.0	...	537.1	...
Operating expenditures <u>2/</u>	<u>334.8</u>	<u>389.6</u>	<u>466.0</u>	<u>...</u>	<u>596.1</u>	<u>...</u>
Of which:						
Wages and salaries	113.0	132.9	...	...	...	...
Fuel	41.0	50.7	...	...	...	...
Interest payments	51.1	65.9	...	...	...	...
Other	129.7	140.1	...	...	...	...
Operating deficit	28.6	25.8	34.0	44.1	59.0	16.6
Investment expenditures <u>3/</u>	103.9	127.8	159.7	217.6	210.4	229.9
Operating and investment accounts (deficit)	132.5	153.6	193.7	261.7	269.4	246.5
(In percent of GNP)	(5.1)	(5.0)	(5.1)	(5.8)	(6.0)	(...)
Less:						
Grants:						
Ordinary budget	16.6	22.5	22.3	21.6	21.3	18.7
Investment budget, etc.	25.6	40.5	63.8	70.2	82.6	95.3
Depreciation)	28.8	36.1	40.5	61.3	56.3	53.1
Special resources)						
Net borrowing requirement	61.5	54.5	67.1	108.6	109.2	79.4
Amortization payments	24.6	33.8	30.0	36.0	47.0	66.0
Gross borrowing requirement	86.0	88.2	97.2	144.5	156.2	145.4
Memorandum Items:						
Outstanding debt						
(end-year) <u>4/</u>	<u>370.4</u>	<u>532.6</u>	<u>817.1</u>	<u>...</u>	<u>...</u>	<u>...</u>
Domestic <u>5/</u>	<u>203.6</u>	<u>232.5</u>	<u>320.4</u>	<u>...</u>	<u>...</u>	<u>...</u>
External	166.8	300.1	496.7			
External (In millions of U.S. dollars)	2,359.6	3,037.0	3,903.8	...	...	...

Source: Data supplied by the Greek authorities.

1/ Covers 45 major public enterprises; comparable data do not exist prior to 1982.

2/ Breakdown into components are estimates.

3/ Excluding amortization payments.

4/ Covers all public enterprises.

5/ Including bank credits and bonds.

Table 21. Greece: Borrowing Requirement of the Public Entities 1/
(Accrual basis; in billions of drachmas)

	1982	1983	1984	1985		1986
				Budget est.	Prov. Outturn	Budget est.
Operating revenue	184.4	234.3	294.4	...	376.0	...
Operating expenditures	<u>219.1</u>	<u>270.2</u>	<u>350.7</u>	...	<u>451.1</u>	...
Operating deficit	34.7	35.9	56.3	55.9	75.1	84.5
Investment expenditure	<u>4.9</u>	<u>4.7</u>	<u>6.6</u>	<u>10.9</u>	<u>12.1</u>	<u>8.1</u>
Operating and investment accounts (deficit)	39.6	40.6	62.9	66.8	87.2	92.6
(In percent of GNP)	(1.5)	(1.3)	(1.7)	(1.5)	(1.9)	(...)
Less:						
Grants:						
Ordinary budget	18.2	26.3	33.2	35.1	35.7	50.6
Investment budget	1.7	2.2	1.8	2.5	5.2	9.5
Depreciation)						
Special resources)	<u>1.7</u>	<u>0.4</u>	<u>0.6</u>	<u>2.0</u>	<u>2.5</u>	<u>1.6</u>
Net borrowing requirement <u>2/</u>	18.0	11.7	27.3	27.2	43.8	30.9
Amortization payments	--	4.2	12.3	14.1	17.5	24.9
Gross borrowing requirement <u>2/</u>	18.0	15.9	39.6	41.3	61.3	55.8
Memorandum items: <u>3/</u>						
Interest payments	3.0	12.0	...	...	...	...
Outstanding debt (end-year)	67.9	95.6	142.7	...	...	...

Source: Data supplied by the Greek authorities.

1/ Covers five public entities (see Table 22).

2/ Negative figures indicate financial surplus.

3/ Covers all public entities.

Table 22. Greece: Operating Accounts of Public Enterprises and Public Entities 1/

(In billions of drachmas; accrual basis)

	1982	1983	1984	1985		1986
				Budget est.	Prov. Outturn	Budget est.
Public Enterprises						
Public Power Corporation	0.6	-1.5	1.7	-7.0	1.5	14.3
State Oil Refinery	0.8	2.0	2.9	1.4	1.2	3.0
State Petroleum Industry	1.3	2.5	3.5	2.6	3.0	6.0
Institute for Geological and Mining Research	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5
National Organization of Greek Handicrafts	-0.2	-0.3	-0.3	-0.5	-0.4	-0.4
Hellenic Telecommunications Organization	3.3	5.8	3.7	5.0	2.7	12.0
Greek State Railways	-7.4	-9.1	-11.1	-9.0	-11.5	-11.2
Olympic Airways	-6.6	-5.0	-9.0	-4.5	-9.9	-0.9
Greek Post Office	-2.2	-2.4	-3.6	-1.9	-3.6	-2.3
Urban Transport Organization <u>2/</u>	-11.9	-14.3	-20.9	-20.0	-30.5	-32.5
National Broadcasting Corporation	0.3	-0.4	-0.1	--	-0.2	2.2
National Tourism Organization	-0.4	-0.6	-0.9	-1.0	-1.5	-0.9
Piraeus Port Authority	0.4	2.2	1.5	1.0	-0.3	1.4
Athens Water Supply and Sewerage Company	-1.4	-1.8	-3.0	-4.6	-3.1	-1.0
Hellenic Aerospace Industry	-7.0	-9.2	-8.4	-10.4	-14.0	-15.8
Other public enterprises <u>3/</u>	<u>2.2</u>	<u>6.7</u>	<u>10.4</u>	<u>5.2</u>	<u>8.1</u>	<u>9.9</u>
Total	-28.5	-25.8	-30.4	-44.1	-59.0	-16.7
Public Entities						
Workers' Housing Organization	7.6	8.9	10.2	15.6	15.7	20.5
Workers' Social Insurance Organization (IKA)	-27.1	-29.9	-40.8	-43.8	-55.9	-57.5
Workers' Fund	0.7	1.1	0.7	1.0	0.3	1.9
Unemployment Fund (OAED)	0.5	0.4	2.4	-0.1	-2.5	-5.8
Farmers' Social Insurance Organization (OGA)	<u>-16.4</u>	<u>-16.3</u>	<u>-28.8</u>	<u>-28.6</u>	<u>-32.7</u>	<u>-43.5</u>
Total	-34.7	-35.9	-56.3	-55.9	-75.1	-84.4
Grand total	-63.2	-61.7	-90.3	-100.0	-134.1	-101.1
(as percent of GNP)	(-2.5)	(-2.0)	(-2.4)	(-2.2)	(-3.0)	(-1.9)

Source: 1986 budget; data supplied by the Greek authorities.

1/ Negative figures indicate operating deficit.

2/ Including Urban Transport Corporation, Athens-Piraeus Trolley Buses, and Athens-Piraeus Electric Railways.

3/ Thirty additional public enterprises.

Table 23. Greece: Gross Fixed Capital Formation of the Public Enterprises and Public Entities

(In billions of drachmas; accrual basis)

	1982	1983	1984	1985		1986
				Budget est.	Prov. Outturn	Budget est.
Public Enterprises						
Public Power Corporation	43.3	66.1	71.6	84.0	80.5	93.0
State Oil Refinery	1.8	0.7	2.0	9.0	11.0	16.0
State Petroleum Industry	3.3	2.2	2.8	5.4	2.0	5.0
Institute for Geological and Mining Research	1.0	1.2	1.6	2.2	2.1	1.9
National Organization of Greek Handicrafts	0.4	0.9	1.7	3.2	2.7	3.0
Hellenic Telecommunications Organization	15.7	20.0	21.2	22.0	22.0	21.0
Greek State Railways	2.7	3.9	3.6	11.0	11.0	9.0
Olympic Airways	11.6	1.0	6.8	8.2	13.0	4.0
Greek Post Office	0.2	0.2	0.2	1.1	1.5	1.0
Urban Transport Organization <u>1/</u>	3.5	2.3	6.2	5.1	3.3	2.6
National Broadcasting Corporation	0.3	0.4	0.3	1.0	1.0	1.0
National Tourism Organization	1.2	1.0	1.7	3.1	3.0	2.4
Piraeus Port Authority	0.2	0.1	0.1	1.5	0.6	1.0
Athens Water Supply and Sewerage Company	3.3	3.4	4.8	6.6	7.4	8.5
Hellenic Aerospace Industry	0.6	0.2	0.2	0.5	0.3	0.4
Other public enterprises <u>2/</u>	<u>14.9</u>	<u>24.3</u>	<u>34.9</u>	<u>53.8</u>	<u>48.9</u>	<u>60.1</u>
Total	104.0	127.9	159.7	217.6	210.3	229.9
Investments of public entities						
Workers' Housing Organization	3.5	3.3	4.7	6.6	6.8	5.0
Workers' Social Insurance Organization (IKA)	0.4	0.3	0.2	1.1	2.1	0.5
Workers' Fund	0.1	0.1	0.2	0.5	0.4	0.3
Unemployment Fund (OAED)	0.8	0.9	1.5	1.8	2.5	1.5
Farmers' Social Insurance Organization (OGA)	<u>0.1</u>	<u>0.0</u>	<u>--</u>	<u>0.9</u>	<u>0.3</u>	<u>0.8</u>
Total	4.9	4.7	6.6	10.9	12.1	8.1
Total investments (In percent of GNP)	108.9 (4.3)	132.5 (4.3)	166.3 (4.4)	228.5 (5.1)	222.4 (4.9)	238.0 (4.4)

Source: 1986 Budget; data supplied by the Greek authorities.

1/ Including Urban Transport Corporation, Athens-Piraeus Trolley Buses, and Athens-Piraeus Electric Railways.

2/ Thirty additional public enterprises.

Table 24. Greece: Monetary Program

(In billions of drachmas)

	1982		1983		1984		1985		1986
	Program	Outturn	Program	Outturn	Program	Outturn	Program	Outturn ^{1/}	Program
Credit expansion									
To private sector	250	261	300	228	280	324	335	370	334
Of which:									
Bank credit	240	250	288	224	270	314	325	360	324
To public sector ^{2/}	330	340	410	377	460	612	635	883	721
Of which:									
Central government	245	272	288	310	366	490	490	680	569
Public enterprises	63	65	88	102)	94	121)	145	203	152
Public entities	22	3	34	-35)		1)			
Reserve	--	--	--	--	50	--	50	--	50
Total	580	600	710	605	790	936	1,020	1,253	1,105
Supply of funds									
Private deposits	350	349	400	330	420	580	590	650	610
Bonds	15	18	15	29	15	50	100	75	130
Other ^{3/}	60	89	80	47	95	-30	-8	--	--
Deficit	155	145	215	199	260	336	338	528	365
Covered by:									
Increase in currency in circulation	62	40	72	42	60	58	70	105	100
Gross compensatory borrowing from abroad	<u>93</u>	<u>105</u>	<u>143</u>	<u>157</u>	<u>200</u>	<u>278</u>	<u>268</u>	<u>423</u> ^{4/}	<u>265</u> * ^{4/}
Total	580	601	710	605	790	936	1,020	1,253	1,105

Source: Data supplied by the Greek authorities.

^{1/} Estimates.^{2/} Excluding supplier credits to finance oil imports. Gross of amortization of public sector foreign borrowing.^{3/} Includes bank profits, foreign exchange deposits, foreign borrowing by commercial banks and specialized credit institutions, other net liabilities of the banking sector and, with a negative sign, the increase in foreign exchange reserves.^{4/} Foreign borrowing and other sources.

Table 25. Greece: Monetary Survey 1/
(Annual percentage changes; end of period)

	1982	1983	1984		1985		1986
			Program (initial)	Program (outturn)	Program	Estimate	Program
Narrow money (M1)	22.1	13.7	...	21.6	...	20.1	...
Of which:							
Currency in circulation	15.2	14.1	17.2	17.0	17.4	26.2	19.8
Sight deposits	36.3	12.9	...	29.9	...	10.5	...
Quasi-money	31.6	22.5	23.0	31.9	25.2	27.7	...
Of which:							
Savings deposits (private)	29.6	20.5	...	32.2	...)	27.7	...
Time deposits (private)	36.6	27.3	...	31.3	...)		
Broad money (M3)	<u>29.0</u>	<u>20.3</u>	<u>21.7</u>	<u>29.4</u>	<u>23.1</u>	<u>26.0</u>	<u>20.0</u>
Foreign liabilities (net) <u>3/</u>	44.8	47.3	...	27.3	...	...	...
Domestic credit (net) <u>4/ 5/</u>	30.4	19.4	19.8	26.2	19.7	24.8	17.2
Of which:							
Private sector <u>5/</u>	24.2	17.2	18.0	20.8	18.1	19.9	15.0
Public sector <u>5/ 6/</u>	39.9	22.3	21.9	32.8	21.7	30.2	19.4
Of which:							
Central Government <u>5/</u>	33.8	23.6	...	28.5	...	26.6	...
Public enterprises	32.7	14.4	...	28.2	...)	52.2	...
Public entities <u>7/</u>	-16.2	17.0	...	-32.2	...)		
Other items (net)	26.4	-20.9	...	-16.4	...	...	...
Memorandum items: <u>8/</u>							
Public entities deposits <u>9/</u>	19.4	28.2	...	10.1	...	...	...
Foreign exchange deposits <u>10/</u>	30.7	46.9	...	35.8	...	...	...
Targets:							
Currency outside banks	24.0	24.0	17.2	--	17.4	--	19.8
Broad money (M3)	30.0	25.3	21.7	--	23.1	--	20.0
Domestic credit (net) <u>4/</u>	29.8	24.0	19.8	--	19.7	--	17.2
Private sector	23.3	22.6	18.0	--	18.1	--	15.0
Public sector	39.5	25.8	21.9	--	21.7	--	19.4
Nominal GNP	23.7	18.8	...	21.8	...	19.1	...
Consumer prices <u>11/</u>	19.1	20.0	16.0	18.1	16.0	25.0	16.0

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

1/ National definitions; including specialized credit institutions.

2/ Provisional data.

3/ Accounts denominated in foreign currency.

4/ Including securities.

5/ The figures have been adjusted to reflect settlement of previous years' deficits in the agricultural supplies' accounts: (a) Central Government (Dr -24.8 billion for 1982 and Dr -16.69 billion for 1984); (b) Private sector (Dr 12.0 billion for 1981, Dr 11.978 billion for 1982 and Dr 16.518 billion for 1984)

6/ Excluding foreign borrowing by the public sector.

7/ Mainly local authorities and social insurance funds (net of nonsight deposits).

8/ Not included in broad money (M3).

9/ Other than sight deposits, which are included as a component of M1.

10/ Foreign exchange deposits with commercial banks and specialized credit institutions.

11/ Year to December.

Table 26. Greece: Monetary Survey 1/
(In millions of drachmas; end of period)

	1980	1981	1982	1983	1984	1985 <u>2/</u>
Narrow money (M1)	313,054	385,927	471,236	535,729	651,599	782,705
Of which:						
Currency in circulation	209,561	260,457	300,165	342,607	400,759	505,623
Sight deposits	103,493	125,470	171,071	193,122	250,830	277,082
Quasi-money	754,018	1,051,282	1,383,366	1,695,107	2,235,738	2,854,800
Of which:						
Savings deposits (private)	541,231	747,642	968,630	1,167,315	1,542,619)	2,854,800
Time deposits (private)	212,787	303,640	414,736	527,792	693,119)	
Broad money (M3)	1,067,072	1,437,209	1,854,602	2,230,836	2,887,327	3,637,505
Foreign liabilities (net) <u>3/</u>	124,968	187,304	271,215	399,512	508,544	...
Domestic credit (net) <u>4/</u>	1,324,148	1,793,787	2,352,474	2,809,744	3,545,787	4,424,787
Of which:						
Private sector	862,400	1,077,333	1,325,718	1,553,860	1,861,218	2,231,218
Public sector	461,748	716,454	1,026,756	1,255,884	1,684,569	2,193,569
Of which:						
Central Government	433,725	654,064	899,768	1,112,481	1,447,152	1,832,102
Public enterprises	112,086	152,943	202,914	232,211	297,689)	361,467
Public entities <u>5/</u>	-84,063	-90,553	-75,926	-88,808	-60,222)	
Other items (net)	-132,108	-169,274	-226,657	-179,396	-149,916	...
Memorandum items: <u>6/</u>						
Public entities deposits <u>7/</u>	103,690	120,461	143,866	184,375	202,917	...
Foreign exchange deposits <u>8/</u>	190,356	265,966	347,491	510,402	693,170	...

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

1/ National definitions; including specialized credit institutions.

2/ Estimates.

3/ Accounts denominated in foreign currency.

4/ Including securities.

5/ Mainly local authorities and social insurance funds (net of nonsight deposits).

6/ Not included in broad money (M3).

7/ Other than sight deposits, which are included as a component of M1.

8/ Foreign exchange deposits with commercial banks and specialized credit institutions.

Table 27. Greece: Net Public Sector Borrowing Requirements
and Their Financing

(In millions of drachmas)

	1980	1981	1982 <u>1/</u>	1983	1984 <u>2/</u>	1985
PSBR (net)	143,346	302,337	328,524	351,203	587,954	810,000
(As percent of GNP)	(8.1)	(14.3)	(12.6)	(11.3)	(15.6)	(18.0)
Central Government	126,028	255,391	271,501	298,474	483,009	635,000
Public enterprises	33,005	59,421	54,544	88,190	103,851)	175,000
Public entities	-15,687	-12,475	2,479	-35,461	1,094)	
Financed by:						
Bank of Greece <u>3/</u>	37,671	164,066	148,299	-8,828	86,177	70,000
Treasury bills <u>4/</u>	44,096	44,744	56,361	180,217	195,905	325,000
Commercial banks and specialized credit institutions <u>5/</u>	28,549	52,307	65,427	59,611	137,026	115,000
Private nonbanking sector	-1,812	-1,667	-761	-1,340	-219	15,000
Foreign borrowing	34,842	42,887	59,198	121,543	169,085	285,000
Central government	29,839	26,339	34,247	77,863	124,188	234,000
Public enterprises	5,003	16,548	24,951	43,680	44,877	51,000
Memorandum items:						
Increase in Bank of Greece holdings of treasury bills	-572	-117	-55	1,787	-1,372	2,000
Foreign debt repayment	12,263	21,752	26,440	31,591	52,956	88,000
Central government	8,170	17,036	16,070	18,117	35,833	60,000
Public enterprises	4,093	4,716	10,370	13,474	18,123	28,000

Sources: Data supplied by the Greek authorities.

1/ Excluding portions (Dr 24.7 billion in 1982 and Dr 16.7 billion in 1984) of long-term loans (Dr 250 billion in 1982 and Dr 150 billion in 1984) from the Bank of Greece to the Government, credited to the Bank of Greece accounts of credit to the Agricultural Bank of Greece.

2/ Estimates.

3/ Including treasury bills held by Bank of Greece.

4/ Commercial banks and specialized credit institutions only.

5/ Financing other than treasury bills.

Table 28. Greece: Bank Credit to the Private Sector by Activity 1/ 2/

(End of period)

	1984		1980	1981	1982	1983	1984	1985 <u>5/</u>
	In billions of drachmas	In per- cent							Annual percentage change
Total Private sector	1,799	100.0	20.4	27.1	24.0	17.5	20.9	20.1
Agriculture	317	17.6	13.8	21.4	29.3	29.2	36.0	25.1
Manufacturing <u>4/</u>	918	51.0	25.9	32.0	22.0	16.0	19.0	21.2
Of which:								
Short- and medium-term	588	32.7	22.6	31.8	23.4	12.1	18.2	21.6
Long-term	330	18.3	32.9	32.3	21.7	23.6	20.4	20.7
Trade	142	7.9	9.0	21.6	20.5	6.3	16.5	16.8
Housing	252	14.0	20.2	25.3	34.1	22.2	21.1	17.9
Other	170	9.5	19.2	20.9	14.6	12.2	9.6	11.2

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

1/ Outstanding credit extended by the monetary system (Bank of Greece, commercial banks, and specialized credit institutions), excluding securities.

2/ Rates adjusted to reflect settlements of previous years' deficits in the agricultural supplies' accounts.

3/ Provisional data.

4/ Including mining.

5/ Twelve months to November.

Table 29. Greece: Bank Credit by Credit Institution 1/2/

(End of period)

	1984		1981	1982	1983	1984	1985 <u>3/</u>
	In billions of drachmas	In per- cent					
	Annual percentage changes						
Total credit to the private sector	<u>1,799</u>	<u>100.0</u>	<u>27.1</u>	<u>24.0</u>	<u>17.5</u>	<u>20.9</u>	<u>20.1</u>
Bank of Greece	8	0.3	-6.3	-16.5	54.0	5.7	36.1
Commercial banks	991	55.1	30.2	22.9	12.8	17.6	16.9
Specialized credit institutions	<u>800</u>	<u>44.5</u>	<u>23.5</u>	<u>26.2</u>	<u>23.8</u>	<u>25.3</u>	<u>24.0</u>
Agricultural Bank	411	22.9	24.6	27.2	28.2	28.3	25.9
National Mortgage Bank	198	11.0	25.6	35.3	21.1	20.9	14.6
Hellenic Industrial Development Bank	101	5.6	25.2	17.6	22.7	26.1	21.6
Postal Savings Bank	26	1.4	6.5	9.3	8.9	39.3	93.9
Deposits and Loans Fund	14	0.8	3.9	3.7	10.3	17.4	42.8
Investment Bank	10	0.6	12.1	8.1	13.5	10.5	5.5
National Investment Bank for Industrial Development	33	1.8	22.4	22.8	17.9	15.5	17.2
National Housing Bank	7	0.4	45.5	29.8	12.9	9.5	7.1

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

1/ Outstanding credit extended by the monetary system (Bank of Greece, commercial banks, and specialized credit institutions), excluding securities.

2/ Rates adjusted for the effect of settlement of previous years' deficits in the agricultural supplies' accounts.

3/ Twelve months to November.

Table 30. Greece: Minimum Reserve and Long-Term Loan Requirements 1/

(In percent)

	1982	1983	1984			1985	
	Year-end Level	July	May	July	Aug.	Oct.	Dec.
Primary reserve requirement <u>2/</u> <u>4/</u>							
Drachma deposits	7.0 <u>3/</u>						
Foreign exchange deposits	7.0						
Seasonal reserve requirement <u>4/</u>							
Private sight and savings deposits	3.5						
Secondary reserve requirement <u>5/</u>							
Total drachma and foreign exchange deposits	37.0				38.0		
Long-term requirement							
To industry, total drachma deposits	15.0						
To handicraft, increase in total drachma deposits	8.0	9.0	10.0				
To public enterprises, total drachma and foreign exchange deposits	2.5			3.5			
To "problematic" enterprises, total drachma deposits	1.0						--
To enterprises processing or exporting vegetables and fruits, total drachma deposits	--	0.75				0.5	--

Source: Bank of Greece

1/ For years after 1982, rates are shown only if and when they were changed.2/ Deposits to be held with the Bank of Greece; the actual percentage of the reserve requirement depends on the size of the bank and on the type of deposit.3/ For "special time deposits" a rate of 5 percent is applied.4/ To be held in interest-bearing accounts.5/ To be held in treasury bills and government bonds.

Table 31. Greece: Bank Lending Rates to Public Sector 1/

(In percent, per annum)

	<u>1982</u>	<u>1983</u>	<u>1984</u>			<u>1985</u>		<u>1986</u>
	Year-end	Jan.	Jan.	Feb.	Aug.	March	Aug.	Jan.
Public enterprises	18.5							
Public entities	18.5							
Government agricultural purchasing agencies								
Raisins	13					18.5		21.5
Tobacco	11		18.5					21.5
Wheat	14	21.5						
Maize	13				18.5		21.5	
Animal feed	14	21.5						
Memorandum item:								
Interest rate on								
Treasury bills	14.75-15.25			17.5-18.0		17-18.5		

Source: Data supplied by the Greek authorities.

1/ For years after 1982, rates are shown only if and when they were changed.

Table 32. Greece: Bank Lending Rates to Private Sector 1/

(In percent, per annum)

	1982		1983		1985		1986
	Year-end	Jan.	May	Jan.	Nov.	Jan.	
Bank of Greece							
Rediscount rate	20.5						
Penalty rate <u>2/</u>	19.5-24.5	<u>3/</u>					
Commercial banks and specialized credit institutions							
Agriculture							
Cultivation loans <u>4/</u>							
Individual farmers	13.0				16.0		
Cooperatives	12.25				16.0		
Cooperative unions	12.0				16.0		
Collateral <u>4/</u>							
Individual farmers	14.0				16.0		
Cooperatives	13.25				16.0		
Cooperative unions	13.0				16.0		
Medium- and long-term loans							
Irrigation works, livestock	11.0						
Farmers' housing	11.5						
Other investment							
Individual farmers	14.0						
Cooperatives	13.5						
Cooperative unions	13.5						
Penalty rate on overdue loans	16.0				19.0	19-20	
Industry							
Working capital <u>5/</u>	20.5						
Long-term loans <u>6/</u>	18.0						
Handicrafts <u>6/</u>							
Working capital	19.5				21.5		
Funds CC/1421	13.5				15.5	17.0	
Trade							
Domestic, import <u>5/</u>	20.5						
Export	10.5			20.5 <u>5/</u>			
Tobacco	10.5			18.0 <u>6/</u>			20.5
Housing	17.0 <u>7/</u>						
Penalty rate on overdue loans	22.0-25.5				19.0-24.5		

Sources: Bank of Greece.

1/ Maximum permissible rates; for years after 1982, rates are shown only if and when they were changed.

2/ Rates depend on the amount of the overdraft.

3/ In addition, for commercial banks' overdrafts above 4 percent an additional penalty has been imposed in the form of a transfer of an amount equal to 50 percent of the excess overdraft from the compulsory interest-bearing account to a noninterest-bearing account.

4/ In addition to interest rate, commission of 0.5 percent is charged once.

5/ In addition to interest rate, commission of 1 percent per annum is charged.

6/ In addition to interest rate, commission of 0.5 percent per annum is charged.

7/ Basic interest rate. It is lowered according to the area and the capacity of the borrower.

Table 33. Greece: Interest Rates on Bank Deposits 1/

(In percent, per annum)

	<u>1980</u> Rates at year-end	<u>1981</u> June	<u>1983</u> May	<u>1984</u> Feb. June	
Drachma deposit rates					
Sight deposits	--				
Current accounts	12.5				
Savings deposits					
With commercial banks	13.5			15.0	
With the Agricultural Bank	13.75			15.25	
With the Postal Savings Bank	14.0			15.5	
Under the Housing Loan Deposit Scheme	13.5			15.0	
On three months' notice	15.0			15.5	
Time deposits					
Individuals and private enterprises <u>2/</u>					
3 to 6 months <u>3/</u>	14.5			15.5	
6 to 12 months	15.5			16.0	
Over one year	16.0	16.0-20.0 <u>4/</u>			
Up to Dr 500,000	16.0 <u>5/</u>		16.0 <u>6/</u>	17.0	
Dr 500,001 to Dr 1,000,000	18.0 <u>5/</u>		17.0 <u>6/</u>	18.0	
Dr 1,000,001 to Dr 3,000,000	20.0 <u>5/</u>		19.0 <u>6/</u>		
Dr 3,000,001 and above	22.0 <u>5/</u>		20.0 <u>6/</u>		
Redeposits by Postal Savings Bank					
6 to 12 months <u>7/</u>	18.0				
Over 12 months	18.5				
Deposits of public entities <u>8/</u>	11.5				15.0

Sources: Bank of Greece.

1/ Maximum permissible dates; for years after 1980, rates are shown only if and when they were changed.

2/ Since January 1, 1978, interest rates on time deposits with the Agricultural Bank are 0.25 percentage point higher than those appearing in this table.

3/ For personal deposits only until February 14, 1984.

4/ From June 5, 1981, to May 12, 1983 the interest rate on special time deposits was freely negotiated with a maximum of 20 per cent.

5/ Until June 5, 1981, interest rates applied to the following amounts respectively:

- Up to Dr 250,000
- Dr 250,001 to Dr 500,000
- Dr 500,001 to Dr 1,000,000
- Dr 1,000,001 and above

6/ Since May 13, 1983, interest rates applicable to individual brackets are compulsory for the banks.

7/ Since June 1, 1982 the minimum term is 3 months.

8/ Only on deposits according to Law 1611/50 with the Bank of Greece.

Table 34. Greece: Summary of Balance of Payments
(In millions of U.S. dollars)

	1981	1982	1983	1984	1984 January-November	1985 1/ January-November
Exports, f.o.b.	4,771	4,141	4,105	4,394	3,972	3,885
Fuel	784	648	725	893	750	762
Other	3,987	3,493	3,380	3,501	3,222	3,123
Imports, c.i.f.	-11,468	-10,068	-9,491	-9,745	-8,917	-9,640
Fuel	-3,685	-2,778	-2,647	-3,008	-2,713	-2,926
Other	-7,783	-7,290	-6,844	-6,737	-6,204	-6,714
Trade balance	-6,697	-5,927	-5,386	-5,351	-4,925	-5,755
(Trade balance excluding fuel)	(-3,796)	(-3,798)	(-3,464)	(-3,236)	(-2,982)	(-3,591)
Travel (net)	1,520	1,153	814	974	961	1,056
Transportation (net)	1,455	1,396	1,079	925	836	753
Investment income (net)	-589	-647	-793	-947	-836	-1,012
Other services (net)	653	541	644	636	555	499
Services balance	3,039	2,443	1,744	1,588	1,516	1,296
Private transfers (net)	1,076	1,039	931	918	845	728
Of which:						
Emigrants' remittances	(1,057)	(1,016)	(912)	(898)	(845)	(704)
Official transfers	161	560	835	715	662	768
Of which:						
EC subsidies	(148)	(550)	(834)	(715)	(662)	(768)
Transfer balance	1,237	1,599	1,766	1,633	1,507	1,496
Current account balance	-2,421	-1,885	-1,876	-2,130	-1,902	-2,963
(In percent of GNP)	(-6.4)	(-4.9)	(-5.4)	(-6.4)		
Private capital	1,200	649	933	858	879	865
Long-term	924	585	641	486	...	718
Entrepreneurial 2/	317	208	181	146	222	209
Real estate	488	399	423	473	439	400
Banks	106	25	24	-136	...	158
Suppliers' credit 3/	-11	-69	-32	-23	...	-18
Other	24	22	45	26	...	-31
Short-term	276	64	292	372	...	147
Banks	271	123	275	338	...	62
Of which:						
Foreign exchange deposits	(271)	(123)	(275)	(338)	(289)	(62)
Suppliers' credit 3/	5	-59	17	34	90	85
Official capital	736	1,130	1,371	1,619	1,368	1,963
Long-term	681	709	1,471	1,286	...	2,013
Bank of Greece	340	386	512	403	...	1,340
Central Government	-13	-89	18	-17	...	5
Public enterprises	304	351	774	881	...	579
Other 4/	50	61	167	19	...	89
Short-term	55	421	-100	333	...	-50
Bank of Greece	55	421	-100	333	...	-50
Capital account balance	1,936	1,779	2,303	2,477	2,247	2,828
Errors and omissions	330	-40	-357	-312	-295	106
Overall balance 5/	-156	-146	70	35	50	-29
Use of IMF credit	-74	-12	-28	--	--	--
Change in clearing accounts	-99	-19	-12	27	-27	-36
Change in reserves						
(+: decrease/-: increase)	328	177	-30	-61	-77	7
Memorandum item:						
"Nondebt" financing in percent						
of current account balance 6/	49.3	45.0	56.8	50.9	51.2	23.1

Source: Bank of Greece, Monthly Statistical Bulletin; and data provided by the Greek authorities; and staff estimates.

- 1/ Provisional data.
 2/ Entrepreneurial capital includes direct investment and enterprise borrowing abroad.
 3/ It is not possible to break suppliers' credits into private and official capital movements. In this table, they have been added to private capital flows.
 4/ Borrowing by the Hellenic Industrial Development Bank and the Agricultural Bank of Greece
 5/ Overall balance equals the current account balance plus the capital account balance plus errors and omissions.
 6/ "Nondebt" financing comprises medium- and long-term capital movements of the private nonbank sector (excluding suppliers' credit) plus net inflows (short-term) of foreign exchange deposits.

Table 35. Greece: Foreign Trade Indicators 1/
(Percentage change over corresponding period of previous year)

	1981	1982	1983	1984	1985 Jan.-Nov. <u>5/</u>
(U.S. dollar terms)					
Exports					
Value	-18.1	1.1	2.8	9.1	-6.6
Volume	-15.7	0.2	14.2	21.5	3.9
Average values	-2.8	0.9	-10.0	-10.2	-10.1
Imports					
Value	-9.9	19.2	-5.8	-4.1	20.0
Volume	0.2	10.5	9.5	0.5	21.2
Average values	-10.1	7.9	-14.0	-4.6	-1.0
Terms of trade	8.1	-6.5	4.6	-5.8	-9.2
Foreign Market Growth <u>2/</u>	1.7	2.5	2.1	5.4	2.3
Export unit values of partner countries <u>2/</u>					
For oil and non-oil exports	-6.9	-4.1	-4.1	-4.4	0.2
For non-oil exports	-7.6	-4.0	-3.9	-4.4	0.4
Memorandum items:					
Export unit values, drachma terms	23.2	20.0	20.1	13.8	10.2
Import unit values, drachma terms	15.2	24.7	15.7	24.5	19.7
Unit labor cost <u>3/</u> drachma terms.	26.3	37.5	17.0	24.1	...
Relative unit labor costs <u>4/</u>	7.1	20.3	-7.4	5.4	...

Sources: Data provided by the Greek authorities; IMF, Data Fund; and IMF estimates.

1/ Data on a customs basis, excluding imports of ships. Monthly data in drachma reported to the Fund have been converted into U.S. dollars using monthly average exchange rates and cumulated to derive annual value data.

2/ Non-oil imports of partner countries in volume terms, weighted by Greece's 1980 exports. Partner countries comprise 46 partners: 19 industrial countries, 25 entities of non-oil developing countries, oil-exporting countries and Eastern bloc countries.

3/ Manufacturing sector.

4/ Unit labor costs in Greece relative to unit labor costs in 14 industrial partner countries, corrected for exchange rate changes.

5/ Preliminary estimates; foreign market growth and export unit values of partner countries are estimates for the whole year.

Table 36. Greece: Foreign Debt Outstanding 1/
(End of period; in millions of U.S. dollars)

	1981	1982	1983	1984	1985 Est.
A. Medium- and long-term debt	6,298.3	7,310.2	8,595.6	9,797.3	11,980
Public and publicly guaranteed	5,163.4	6,264.0	7,697.8	9,000.1	11,055
Central government	520.8	580.7	621.3	667.9	700
Public enterprises	1,859.3	2,359.6	3,037.0	3,903.8	4,485
Banks	2,746.8	3,222.7	3,918.3	4,305.4	5,740
Of which:					
Bank of Greece	(2,327.0)	(2,711.8)	(3,194.3)	(3,585.4)	(4,940)
Other <u>2/</u>	36.5	101.0	121.2	123.0	130
Private (nonguaranteed) <u>3/</u>	455.4	435.1	318.6	241.4	365
Medium- and long-term suppliers' credits	679.5	611.1	579.2	555.8	560
B. Short-term debt	1,028.0	1,389.1	1,321.3	1,688.4	1,945
Bank of Greece	--	420.0	335.0	668.3	925
Suppliers' credits	1,028.0	969.1	986.3	1,020.1	1,020
Total external debt (A + B), official estimate	7,326.3	8,699.3	9,912.4	11,485.7	13,925
(In percent of GNP)	(19.3)	(22.4)	(28.4)	(34.3)	(42.7)
C. Private, nonfinancial sector <u>4/</u>	550.0	600.0	650.0	800.0	850
D. Short-term debt of the financial sector <u>5/</u>	433.0	637.0	385.0	400.0	410 <u>8/</u>
Total external debt (A + B + C), staff estimate	8,309.3	9,936.3	10,947.4	12,685.7	15,185 <u>8/</u>
(In percent of GNP)	(22.0)	(25.6)	(31.5)	(37.9)	(46.6)
Memorandum items:					
Foreign exchange deposits	4,615	4,924	5,173	5,395	5,485 <u>8/</u>
BIS data for external liabilities of Greece <u>6/</u>	8,953	9,410	11,543	12,362	13,761 <u>7/</u>

Sources: Data provided by the Bank of Greece; BIS, International Banking Developments; and staff estimates.

1/ Disbursed only.

2/ Includes private guaranteed debt.

3/ External debt of the financial private sector.

4/ Estimates based on reported interest payments of the private sector.

5/ Estimates calculated as a residual between total foreign exchange liabilities of commercial banks and specialized credit institutions (excluding foreign exchange deposits) and their reported medium- and long-term liabilities.

6/ The discrepancies between the external debt data for Greece (excluding suppliers' credits) and the BIS data can be explained, in part, by liabilities of Greek shipowners operating off-shore. Greek shipowners repatriate only a portion of their earnings to Greece and cannot obtain foreign exchange in Greece for repayment of their foreign liabilities. As a result, their external borrowings are not recorded as external debt of Greece.

7/ As of September 1985.

8/ Staff estimates.

Table 37. Greece: Export Volumes by Main Commodity Groups ^{1/}

	1981	1982	1983	1984	1984	1985	Memorandum
	(Index: 1982 = 100)				Jan.-Nov. ^{2/}	Jan.-Nov. ^{2/}	1985
							Jan.-Nov. Percentage change ^{3/}
0. Food and live animals	84.0	100.0	116.1	131.7	130.7	133.8	2.4
1. Beverages and tobacco	87.0	100.0	118.4	129.0	134.7	147.8	9.7
2. Raw materials, except fuels	97.6	100.0	112.3	144.6	145.9	146.9	0.7
3. Fuels and lubricants	73.8	100.0	78.6	130.2	120.6	150.0	24.4
4. Animals and vegetables	35.3	100.0	301.6	227.5	241.6	107.6	-55.5
5. Chemicals	97.9	100.0	97.7	152.8	139.7	113.9	-18.5
6. Manufactured goods	114.0	100.0	117.1	139.9	132.3	136.6	3.3
7. Machinery and transport equipment	120.7	100.0	99.1	115.1	88.8	142.4	60.4
8. Miscellaneous manufactures	117.5	100.0	112.1	133.8	121.9	142.2	16.7
9. Unclassified goods	--	100.0	114.2	508.9	540.9	46.6	-91.4
Total	99.8	100.0	114.2	138.7	132.5	137.7	3.9

Sources: Bank of Greece and National Statistical Service of Greece.

^{1/} F.o.b. customs basis; figures may not add up due to rounding.

^{2/} Preliminary estimates.

^{3/} Percentage change compared to same period of preceding year.

Table 38. Greece: Geographical Distribution of Greece's Foreign Trade ^{1/}

	Exports						Imports					
	1981	1982	1983	1984	1985	1984	1981	1982	1983	1984	1985	1984
	Percentage change compared to same period of preceding year					In percent	Percentage change compared to same period of preceding year					In percent
	Jan.-Nov.						Jan.-Nov.					
Industrial countries	-19.6	7.4	8.5	17.8	-7.0	66.7	-12.9	11.3	-4.5	1.3	2.7	68.6
Of which:												
EC countries	-26.0	8.0	16.5	12.6	-8.9	53.1	4.3	4.6	0.4	1.9	3.0	51.1
Of which:												
France	-25.0	4.9	9.7	9.8	-14.0	7.3	-12.2	22.8	-7.5	5.4	1.0	7.5
Germany	-18.5	4.6	8.5	8.4	-5.6	19.5	17.3	-1.3	-3.3	-1.0	1.7	17.7
Italy	-39.7	24.5	59.3	20.0	-24.3	14.6	-4.8	7.5	-7.6	18.8	3.6	10.9
Netherlands	-47.6	13.7	-3.4	-4.8	11.7	3.3	6.6	24.3	13.7	1.1	0.1	6.7
Japan	-3.8	8.0	-3.7	111.5	-16.0	1.1	-63.9	90.6	-18.7	-5.8	-13.4	6.7
United States	27.0	0.5	-26.7	39.1	-7.8	7.7	-6.6	-6.0	-18.7	-0.6	13.3	3.7
Oil exporting countries	0.1	-14.5	1.9	-10.7	-24.6	12.5	-19.0	129.3	-4.6	-14.7	118.3	18.6
Of which:												
Libya	31.0	-48.6	-9.7	6.9	-49.9	2.2	18.5	24.7	-51.3	2.9	115.2	3.9
Saudi Arabia	-16.7	17.1	17.2	-13.7	-28.5	5.6	-35.1	125.4	3.8	-27.2	184.0	8.9
Non-oil developing countries	18.2	-4.3	-11.3	8.0	2.9	15.1	-32.0	-40.0	-12.6	-1.8	6.4	8.2
State trading countries	-38.0	8.5	-10.5	10.0	17.4	5.3	2.4	-9.2	-5.0	-9.2	-6.0	4.3
Total	-18.1	1.1	2.8	9.1	-6.6	100.0	-16.7	13.8	-5.2	-0.7	15.2	100.0

Source: IMF, Direction of Trade.^{1/} Customs data.

Table 39. Greece: Import Volumes by Main Commodity Groups 1/

	1981	1982	1983	1984	1984		1985	Memorandum
					Jan.-Nov.	Jan.-Nov.		1985
					(Index: 1982 = 100)		Percent change <u>2/</u>	
0. Food and live animals	78.0	100.0	109.3	114.9	114.2	131.5	15.1	
1. Beverages and tobacco	64.3	100.0	112.8	112.0	107.3	117.2	9.2	
2. Crude materials, except fuels	87.3	100.0	110.2	108.4	106.9	120.2	12.4	
3. Fuels and lubricants	78.0	100.0	100.3	99.9	55.7	98.0	75.9	
4. Animal and vegetable oils and fats	113.3	100.0	82.0	62.6	62.3	122.1	96.0	
5. Chemicals	116.0	100.0	115.1	142.5	140.0	147.4	5.3	
6. Manufactured goods classified by material	105.6	100.0	117.5	118.9	119.8	127.2	6.2	
7. Machinery and transport equipment	94.3	100.0	107.7	101.6	101.4	108.2	6.7	
8. Miscellaneous manufactures	102.0	100.0	119.6	131.8	129.7	158.3	22.1	
9. Unclassified	--	100.0	274.8	44.2	38.5	66.3	72.2	
Total	90.5	100.0	109.5	110.1	96.3	116.7	21.2	

Sources: Bank of Greece; and National Statistical Service of Greece.

1/ C.i.f. customs basis. Excluding imports of ships.

2/ Percentage change compared to same period of preceding year.

Table 40. Greece: Invisible Receipts and Payments

(In millions of U.S. dollars)

	1982			1983			1984			1985 1/		
	Receipts	Pay- ments	Net	Receipts	Pay- ments	Net	Receipts	Pay- ments	Net	Receipts	Pay- ments	Net
Services	4,495	2,051	2,443	3,759	2,015	1,744	3,652	2,064	1,588	3,355	2,059	1,296
Transportation	1,657	261	1,396	1,309	230	1,079	1,095	170	925	940	187	753
Travel	1,527	374	1,153	1,176	362	814	1,313	339	974	1,380	324	1,056
Investment income	137	784	-647	81	874	-793	135	1,082	-947	110	1,122	-1,012
Interest	(134)	(769)	(-635)	(78)	(840)	(-762)	(130)	(1,070)	(-940)	(110)	(1,108)	(998)
Dividends and profits	(3)	(15)	(-12)	(3)	(34)	(-31)	(5)	(12)	(-7)	--	(14)	(14)
Convertible drachma accounts	371	--	371	411	--	411	372	--	372	429	--	429
Other, including government	803	632	171	782	549	233	737	473	264	496	426	70
Unrequited transfers	1,603	4	1,599	1,770	4	1,766	1,637	4	1,633	1,496	3	1,493
Private	1,043	4	1,039	935	4	931	922	4	218	728	3	725
Emigrants' remittances	(1,016)	(--)	(1,016)	(912)	--	(912)	(898)	(--)	(898)	(704)	(--)	(704)
Other	(27)	(4)	(23)	(23)	(4)	(19)	(24)	(4)	(2-)	(24)	(3)	(21)
Public	560	--	560	835	--	835	715	--	715	768	--	768
Of which:												
EC subsidies	550	(--)	(550)	(834)	(--)	(834)	(715)	(--)	(715)	(768)	--	(768)
Total services and transfers	6,098	2,055	4,042	5,529	2,019	3,510	5,289	2,060	3,229	4,851	2,062	2,789

Source: Bank of Greece, Monthly Statistical Bulletin; and data provided by the Greek authorities.

1/ Provisional data for the January-November period.

Table 41. Greece: Tourism

	Foreign Travel Receipts			Arrivals of Foreign Visitors 2/		Memo item Foreign tourist receipts in real terms in OECD 3/
	(In millions of U.S. dollars)	Percentage change	In real terms (Index) 1/	Number (In thousands)	Annual change (In percent)	
1975	643.6	43.8	100.0	2,643.0	49.6	3.1
1976	823.6	28.0	128.8	3,672.0	38.9	6.1
1977	980.6	19.1	136.6	3,961.0	7.7	12.5
1978	1,326.3	25.3	163.9	4,532.0	14.4	6.5
1979	1,662.3	25.3	174.0	5,233.0	15.5	3.6
1980	1,733.5	4.3	163.9	4,795.9	-8.4	1.3
1981	1,881.0	8.5	185.8	5,577.1	16.3	4.6
1982	1,527.2	-18.8	150.3	5,463.9	-2.0	-0.8
1983	1,175.7	-23.0	126.4	5,258.4	-3.8	2.2
1984	1,313.0	11.7	145.3	6,027.3	14.6	6.5
1985 4/	1,440.0	9.7	168.3	7,039.4	16.8	...

Sources: National Statistical Service of Greece; OECD, Tourism Policy and International Tourism in OECD Countries.

1/ Index = 100; calculated on the basis of foreign travel receipts in U.S. dollars converted into drachma at the year-average exchange rate and deflated by the change in consumer prices in Greece.

2/ Excluding Greek nationals residing abroad, and including cruise passengers.

3/ After correcting for the effects of inflation and changes in the exchange rate between national currencies and the U.S. dollar.

4/ Staff estimates.

Table 42. Greece: Official Reserves 1/
(In millions of U.S. dollars)

	1981	1982	1983	1984	1985			
					March	June	Sept.	Dec.
Gold <u>2/</u>	157.0	149.9	141.6	141.4	141.5	143.8	154.1	157.5
SDRs	9.7	--	0.6	3.5	0.9	0.9	0.9	2.1
Reserve position in the Fund	64.7	61.5	89.8	84.8	84.6	81.2	82.7	83.6
Foreign exchange	<u>957.2</u>	<u>799.8</u>	<u>809.7</u>	<u>873.4</u>	<u>828.5</u>	<u>913.0</u>	<u>960.3</u>	<u>785.7</u>
Total	1,188.6	1,011.2	1,041.7	1,103.1	1,055.5	1,138.9	1,198.0	1,028.9
Memorandum item:								
Total reserves in percent of imports of goods and services	8.7	8.3	9.1	9.3				8.2

Source: Bank of Greece.

1/ End of period.

2/ National valuation, SDR 35 per ounce.

Table 43. Greece: Nondebt Financing of Current Account Deficit

(In millions of U.S. dollars)

	Entrepreneurial Capital	Real Estate Investment	Foreign Exchange Deposits	Other	Total	Nondebt Financing as Percent of Current Account Deficit
1960-69 (average)	54	51	10	4	119	60.9
1970-78 (average)	189	249	209	32	680	83.6
1979	364	592	46	52	1,054	56.0
1980	502	599	116	16	1,233	55.6
1981	410	488	271	24	1,193	49.3
1982	304	399	123	22	848	45.0
1983	313	423	275	45	1,056	56.8
1984	246	474	338	26	1,084	50.9
1985 <u>1/</u>	253	400	62	-31	684	23.1

Sources: Data supplied by the Bank of Greece; and staff calculations.

1/ Provisional data for the January-November period.

Table 44. Greece: External Debt Service

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983	1984	1985 <u>1/</u>
A. Interest payments	<u>327.6</u>	<u>437.8</u>	<u>802.5</u>	<u>768.8</u>	<u>840.3</u>	<u>1,070.1</u>	<u>1,218</u>
Public sector	276.4	352.0	702.4	641.3	728.3	922.3	1,081
Private sector	51.2	85.8	100.1	127.5	112.0	147.8	131
B. Amortization	<u>442.3</u>	<u>499.5</u>	<u>638.3</u>	<u>715.2</u>	<u>699.0</u>	<u>786.2</u>	<u>861</u>
Public and publicly guaranteed debt	407.3	422.8	538.1	600.1	548.8	616.6	776
Central Government	(156.4)	(138.8)	(108.5)	(208.1)	(186.7)	(141.3)	(135)
Public enterprises	(104.6)	(94.5)	(85.0)	(155.6)	(147.6)	(153.9)	(234)
Banks	(122.7)	(173.7)	(322.0)	(215.3)	(191.2)	(301.8)	(387)
Of which:							
Bank of Greece	[122.0]	[173.3]	[322.0]	[210.5]	[164.8]	[278.6]	[361]
Other	(23.6)	(15.8)	(22.6)	(21.1)	(23.3)	(19.6)	(20)
Private nonguaranteed	35.0	76.7	100.2	115.1	150.2	169.6	85
C. Suppliers' credits <u>2/</u>	<u>284.4</u>	<u>250.6</u>	<u>233.6</u>	<u>201.9</u>	<u>219.5</u>	<u>185.6</u>	<u>127 <u>3/</u></u>
Total (A + B + C)	1,054.3	1,187.9	1,674.4	1,685.9	1,758.8	2,041.9	...
Memorandum item:							
Debt service ratio, <u>4/</u> (in percent)	11.0	11.6	14.9	16.5	18.3	21.1	...

Source: Bank of Greece.

1/ Provisional data.

2/ Medium- and long-term only. Includes both interest and amortization payments.

3/ Data for the period January-October.

4/ Debt service (total A + B + C) in percent of exports of goods and services.

Table 45. Greece: Real Effective Exchange Rate Indices for the Drachma, 1975-85 ^{1/}

(Index: 1980 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1984				1985			
											I	II	III	IV	I	II	III	IV
Relative wholesale prices																		
Trade weights																		
14 partner countries ^{2/}	98.2	97.6	100.1	95.7	100.7	100.0	105.7	106.3	99.5	98.7	99.1	98.5	99.2	98.0	102.5	99.1	98.1	...
EC countries	98.5	99.4	101.6	97.3	100.3	100.0	110.5	110.9	105.1	105.9	105.8	105.0	106.6	106.0	111.6	106.5	104.3	...
Relative consumer prices																		
Trade weights																		
35 partner countries ^{3/}	...	...	...	99.4	102.7	100.0	102.9	106.5	99.7	96.6	96.9	95.6	97.6	96.4	97.8	94.7	95.7	...
14 partner countries ^{2/}	105.6	103.8	103.3	98.1	102.4	100.0	103.7	107.9	99.6	96.7	96.9	96.7	96.5	96.5	98.5	96.0	93.9	84.0
EC countries	106.1	106.9	106.6	101.8	103.4	100.0	109.1	113.7	106.6	106.0	105.5	105.4	106.0	107.0	109.9	105.9	102.7	91.8
Competitor weights ^{4/}	101.7	102.2	104.2	102.4	102.5	100.0	104.0	108.2	103.2	99.4	101.2	100.2	98.6	97.6	98.3	97.3	...	...
Relative unit labor costs																		
Trade weights																		
14 partner countries ^{2/}	81.1	83.4	91.0	95.1	98.6	100.0	107.1	128.8	119.2	125.5	122.2	121.1	133.2	125.6	135.6	129.9	...	...
EC countries	83.9	87.7	95.6	99.8	100.1	100.0	112.3	135.0	126.4	135.9	131.5	130.4	144.6	137.2	149.2	141.40	...	...
Memorandum items:																		
Nominal effective exchange rate																		
35 partner countries ^{3/}	...	130.2	128.2	118.6	113.2	100.0	92.8	87.8	74.4	66.6	69.0	66.6	64.3	64.0	64.0	61.5	59.8	50.3
14 partner countries	149.0	141.2	136.9	121.9	115.3	100.0	91.3	84.9	68.9	59.4	62.3	59.7	58.9	56.5	55.9	52.8	50.6	41.6

Sources: IMF, Information Notice System and International Financial Statistics; OECD, Trade by Commodities; and staff calculations.^{1/} Relative price and cost indices adjusted for exchange rate changes; an increase (decrease) in the indices indicates appreciation (depreciation) of the drachma.^{2/} Weights are based on Greece's bilateral trade with 14 partner countries in 1980 (Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States).^{3/} IMF, Information Notice System.^{4/} These weights are derived by weighting the market shares of competitors for Greece's 32 main export commodity groups in total world exports of each commodity by the share of exports of these commodities in total Greek exports. The competitor countries included are France, Hong Kong, Israel, Italy, Korea, Portugal, Spain, Sweden, Switzerland, Turkey and Yugoslavia.