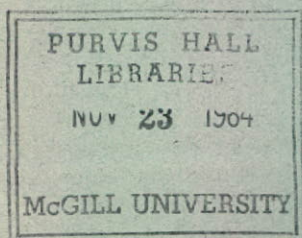


BANK OF GREECE

REPORT
FOR THE YEAR 1963

ATHENS
1964



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ADDRESS

Made by Governor Xenophon Zolotas
on behalf of the Board of Directors
on the Balance Sheet of the year 1963

to the

Thirty-first General Assembly
of Shareholders
held on the 22nd April, 1964

BANK OF GREECE

I. FINANCIAL RESULTS OF THE YEAR 1963

Ladies and Gentlemen,

The present Assembly meets at a time of deep mourning for the loss of our beloved King Paul. The nation has lost a King who was a loyal guardian of our democratic institutions, who always stood by us and encouraged us in our national efforts and aims, sharing the hopes and expectations of our people and joining in their toil and suffering. He always showed a lively interest in the work of the Bank which he visited regularly, meeting on these occasions the representatives of the country's business and labour groups. King Paul, who will always live in our memory, was deeply aware of the social and national importance of the problems of economic development and monetary stability and wished to be regularly informed on them. During his visits to the Bank he was usually accompanied by the Crown Prince, now King Constantine. The Bank participates in this great national mourning. The assembly is asked to observe one minute's silence in memory of the late King.

May Almighty God protect King Constantine and during his reign grant peace and progress to the country.

The Profit and Loss Account for 1963 shows that the total gross receipts of the Bank of Greece from its various operations amounted to drs. 637,596,591, whereas total operational expenses, inclusive of depreciation, provisions and contributions to the Insurance Funds of the Personnel

amounted to drs. 534,539,196. The net profit, therefore, amounted to drs. 103,057,395.

In accordance with Article No 71 of the Statutes of the Bank, we recommend that from the aforementioned sum of net profit, drs. 6,720,000 be allotted to the payment of the ordinary 4 percent dividend on the paid-up capital stock of drs. 168,000,000 i.e., drs. 84 per share. We further recommend that drs. 5,152,800 be transferred to the Reserve Fund Category 1, as provided for by the above-mentioned article of the Statutes. Inasmuch as the Regular Reserve Fund is equal to the paid-up capital stock of the Bank, we recommend, in accordance with the aforementioned article of the Statutes, that a further sum of drs. 6,720,000 be allotted to the payment of an additional 4 percent dividend, i.e., drs. 84 per share, so that the total dividend will amount to drs. 168 per share or 8 percent on the paid-up capital stock. Article No 71 of the Statutes provides that the balance of net profit remaining after payment of the additional dividend shall be paid to the Government. We recommend, therefore, that the sum of drs. 84,464,595 be transferred to the State as its share in the net profit of the Bank. The latter amount is approximately four times the sum paid by the State to the Bank in 1963 in the form of interest.

As regards the financial benefits which the Government derives from the operation of the Bank, we should like to stress that the sum paid annually to the Government in no way expresses the real magnitude of the benefits which it derives from the Bank. The latter offers to the Government free of charge, accounting, administrative and cash services which ensure the uninterrupted and effective functioning of Government financial operations.

The gross receipts of the Bank increased by drs. 38,407,057 or 6 percent, chiefly as a result of earnings from foreign exchange availabilities invested abroad, which showed a further increase during the past year, and of the larger volume of sales and purchases of foreign exchange.

Increases and decreases in other categories of receipts approximately offset each other. Thus, as of mid 1962, the lower rate of interest on the deficit in the Consumer Goods Account appreciably reduced the interest paid to the Bank by Government. Earnings from commissions also show a reduction as the scale of commissions was generally lowered in 1963.

The contractionary influences exercised on the total receipts of the Bank by the developments in the above categories of receipts were mainly offset by the reduction in the interest paid by the Bank in support of monetary policy. In particular, the net amount of interest paid for the administration

of the funds of Legal Entities at Public Law was substantially less than in 1962; at the same time, owing to the continuous reduction in the funds of German indemnities deposited with the Bank of Greece, the interest paid by the Bank on those deposits was also reduced correspondingly. On the other hand, there was a slight increase in the amount paid to the commercial banks in the form of interest on their interest-bearing deposits with the Bank and as a subsidy to their low interest-bearing advances to the handicraft industries and hotel enterprises. As a result of the above, the total amount of interest paid by the Bank in 1963 amounted to drs. 63 million, i.e., drs. 20 million less than in 1962.

The direct advances of the Bank to the economy were reduced by drs. 249 million in 1963, whereas total bank financing increased by drs. 7,409 million. Direct advances to the private sector also declined by drs. 148 million, while total bank financing of this sector showed an increase of drs. 5,970 million. The reduction in the loans granted by the Bank is connected with the Bank's policy of further reducing its already small contribution to total bank financing.

Although the rates of interest on certain categories of loans were lowered in 1963, the average rate of interest on loans granted by the Bank remained at approximately the same level as that of the previous year, i.e. 2.82 percent against 2.80 percent in 1962. This was due to the change in the composition of the Bank's investments and mainly to the further reduction in low interest-bearing advances to the Agricultural Bank of Greece, following the strengthening of the latter's availabilities by American Aid Funds.

The operational expenses of the Bank, inclusive of depreciation and other provisions, increased by drs. 26,365,957 or 5 percent. As the increase in expenditure was less than the increase in receipts, the net profit accruing to the Bank showed a further rise of drs. 12 million.

The item representing remunerations to the personnel of the Bank, including the contributions of the Bank to Personnel Insurance Funds, rose by drs. 11 million, or 3 percent. This percentage is much smaller than percentage increases in the immediately preceding years, which amounted to 12 percent for 1961 and 11 percent for 1962, and it is attributable to the normal evolution of the salaries paid to Bank personnel.

Compensations and other indemnities paid to employees who retired in 1963 on the basis of the voluntary retirement plan increased total expenses by approximately drs. 6 million. The voluntary retirement plan

of 1963 was part of the more extensive plan for the reorganisation of the Bank on an improved basis, with the long-term objectives of an improvement in the Bank's finances, in conjunction with greater productivity.

The aims and the responsibilities of monetary and credit policy are much wider in a country such as Greece, which aims at rapid development within a wider economic area. The ensuing difficulties for those in charge of monetary policy are all the greater, in that they are faced with increasingly complex problems of economic development.

It is obvious that if the Bank of Greece is to discharge with success its role as the institution principally responsible for monetary policy, it must be in a position, from a technical and more general organizational standpoint to carry out this grave responsibility with the maximum efficiency. As we have repeatedly stressed on previous occasions, this can only be achieved through a process of constant improvements in the existing organizational framework and the creation of a specialist staff with the highest qualifications.

The Board of Directors and the Governors of the Bank have continuously striven to this end throughout the past years and they believe that the Bank is now in a position, as regards the organization and training of suitable personnel, to meet its increased responsibilities. This does not mean, however, that there is to be any discontinuation of the intensive and continuous effort to improve the working efficiency of the Bank.

For the expansion and improvement of the Bank's accounting services, it is essential to create an accounting centre with up-to-date computing facilities. To this end and following the contract signed in 1962 for the hiring of accounting machines, some of the outdated equipment of the Computing Centre at Cholargos has been replaced by other types of conventional punch-card machines.

At the same time, within the framework of the efforts to reorganize the departments of the Bank, preparatory work began in 1963 for the implementation of three important projects, i.e. the re-organization of the Personnel and the Cash Services Departments and the introduction of a modern accounting system.

The new accounting system radically revises the previous system which had been in force since the Bank was first established—in line with the latest methods followed by foreign banks.

It is reasonable to expect that the reforms of the new accounting system will bring about a reduction in work, an improvement in quality, grea-

ter accuracy of information, quicker service to the public and easier training of personnel, combined with adequate controls. All this will be accomplished at a lower cost. These improvements will be achieved through the introduction of new simplified methods and procedures and a more rational use of modern technical equipment. The system is very flexible and can be adapted to any volume of transactions. The various accounting problems are dealt with on the basis of general principles of modern theoretical and practical concepts of accountancy. Generally speaking, this will permit a uniform application of the system by all transacting departments, regardless of the type of their transactions. The general principles of the system cover the accountancy from the moment the voucher is made out until the daily and summary sheets are compiled.

In the year under review, a study was undertaken for the reorganization of the existing system of controls and inspection. Moreover, as part of the effort to improve working conditions in the Bank's regional branches, the offices at Volos, Heraklion, Cavala and Patras were equipped with computers which will now handle the accounting side of the work.

The preparatory work for the extension of Head Office premises was accelerated in the past year. As stressed in the past, the need to extend Head Office buildings was dictated by the fact that the existing premises were too small to allow prompt and easy service to the public and the full implementation of new methods of organization.

The Board of Directors and the Governors of the Bank continued their efforts in the past year to make the fullest use of the capabilities of Bank personnel. We should stress at this point that the entire staff has welcomed these efforts and as a result a keen competition has developed amongst all employees to better their practical and scientific knowledge.

The endeavours to raise the educational standard of Bank personnel continued in the past year through the activities of the Institute of Banking Studies, established in 1962 and the continuation of the programme under which graduates of the School of Banking Studies are sent for extended training abroad.

In the spring and winter of the past year, the Institute of Banking Studies held two special post-graduate seminars, each of three months' duration. The specialized courses on bank organization and technique were followed by Bank employees on contract, having University qualifications and engaged by the Bank after a successful examination. The Governors of the Bank attach so much importance to the successful advan-

cement of the educational aims of the Institute that a special seminar was held to prepare those who had been selected as tutors in the use of modern educational methods.

The Institute's first public educational activity took the form of a lecture on a very interesting economic subject by the eminent Professor of Yale University, Mr. R. Triffin. The text of this lecture was published in a special pamphlet by the Institute.

On the research side, the four working groups appointed in late 1962 to study subjects of current interest relative to bank organization and operation continued their work, which is now nearing completion. The Governors of the Bank are also considering expanding the research side of the Institute of Banking Studies by appointing new working groups which will be assigned to investigate current banking problems.

On the basis of the programme for the training of graduates of the School of Banking Studies, 22 employees of the Bank were sent to various large credit institutions abroad. The programme of further training abroad was aimed at the creation of experienced personnel familiar with modern banking techniques. The Governors of the Bank take considerable satisfaction in the fact that a number of their employees have completed an extended training abroad and thus obtained a wider concept of their duties.

Ladies and Gentlemen,

I am particularly pleased to be in a position to assure you that the Bank of Greece, having fulfilled its important duties successfully for a number of years, is now recognized as one of the best functioning Central Banks. This achievement is due to the contribution of the employees of the Bank who have shown special ability in the discharge of their duties. The eager participation of the personnel in every activity of the Bank deserves warm praise, which the Shareholders' Meeting is invited to join us in expressing to the entire staff.

Within the year under review, 122 employees retired, while 69 new ones were engaged, thus diminishing the total number of employees by 53.

Last January, the death of Christos Tzannides, a member of the Board of Directors, deprived the Bank of his valuable services. Our late colleague was known not only for his extensive commercial experience and creative

abilities but also for his deep understanding of the tasks of the Bank and of the general interests of the economy.

In accordance with article 22 of the Statutes, the Board of Directors appointed Mr. George Allamanis, a distinguished representative of the commercial world, as a Director in replacement of the late Christos Tzannides.

In the year under review, the Deputy Governors, Mr. Demetrius Galanis and Mr. John Pasmazoglu, were re-appointed for another four year term by Royal Decrees dated the 19th September, 1963.

Ladies and Gentlemen, you are asked to elect three new Directors in replacement of Mr. John Serpieri, Mr. Nicholas Pagonis and Mr. George Allamanis, whose term of office expires with the present meeting. You are also requested to elect one more Director to fill the post vacated by the retirement of Mr. Demetrius Bambakos whose term of office will expire at the annual General Meeting of 1965.

The retiring Directors are eligible for re-election.

II. THE GREEK ECONOMY : DEVELOPMENTS AND PROSPECTS

1. National Income and Investment in 1963

The year 1963, characterised by a considerable increase in national income, was also marked by stronger symptoms of certain structural weaknesses in the Greek economy. The sound foundations of the economy and of the national currency were demonstrated by the fact that, in spite of the psychological reactions to the political uncertainty in Greece and the developments in the Cyprus problem, there was only temporary monetary disturbance. Since February 1964, normal monetary and credit conditions have been rapidly restored.

In 1963, the rate of growth in gross national income was substantially higher than the annual rates observed in the previous five-year period with the exception of 1961, which coincided with a peak in agricultural production, such as has recurred every four years in the post-war period. According to provisional data supplied by the Directorate of National Accounts of the Ministry of Coordination, the gross national income at constant prices, increased by 7.6 percent against 3.1 percent in 1962 and at current prices by 11.2 percent against 5.7 percent in 1962. The rapid growth in 1963 was mainly due to the considerable rise in agricultural income, which (calculated at constant prices) exceeded the 1962 level by 8.8 percent and the 1961 level, which was the highest previously attained in post-war years, by 2.1 percent.

The increase in agricultural income in 1963 was chiefly due to the large crops of three products : (1) olives and olive-oil of which the output was more than three times that of 1962 ; (2) tobacco the increased production of which was due in part to higher yields but mainly to an expansion in tobacco cultivation, encouraged by the high international prices in the previous years ; and (3) cotton, which has been subsidised in recent years to promote an expansion of cultivation. On the other hand, wheat production fell considerably in 1963 owing to the unfavourable weather conditions prevailing during the period of sowing.

Income increases were also noted in other sectors, though percentage-wise they were smaller than in the agricultural sector. During the first months of the year economic activity was rather slack, owing in part to the lower agricultural income in the last months of 1962 but mainly to

the unfavourable weather conditions, which not only delayed public works but were probably also responsible for unfavourable prospects for the 1963 summer crops. During the second half of the year, however, the growth rate of economic activity in general was accelerated and thus the annual increase in gross income from secondary production, i.e., manufacturing, mining, public utilities and public works, amounted to 7.3 percent at constant prices, against 6.3 percent in 1962. The development in industrial production in 1963 can be seen from the relevant index of the National Statistical Service, which shows an increase of 7.4 percent, against 4.7 percent in 1962. This increase is attributable mainly to tobacco processing and food industries.

Income from services (including income from abroad) rose by an estimated 7 percent at constant prices. Noteworthy was the rapid increase in income from abroad, which amounted to approximately 20 percent in 1963 and was due to the revival of shipping activity and the continued rapid expansion in foreign exchange receipts from the earnings of Greek workers employed in other European countries.

According to provisional estimates supplied by the National Accounts Directorate, the increase at current prices in 1963 amounted to 17.4 percent for agricultural income, 8.5 percent for secondary production and 9 percent for services. Thus, the biggest difference in growth between current and constant prices was noted in agricultural income, where the increase at current prices was approximately twice as much as at constant prices (17.4 against 8.8 percent). Income from services also showed a higher rate of increase at current prices than in real terms.

Investment was adversely influenced in 1963 by the reduction in Government investment, although private investment is estimated to have risen by 12.8 percent. According to estimates supplied by the National Accounts Directorate of the Ministry of Coordination, total fixed capital investment (excluding ships) rose by 6.3 percent at constant prices. As a result, the ratio of fixed capital investment to gross national income fell from 23.1 percent in 1962 to 22.8 percent in 1963. Public investment in 1963 amounted to drs. 6,850 million against drs. 7,200 million in 1962. A delay in implementing the government investment programme is especially noticeable in expenditures for tourism and education.

Investment in industry and mining, which is of primary importance for the economic development of the country, rose by 11.3 percent against 32.5 percent in 1962. Although this investment has expanded

continuously from 1960 onwards it has not yet reached the level required for rapid industrial development. The ratio of this investment to gross national income increased slightly between the years 1960 and 1963 (from 2.1 percent to 2.8 percent) and is substantially less than the corresponding percentage in other European industrial countries.

The favourable developments in economic activity and national income in 1963 were not, however, accompanied by signs of any substantial progress towards a structural change and development of the economy at a rate corresponding to the requirements resulting from our association with the European Economic Community. The vital need for the creation of additional employment opportunities in Greece and the legitimate claims of the larger masses of the population for a better standard of living have not yet found a satisfactory solution. The economy is still characterised by structural and organisational weaknesses which it has so far not been possible to overcome or, at all events, to alleviate.

In the first place, the rate of emigration, which has exceeded the annual growth in the labour force over the past three years, accelerated in 1963. The number of emigrants reached 100,000 in 1963 as against 84,000 in 1962, i.e., it increased by 19 percent. There is a danger, therefore, that the emigration, which was a temporary outlet for the surplus population of the country, will develop into a factor retarding expansion. The most disturbing feature is that the ratio of industrial workers to the total number of emigrants is increasing. The loss of the segment of the labour force which is relatively skilled and shows aptitude for further progress, may shortly create a problem of shortage, chiefly of skilled factory workers, at a time when industry is expected to go through a phase of rapid development.

Second, government investment shows a tendency to stagnate. The causes can be traced to the lack of adequate and methodical planning, the failure to exercise a proper supervision during the implementation of projects and the insufficient utilisation of completed works. In 1963, as in previous years, the implementation of programmed expenditure was not always based on the selection of projects of major importance for rapid development and delays have occurred in vital sectors. It is characteristic that in 1963 the provisions made for investment in education were not fully utilised, although the scheduled expenditure was much smaller than the amount actually needed to implement a programme of rapid deve-

lopment and a reorientation of education at facilities commensurate with the requirements of economic growth.

Third, a major portion of private investment activity was still concerned with projects of non-primary importance. Productive initiative, although more active in recent years, was still insufficient for achieving the economic and social targets of national importance. This is particularly true for industry, where progress towards international standards of competitiveness, while not inconsiderable, is still far from adequate.

Fourth, the gap in the balance of trade, which reflects the structural weaknesses of the Greek economy, continues to widen at a rapid rate, owing to the long-term trend towards stagnation in the export trade. It has been repeatedly stressed in the past that an increase in exports is essential, not only for the long-term maintenance of equilibrium in the balance of payments, but within the general framework of the effort to develop competitive ability and achieve the necessary structural changes in the Greek economy. In the opening session of Parliament, the Government announced the compilation of a new programme of economic development, which would give particular emphasis to securing a satisfactory growth rate for the Greek economy through the elimination of structural weaknesses. Particular emphasis was also given to the need of pursuing a specific policy for each sector of the economy along with a series of social measures. The aims of social policy are connected with the objectives of economic development and with a rapid process of modernisation and increased productivity in every aspect of national activity.

It is noteworthy that, despite the structural weaknesses and problems of the Greek economy, certain necessary conditions to general economic mobilisation have been secured. In particular, the unhindered operation of the monetary and credit mechanism has been assured and the economy is strong enough to withstand even serious disturbances. It is characteristic that the real magnitudes of the Greek economy are no longer influenced to any considerable degree by psychological or non-economic factors in general. For instance, the upward trend of economic activity was not affected by the political uncertainties of 1963. Even more characteristic is the fact that the brief revival of the tendency to hoard gold sovereigns did not influence the factors upon which the maintenance of monetary equilibrium depends. The Government has frequently and emphatically confirmed that the cornerstone of economic and social policy is the preservation of monetary stability and the maintenance of confidence in the national currency at home and abroad.

2. Monetary Stability

Although the revived demand for the gold sovereign observed in the past months was very marked at certain periods and continued for a number of days at a time, it proved once again to be a temporary phenomenon, unjustified by the real economic condition of the country. A strong demand for gold sovereigns has repeatedly been observed in the past, stimulated by external or domestic events. Recent developments in the gold sovereign market again underline a characteristic peculiarity of Greek conditions. They demonstrate at the same time, however, the deeper change which has taken place, i.e., the wider public now has unlimited confidence in the national currency. The monetary and credit system of the country is resilient and is now strong enough to face emergencies of this kind. A proof that the public maintained its confidence in the stability of the drachma is afforded by the fact that no increase took place in the demand for other categories of goods (consumer or durable). The markets operated normally and the price level was uninfluenced throughout the eight month period from June 1963 to February 1964. It should also be stressed that the flow of new deposits to banks was maintained at satisfactory levels, even during the days of heavy demand for gold sovereigns. It is noteworthy that the buyers of gold sovereigns were very few compared with the number of depositors.

The importance was also demonstrated of maintaining sufficient quantities of gold sovereigns, in addition to the country's foreign exchange reserves, as a regulating reserve which can be used for interventions in the market at times of extraordinary increases in demand. Interventions in the gold market by central banks take place even in countries with greater financial strength than Greece, whenever there are sharp increases in private demand for gold caused by speculation. Particularly important in this respect are the systematic interventions, from the beginning of 1962, of the Federal Reserve of the United States of America and the central banks of large industrial European countries in the London free gold market in order to maintain the price of gold close to the official parity. Excessive increases in the price of gold were thus avoided during periods of temporary disturbances in the international monetary mechanism, with the result that confidence was maintained and international speculation was discouraged.

It should be stressed once again that occasional sharp increases in the

demand for gold sovereigns in Greece are not based on an exact appraisal of real economic conditions, but are the result of psychological reactions of the public to internal or external events and should, therefore, be treated as such. Inasmuch as gold and gold coins are freely imported into Greece since 1956, the price of the gold sovereign cannot differ greatly from its international price. In fact, changes in the local price of the gold sovereign are usually the outcome of similar changes in international markets, especially in the more important ones such as Zurich and London. It should be noted, however, that although foreign markets are interdependent and fluctuations in their prices usually move in the same direction, each market has its own peculiarities, which are due to particular local conditions. As regards the Greek market, past experience has proved—and this is now the belief of the wider public—that the price of the gold sovereign shows occasional temporary deviations from its international price, but regains its normal level, either after intervention by the Bank of Greece, or following the restoration of completely normal conditions.

In the conviction that the recent pressure on the gold sovereign market was a transient phenomenon, the Bank of Greece satisfied the demand from its reserve of gold sovereigns. This recent period of intervention also justified the view that extraordinary rises in the demand for sovereigns can be faced more effectively if the transacting public remains confident that the price of the gold sovereign, even after sharp fluctuations, will return to normal levels, corresponding basically to the international price of the gold sovereign, with special reference to the Zurich Exchange. However, with a view to moderating demand by reducing the liquidity of those categories of the population which might show a greater propensity for the gold sovereign, the Currency Committee advised the banks to exercise a strict supervision over their advances and subjected the general liquidity position of the banks to more systematic control. Moreover, the slow-down in the growth rate of deposits and the coincidence of the seasonal reduction of bank liquidity during the months of December, January, and February, caused the banks to depend more closely upon the Bank of Greece. In taking these measures, however, the Currency Committee took particular care from the outset to ensure that the requirements of production and trade would be met fully and regularly, so that, despite the relative monetary disturbance, the pace of production would not be disturbed and the supply of goods would remain undiminished.

The Bank of Greece has at no time held the view that an increase in

the demand for gold sovereigns should be countered by restrictive measures in cases when the increased demand is the result of psychological factors. The best way to counter such situations is to confront them by maintaining healthy monetary conditions and strengthening the confidence of the wider public in the present and future stability of the currency. Acting accordingly, the Bank of Greece took the decision in January last to sell gold sovereigns at prices fixed by the Bank without any restriction as to the amount and following a certain procedure. These sales were parallel to and independent from the gold sovereign market, which operated without any outside interference. The gold sovereign reserves of the Bank of Greece are always very large and sufficient to meet such a situation without any difficulty. It should be understood, however, that the interventions of the Bank of Greece do not mean that the price of the gold sovereign is pegged to a certain level. Any such policy would not produce the desired results.

Once again, speculators in gold sovereigns and persons who were misled by their example despite clear and repeated official warnings, ultimately incurred losses. The price of the gold sovereign fell back to its normal level and those who had purchased gold sovereigns during the period of increased demand lost part of their capital. The hoarding of gold sovereigns became a non-remunerative investment for those who did not actually incur a loss. On the other hand, persons who in the past years invested in bonds instead of gold sovereigns, not only maintained their capital or even profited if the price of the bonds rose above par, but also earned interest on their investment which, in a period of four years, for instance, amounted to more than 25 percent of the original capital.

The year 1963 proved that, in spite of the serious structural weaknesses of the Greek economy, the possibility exists, not only for the attainment of a high level of investment—private and public—necessary for the acceleration of the country's economic development but also for the implementation of reform programmes. Moreover, many of these programmes, in addition to their social purposes, also assist in accelerating the economic development of the country. This is particularly true of programmes for the expansion and modernisation of education, the reorganisation and improved efficiency of public administration, the improved operation of the public health services, etc. Naturally from the monetary point of view, the Budget is the crucial factor together with healthy fiscal management, the importance of which has been repeatedly stressed in Government announcements. In this connection it should be remarked that the term fiscal management is not

confined solely to a Government budget of current expenditures and investment in the narrow sense. It also includes state purchases and the agricultural price support policy of the Government, which is of particular importance in the current year owing to the large olive and tobacco crops of 1963, as well as to the large wheat crop which is expected this year. The basic criteria in dealing with these difficult problems should be the protection of farmers by ensuring the stability of prices of products consumed domestically (olive-oil, wheat) and the achievement of the highest possible export level for exportable products, such as tobacco and cotton. It is both essential and expedient to utilize private trade as extensively as possible and to restrict state purchases correspondingly, so that expenses and or losses of Government are kept of the lowest possible levels.

Monetary equilibrium also depends on the relation between the increase in salaries and the productivity of labour. The Government aims at implementing a policy of salary improvements within the limits set by the increase in labour productivity. Is it of fundamental importance to keep within these limits. Increases in salaries and money incomes in general over and above the corresponding increase in productivity lead to rising prices, monetary imbalance and, ultimately, to a deterioration, instead of improvement, in the standard of living of the working classes. In order that Greece may gradually approach the standards of living prevailing in European countries and particularly in the European Economic Community, of which Greece is an associate member, we must primarily strive for a rapid increase in output. To the extent that improvements in productivity and output are attained, it will be possible to improve the remuneration of the salaried classes and to raise the income of the other categories of the working population.

III. INTERNATIONAL ECONOMIC DEVELOPMENTS

Higher rates of growth in many countries, a continued upward movement in salaries and production costs together with clear signs of inflationary pressures in most European countries were the main features of the world economy in 1963.

The revival of economic activity in the United States of America, where the economy had remained stationary in the second half of 1962, the change from the recession of that year to rapid economic expansion in 1963 in Great Britain and finally, the slight improvement in the demand of primary producing countries, following the favourable effect of the rise in the price of raw materials upon their incomes, were factors making for a higher level of economic activity in Western European countries and particularly those of the European Economic Community.

The influence exercised by external demand was stronger than in the previous year and as a result demand rose at the same rate, although a slight slackening was noted in the expansion of internal demand, mainly due to the slow-down in investment. The smaller rate of increase in the gross national product of the European Economic Community—4 percent in 1963 against 5 percent in 1962 and 5.3 percent in 1961—thus reflects developments in supply conditions and particularly the shortage which continued to be a feature of the European labour market to the same or even greater extent. However, some share of responsibility must be attributed to an accidental factor, the heavy winter of 1962-1963, which had an adverse influence on agricultural production and construction, at least during the first months of 1963.

The relative slow-down in the rate of growth of the E.E.C. during the past two years is not expected to have a long-run significance and the prospects for the future are bright. The favourable influence exercised by the process of economic union of the six countries upon their rate of growth becomes apparent when a comparison is made with corresponding developments in other European countries. Against an increase of 4 percent at constant prices in the gross national product of the Community in 1963, there is a corresponding increase of 3.5 percent for the United States of America and approximately 2 percent for Great Britain. It should be noted that following the decline in the rate of growth in Great Britain and the contain-

ment of economic growth in the United States of America, particularly during the second half of 1962, both countries followed an economic policy in 1963 aimed at encouraging business activity. The difference in the rate of economic growth between the E.E.C. and other industrial countries becomes even more apparent when comparisons are made for the period since the E.E.C. was established. Thus, according to data contained in the last quarterly report of the Commission (December, 1963), the gross national product of the European Economic Community rose by approximately 30 percent at constant prices between the years 1958 and 1963, whereas the corresponding percentages are 22 percent for the United States of America and 16 percent for Great Britain.

Nevertheless, the maintenance of the high rate of economic growth in the Community, to which the expansion of both intra-community trade—under the influence of the rapid customs unification—and trade with third countries make an important contribution, presupposes that inflationary pressures, which have become progressively stronger in the past years, will be curbed. The upward trend in prices continued in 1963, mainly in conjunction with wage increases, which reflected labour market shortages. The differences noted among countries with respect to wage costs also explain the differences in price level developments. Thus, in Germany, where the hitherto intense upward trend in wages was contained in 1963, relative price stability prevailed, whereas in France and Italy substantial wage increases led to a rise in consumer prices by approximately 7 percent. The results of the inflationary pressures were most felt in Italy, where the disparity between the growth rate of production and the increase in money incomes became more pronounced during 1963. The sharp increase in demand, at a time when there was a relative slow-down in the growth rate of the national product (due partly to developments in the agricultural sector), accelerated imports and nearly doubled the trade deficit in comparison with the previous year. At the same time an adverse change took place in the development of invisible receipts and particularly in capital transfers, as a result of which the balance of payments of that country showed a considerable deficit, whereas previously it had shown a credit balance for a number of years. Particularly noteworthy was the decline in the propensity to save while the flight of capital in the form of exports of Italian bank-notes was intensified. The above developments made it even more necessary to coordinate the policies of the six countries to enable a common approach to the problem of inflation. In its programme of action the Commission of the Community

declares the formulation of a «communal anti-cyclical policy» to be a basic objective.

During 1963, inflationary pressures were also noted, in varying degrees, in other industrial countries outside the European Economic Community. Particularly important were the price increases in Switzerland, where the cost of living index rose by approximately 4 percent between December 1962 and December 1963, leading to the adoption of an economic policy greatly at variance with traditional liberal trends in that country. Substantial price increases were also noted in Finland, Austria, Sweden and Norway. On the other hand, following the wage curb in the United Kingdom there was a trend towards a stabilisation of prices which improved the competitive ability of that country and thus contributed to a favourable turn in economic activity and to the maintenance of a relatively high degree of progress throughout 1963.

It was not until the last months of the year that continental European countries and particularly those of the European Economic Community started to adjust their economic policies to counteract inflationary trends. The almost general slow-down in the rate of investment was one of the main reasons which discouraged the Governments concerned from taking general anti-inflationary measures which would run the risk of aggravating the situation and exercise a retarding influence on economic growth. Now, the monetary policies of all the countries of the Community, with the exception of Germany, are more restrictive. In France, in particular, a «programme of monetary stabilisation» was put into effect as from September 1963. The main features of this programme were: the readjustment of fiscal policy with a view to reducing the deficit, and a curb on credit facilities, with particular emphasis on consumer credit. Later, other complementary measures were taken, such as the raising of the discount rate to 4 percent, an increase in tariffs on certain products and the establishment of direct controls on the prices of certain services. In Italy, the effort to contain inflation was first aimed at restricting the fiscal deficit and curbing credit expansion. During the last months of 1963, a more direct influence was exercised on prices by measures designed to increase the supply of basic commodities and by direct control of certain goods and services. Lastly, in February petrol and car sales taxes were increased and restrictions were imposed on consumer credit (hire-purchase sales). In Switzerland, where banks have not paid interest on foreign deposits for the past two years—an anti-inflationary measure advised by the monetary autho-

rities—a programme of measures to restrict credit and control construction has been submitted to Parliament for approval. The restrictive character of economic policy is expected to become general and may possibly become more pronounced in the current year, as the expansionary trends described above continued into the first months of 1964 under conditions of mounting inflationary pressures. In this context, it is characteristic that the major industrial countries have already raised bank rate by $1/2$ to 1 unit.

As already stated, the growth rate in Western Europe, and particularly in the countries of the E.E.C., has been determined in recent years by conditions in the labour market, with which inflationary trends are also connected. From this point of view, Western Europe presents an entirely different picture from that of the United States of America, which has been facing a more permanent problem of unemployment for some years. Unemployment in the U.S.A. is still between 5 to 6 percent, even in years of high level activity such as 1963. Conversely, in Western Europe and in certain countries especially, conditions of labour shortage are all but permanent. The effects of this shortage are attenuated by the rapid improvement in productivity and extensive movements in the labour force either from outside countries with population surpluses, such as Spain and Greece, or within each country, from the agricultural to the industrial sector. In 1963 labour shortage prevailed in all countries and particularly in those of the E.E.C. The shortage was more pronounced in the skilled labour field, where it created problems even for countries with a population surplus, such as Italy. Developments in Italy during recent years are particularly interesting, as they show certain similarities with Greek conditions. The rapid growth of the Italian economy in the last few years has entailed a continuous readjustment in employment through transfers of labour from the agricultural sector to industry. At the same time the large flow of emigrants to other European countries (Switzerland, France, Germany) has substantially reduced the population surplus. In spite of the fact that the flow of emigration has been reversed, Italian industries are now faced with a labour shortage, not only in certain fields of highly skilled labour, but on a far wider scale.

The flow of labour towards the countries which attract the greatest number of immigrants remained strong in 1963. For instance, in Germany during that year the number of foreign labourers amounted to 820,000 as against 706,000 in 1962.

The movement of labour within the European Economic Community

area does not appear to have been influenced by the gradual liberalisation of every form of transaction. There is every indication that inter-European migration follows the trends created by the differences between countries in the levels of development and employment. The flow of labour from Greece to other European Countries is essentially linked to this factor and has not been influenced by Greece's association with the European Economic Community.

Under the influence of international economic growth, world trade showed a further expansion in 1963. The increase is estimated at 8 percent and the contribution of the E.E.C. area has been substantial. The increasing participation of the E.E.C. in world trade reflects the dynamic force engendered by the progressive customs unification. On the other hand, the changes noted during 1963 in the structure of international trade in general and inter-community trade in particular, are not unrelated to the varying degrees of inflationary pressures in each country.

Characteristic of the European Economic Community's contribution to the expansion of world trade are the following data : Between the years 1958 and 1963, trade among the six countries increased by 132 percent ; imports from third countries increased by 53 percent and exports to third countries rose by 36 percent. Within the same period, world trade—excluding the commercial transactions of the Community—is estimated to have increased by approximately 41 percent. During 1963 in particular, the imports of the Community from third countries increased by over 10 percent, against 9 percent in 1962, while their trade deficit widened as a consequence of the slow expansion of exports. The growth rate was particularly high in inter-community commercial transactions, of which the value rose by 17 percent (as against 14 percent in 1962). This is not solely attributable to the stimulating effect of the process of customs unification. It is also due to changes in their competitive ability brought about by differences in price levels in each member country. For instance, as a consequence of these differences, German exports to the area increased more rapidly than the corresponding exports of France or Italy where inflationary pressures were particularly intense. The over-all position of the Community deteriorated in 1963, whereas an improvement took place in the position of the United Kingdom, which increased its exports substantially as a result of improved competitive ability, which was rendered possible by relative stability in domestic prices. On the other hand, United States exports increased slightly without, however, leading to an important improvement

in the balance of payments. In fact, although the U.S. deficit was considerably reduced during the second half of 1963, mainly under the influence of measures to curb the outflow of capital (increase in short-term interest rates, decision to levy a tax counterbalancing differences between domestic and foreign rates of interest), the final annual deficit in the balance of payments amounted to \$ 3,020 million as against \$ 3,573 million in 1962 and \$ 3,043 million in 1961.

In addition to the above developments in the foreign exchange position of the United States of America, developments in the foreign exchange position of the large European countries indicate that there has not been a more permanent improvement in international payments. In France, where the surplus had been increasing rapidly during the past years and had developed into disturbing factor in international payments, a tendency towards slowing down became apparent in the second half of 1963. On the other hand, the German surplus, which had been a source of difficulties for international transactions over a number of years, started to show a further increase. Moreover, the position of the less developed countries did not improve to any great extent, despite the increase in the prices of certain raw materials and the resultant slight rise in their export earnings, which was also the result of general economic growth. The failure of these countries to effect a greater improvement in their position was due, in the main, to an inadequate inflow of capital.

Nevertheless, an immediate aggravation of the problem created by the disequilibrium in international transactions—mainly exemplified by the widening gap in the United States balance of payments—was again avoided in 1963, with the help of certain mechanisms which had been put into effect as from the previous year, such as the system of mutual credits established by ten countries and known as the Paris Club, and cooperation between central banks. It is hoped that the current year will witness a reduction in the American deficit as the result of the following factors: *F i r s t*, measures taken or planned by the American Government to check the outflow of capital—which was the main cause of the increase in the deficit in 1963—by increasing the rate of interest on Treasury Bills and by the interest rate equalizing taxes. *S e c o n d*, through an improvement in the competitive ability of the American economy in relation to European countries, where costs of production are subject to the pressures created by more rapid wage increases.

The problem of international liquidity, in its more general aspect,

was again a widely discussed subject during the general meeting of the International Monetary Fund in 1963. No definite solutions were adopted despite the various proposals made for achieving a more permanent improvement in liquidity. It is, nonetheless, worthy of note that a decision was taken to start a systematic investigation of problems of international liquidity, in order to ascertain whether the present system of international payments is operating satisfactorily ; what reforms are required; and whether measures should be taken to increase total liquidity in the future. The study is now under way with the cooperation of the International Monetary Fund, the Group of Ten and other international organizations. It is hoped that these investigations will make it possible to reach definite decisions during the next meeting of the Fund in September 1964.

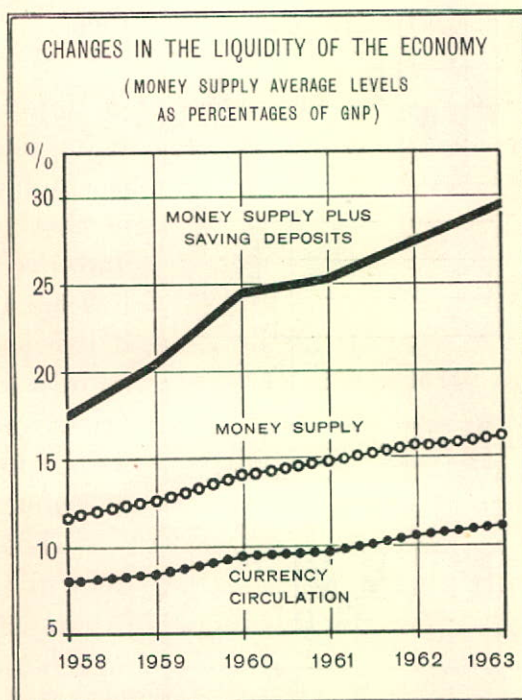
Another basic question, which is also relevant to that of the equilibrium of international transactions, is the problem of expanding the foreign trade of underdeveloped countries in order to facilitate their economic development. It had been decided in 1963 that there should be a more systematic approach to this problem within the framework of international cooperation. It is now being discussed by a special international trade conference specifically convoked for this purpose and in session as from March 23, 1964. The continuous deterioration in the international trade position of underdeveloped countries, owing to the smaller growth rate of their exports by comparison with industrial countries, does not only exercise a retarding influence upon the efforts towards economic growth, but aggravates the disequilibrium in international transactions. During GATT meetings in particular, and at similar international conferences, the underdeveloped countries have repeatedly complained that the policy of the industrial countries hinders the growth of both their agricultural and industrial exports. These problems and the resultant claims of the underdeveloped countries will be examined by the international trade conference, within the framework of its terms of reference, which include : the expansion of international trade as a means of advancing economic growth ; problems of financing world trade ; assistance towards increasing the invisible earnings of underdeveloped countries and the inflow of capital to these countries.

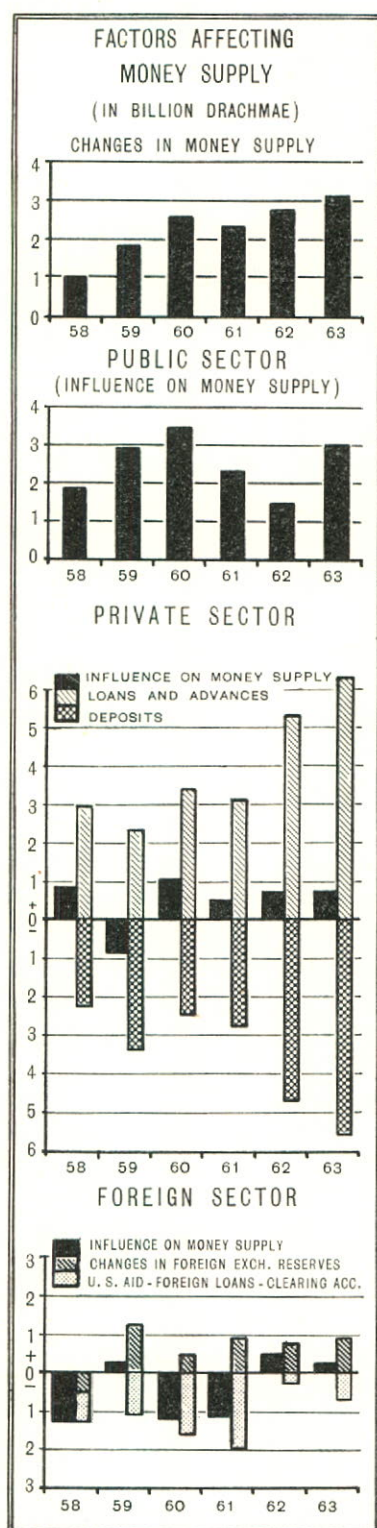
IV. MONETARY DEVELOPMENTS

1. Liquidity of the Economy - Factors Affecting the Money Supply

At the end of December 1963, the money supply, i.e. currency in circulation plus sight deposits, amounted to drs. 23,616 million, showing an increase of drs. 3,113 million or 15 percent between the end of December 1962 and the end of December 1963, against a corresponding increase of drs. 2,672 or 15 percent during 1962. In particular, the volume of currency in circulation at the end of 1963 amounted to drs. 16,802 million, having risen within the year by drs. 2,440 million or 17 percent, against a corresponding increase of drs. 2,184 million or 18 percent in 1962. Approximately the same picture will emerge if the average annual levels of means of payment are compared. Thus, between the years 1962 and 1963, the average level of money supply increased by drs. 2,697 million or 15 percent while the average level of currency in circulation rose by drs. 2,038 million or 16 percent. The corresponding increases between the years 1961 and 1962 were drs. 2,227 million or 14 percent and drs. 1,967 million or 19 percent respectively.

For the seven year period 1956-1962 the average annual rate of increase in the money supply amounted to 16.2 percent. This percentage is the highest in Europe and one of the highest in the world. Generally speaking, countries which show a higher rate of increase in the money supply than Greece, face inflationary pressures which are evident in their internal price levels and their balance of payments. In Greece, although the rapid rate of increase in the money supply did not have a very disturbing effect upon price levels or the balance of





payments, it nevertheless meant that the liquidity of the economy had risen considerably. Between the years 1956 and 1962, liquidity, calculated as a ratio of money supply (average annual levels) to gross national product at current prices, rose from 10.2 percent to 15.9 percent, i.e., by 55.6 percent. The increase in the liquidity of the economy is even higher if savings deposits—which can be withdrawn on demand—are taken into account. Should the increase in the liquidity of the economy continue at the same rate in the future, it cannot be expected that it will be without monetary consequences, especially during periods of uncertainty caused by external and/or internal events. From this point of view, a slow-down in the rate of expansion in the money supply would be desirable. At the same time a larger portion of private savings should be diverted from savings accounts to longer term investment.

An analysis of factors affecting changes in the money supply shows that in 1963 the main expansionary influence was exerted by the public sector. The expansionary influence of that sector amounted to drs. 3,117 million and exceeded the corresponding contribution in 1962 by drs. 1,684 million. This difference between the years 1962 and 1963 was due mainly to higher borrowings by public enterprises and Central Government in conjunction with the smaller increase in the deposits of Public Entities.

The expansionary influence exerted by Central Government accounts upon currency in circulation amounted to drs. 2,324 million in 1963, as against drs. 1,909 million in 1962. The influences exerted by each individual

FACTORS AFFECTING MONEY SUPPLY

(Million drachmae)

(+) Money supply increase, (—) Money supply decrease

	1962	1963
A. PUBLIC SECTOR	+ 1,433	+ 3,117
<i>I. Central Government (excluding transfers from counterpart funds and foreign borrowing)*</i>	<i>+ 1,909</i>	<i>+ 2,324</i>
1. Loans and advances	— 674(2)	+ 558
2. Treasury bills	+ 562	+ 480
3. Bonds	+ 129	+ 642
4. Deposits	— 486	— 185
5. Other accounts (1)	+ 60	+ 158
6. Withdrawals out of counterpart funds and foreign loans ..	+ 2,318(2)	+ 671
<i>II. Public Entities</i>	<i>— 825</i>	<i>— 449</i>
1. Local authorities	+ 284	+ 10
2. Social security	— 922	— 28
3. Other	— 187	— 431
<i>III. Public Enterprises</i>	<i>+ 349</i>	<i>+ 1,242</i>
1. Loans and advances	+ 215	+ 1,156
2. Bonds	+ 134	+ 86
B. PRIVATE SECTOR	+ 659	+ 626
<i>I. Loans and advances</i>	<i>+ 4,889</i>	<i>+ 5,970</i>
1. Short-term (up to 1 year)	+ 3,228	+ 3,369
2. Medium-term (1 to 5 years)	+ 489	+ 1,227
3. Long-term (5 years and over)	+ 1,172	+ 1,374
Analysis of loans by activities :		
(Agriculture)	(+ 669)	(+ 821)
(Manufacturing)	(+ 2,005)	(+ 2,614)
(Other)	(+ 2,215)	(+ 2,535)
<i>II. Securities</i>	<i>+ 482</i>	<i>+ 217</i>
<i>III. Deposits</i>	<i>— 4,712</i>	<i>— 5,561</i>
1. Savings	— 2,652	— 4,316
2. Time	— 2,063	— 1,194
3. Restricted	+ 3	— 51
C. FOREIGN SECTOR	+ 530	+ 355
1. Foreign exchange reserves	+ 776	+ 1,075
2. Clearing accounts	+ 314	+ 261
3. Foreign exchange liabilities (3)	— 402(4)	— 323(4)
4. Counterpart funds	— 158	— 658
D. OTHER ITEMS	+ 50	— 985
CHANGES IN MONEY SUPPLY	+ 2,672	+ 3,113
1. <i>Currency in circulation</i>	<i>+ 2,184</i>	<i>+ 2,440</i>
a) Bank notes	+ 2,130	+ 2,360
b) Coins	+ 54	+ 80
2. <i>Sight deposits</i>	<i>+ 488</i>	<i>+ 673</i>
a) Private	+ 240	+ 366
b) Public	+ 291	+ 267
c) Public enterprises	— 43	+ 40

(*) Analysis of Central Government :

1. Current expenditures	— 2,292	— 1,482
2. Investments	+ 4,412	+ 4,456
3. Consumer goods account	+ 887	+ 147(5)
4. Other	— 1,098	— 797

(1) Coins in circulation and other credit accounts of the Government.

(2) Including drs. 1,725 million for settlement of previous advances to the Government from U.S. aid counterpart funds. Thus the outstanding Government debt to the Bank of Greece was reduced correspondingly.

(3) Liabilities deriving mainly from Government foreign borrowing and deposits under L.D. 2687/53.

(4) Including indemnities to victims of the German occupation.

(5) Not including 450 mill. drs credit (Contract 23.10.63).

Government account in 1963 show considerable differences if compared with those of the previous year. Thus, according to accounts maintained by the Bank of Greece, fiscal administration expenditures on current account exerted a smaller contractionary influence on the money supply in 1963 than in 1962. This was mainly due to the larger expenditure for salaries in the budget, the covering of previous deficits from the currants price support policy and larger transfers from the Budget to the Consumer Goods Account.

In 1963, the Consumer Goods Account exerted an expansionary influence of drs. 147 million, against a similar influence of drs. 887 million in 1962. The decrease in the expansionary influence of this factor during the past year was due to higher receipts—mainly from larger sales of sugar and olive-oil—and to larger transfers from the ordinary Budget to cover administrative deficits or other Government obligations.

Lastly, although payments for public investment remained at approximately the same level as in 1962, they still continued to represent the main expansionary factor in the money supply.

In 1963, the contractionary influence exercised on the money supply by accounts of Public Entities was drs. 376 million less than in 1962. The difference was mainly due to the fact that the deposits of the Agricultural Insurance Organisation were reduced by drs. 150 million in 1963, whereas they had increased by drs. 427 million in 1962. This development in the deposits of the Agricultural Insurance Organisation was mainly the result of pension payments to farmers, which commenced from the second half of 1962. The accounts of local authorities exerted an expansionary influence on the money supply to the amount of drs. 10 million during the last year, against an expansionary influence of drs. 284 million in 1962. However, projects implemented by local authorities were covered by Government financing to the amounts of drs. 400 and 560 million in the years 1963 and 1962 respectively and thus, the influence exercised on the money supply by local authorities accounts was expansionary in both years, amounting to drs. 410 million in 1963 and drs. 844 million in 1962.

As already stated the accounts of public enterprises exerted a substantial expansionary influence on the money supply in 1963, amounting to drs. 1,242 million against drs. 349 million in 1962. This was mainly due to the fact that in 1963 the Public Power Corporation did not issue new bonds to finance part of its investments, but resorted to bank loans to a much greater extent than in past years. However, if the borrowing of

the Public Power Corporation from sources outside the banks is taken into consideration, in conjunction with the fact that the administrative deficits of the railways are covered through the ordinary budget and their investment is financed through the public investment programme, the overall deficit of the public enterprises for 1963 will then be seen to amount to drs. 1,611 million, against drs. 1,546 million in 1962.

The expansionary influence exerted by the private sector on the money supply in 1963, was approximately the same as in 1962. Nevertheless, both loans and advances and deposits increased substantially in 1963. Thus, bank credit to the private sector increased by drs. 5,970 million against an increase of drs. 4,889 million in 1962. The larger credit expansion in 1963 was due to medium-term advances, which rose by drs. 489 million in 1962. Short-term advances showed approximately the same increase as in 1962. On the other hand private deposits, excluding sight deposits, rose by drs. 5,561 million in 1963, against an increase of drs. 4,712 million in 1962. The increase in deposits would have been even larger if there had not been a slow-down in the rate of expansion in the last two months of the year.

The great demand for gold sovereigns in the last two months of 1963 and in January 1964 largely related to savings withdrawn from the banks or originally intended to be deposited. Thus, it was in effect a conversion of monetary availabilities into hoarding of gold sovereigns. This had an immediate influence upon the liquidity of the commercial banks and increased their dependence on the Bank of Greece for the satisfaction of the greater demand for credit, inasmuch as the heavy demand for sovereigns coincided with their seasonal obligation to maintain additional compulsory deposits at the Bank of Greece. During that emergency period, the Bank of Greece—without instituting additional restrictive measures—exercised a more systematic and special qualitative control over bank credit to avoid any direct or indirect encouragement of the demand for gold sovereigns. At the same time, great care was taken to avoid any adverse influence on production and investment. With the return of normal conditions, the situation was reversed. The private sector began to supply gold sovereigns and large number of them have already been returned to the vaults of the Bank of Greece. The rate at which the gold sovereigns are returned will naturally influence the money supply and the credit and monetary situation.

The expansionary influence exerted by the balance of payments on

the money supply in 1963 amounted to drs. 355 million, against drs. 530 million in 1962. The influence of the change in the foreign exchange reserves was calculated after deduction of American Aid and Government borrowing from foreign sources.

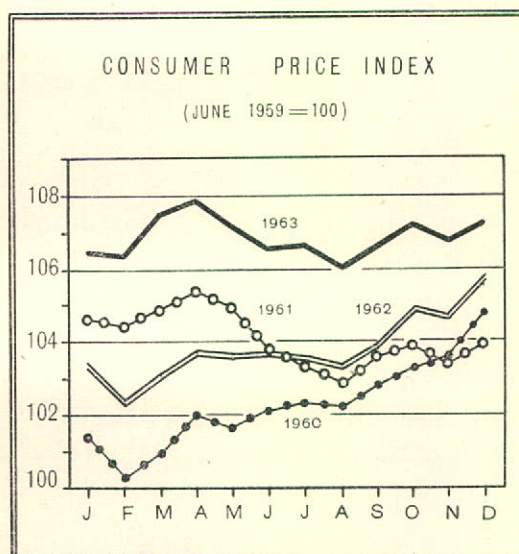
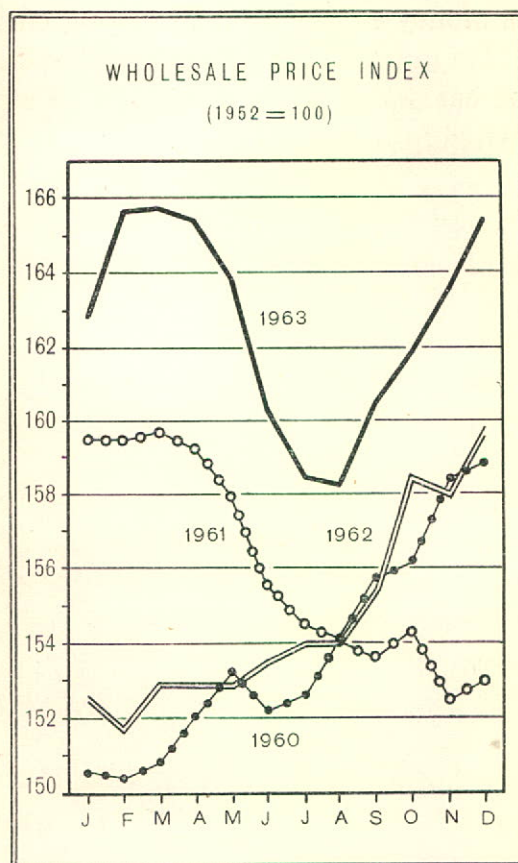
2. Price Developments

During 1963, prices fluctuated sharply and their average level was higher than the corresponding level in 1962. Thus, the upward trend in prices, which had commenced in the last four months of 1962—chiefly on account of the reduced crops of certain basic agricultural products—continued into the first months of 1963. In May 1963, prices began to fall and this continued until August, with a more pronounced downward trend in wholesale prices. This trend in the level of prices was the result of measures taken by the Government (intervention in the olive-oil market; ban on exports of olive-oil; lifting of restrictions on the import of potatoes and pulses), the increased potato crop in the spring and the prospect of increased olive-oil production. In September, however, prices began to rise again mainly on account of a rise in the international prices of foodstuffs imported into the country. Thus, between December 1962 and December 1963, the wholesale price index compiled by the Bank of Greece for the Athens - Piraeus area rose by 3.6 percent, against an increase of 4.3 percent in 1962. The consumer price index compiled by the National Statistical Service for the urban centres of the country rose by 1.3 percent for the same period, against an increase of 1.7 percent in 1962.

The price increases are higher when average annual levels are compared. Between 1962 and 1963, the average annual level of the wholesale price index rose by 5.1 percent and that of the consumer price index by 3 percent. The greater increase in the average annual levels can be explained by the fact that the sharp increases in the prices of certain widely consumed foodstuffs started in August 1962 and continued until the beginning of spring 1963 whereas, owing to the very high agricultural output of the year 1961, the prices of these commodities during the first half of 1962 were at much lower levels than in the corresponding months of 1963. Thus, the considerably higher average price level for the first half of 1963, by comparison with that of the corresponding period of 1962, had a substantial effect upon the average level for the entire year.

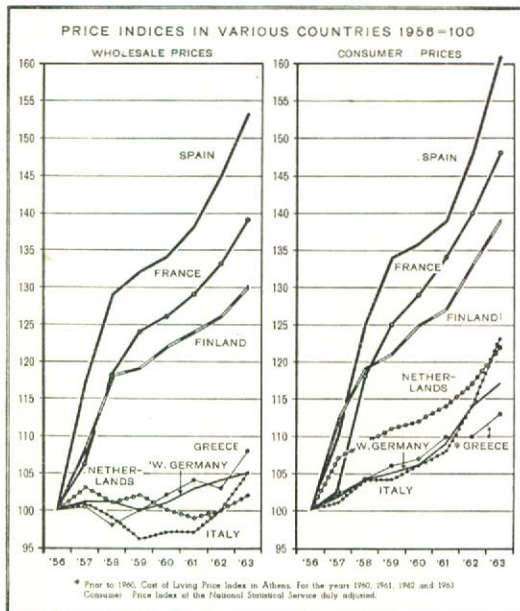
As already stated, the main reason for the increase in the wholesale price index, and particularly in the consumer price index, between December 1962 and December 1963 was the sharp upward trend during the last four months of 1963 in the international prices of certain imported foodstuffs, such as coffee, salted codfish, meat, sugar and dairy products. The rise in the prices of these commodities accounts for about 33 percent of the increase in the wholesale price index and for about 75 percent of the increase in the consumer price index. In the case of the wholesale price index, the greatest expansionary influences were exerted by the upward trend in the price of tobacco—which accounts for about 57 percent of the total increase—the high support prices for certain agricultural products (currants, olive-oil), and the limited supply of certain commodities owing to small crops in 1963 (pulses, animal fodder). As regards the consumer price index, over half the increase noted in 1963 was due to the rise in the prices of foodstuffs. The readjustment of controlled rents and the rise in the prices of woollen cloths, fuel and wine also contributed to the increase in the consumer price index, whereas services did not exercise any notable influence.

From the analysis of factors



determining price developments in 1963, it will be seen that the upward trend in prices was mainly due to temporary factors or to price increases abroad and does not, therefore, reflect the existence of more general inflationary pressures at home. However, it should be stressed that price increases particularly in basic foodstuffs and regardless of their causes, may lead to pressures for the readjustment of salaries and wages and other incomes and may exert more general disturbing influences upon monetary stability.

Although the price increases noted in Greece in 1963 were substantial, they were nevertheless smaller than the corresponding increases in most Western European countries. Thus, against an increase of 3.6 percent in



the Greek wholesale price index between December 1962 and December 1963, the corresponding increases amounted to 7 percent for Finland, 6 percent for the Netherlands, 5 percent for Italy, Sweden and Austria, 4 percent for Belgium, 3 percent for France, Norway and Switzerland and 1 percent for Spain and Germany. As regards the consumer price index, against an increase of 1.3 percent in Greece in 1963, the corresponding rises were 7 percent in Italy and Yugoslavia, 6 percent in France and Spain, 5 percent in Finland and Austria, 4 percent in

the Netherlands, Belgium, Germany, Switzerland and Sweden and 2 percent in the United Kingdom, Norway and Portugal. It should be noted, moreover, that while price increases in Greece mainly reflect pressures arising from the supply of certain foodstuffs—owing to fluctuations in agricultural production—in most European countries they reflect more general inflationary pressures arising from the conditions of full employment prevailing in those countries and from salaries and wages which are increasing more rapidly than productivity, and result in a rise in production cost.

3. Public Finance

According to the latest available data and provisional estimates of the State General Accounting Office, total Government Budget revenue from domestic sources, including special receipts from public investment, amounted to drs. 21,916 million in 1963, against drs. 20,150 million in 1962. On the other hand, total ordinary expenditure (excluding expenditure for infrastructure projects financed by corresponding N.A.T.O. contributions) and expenditures of the Government Investment Programme, is estimated to have risen to drs. 25,000 million, against drs. 23,820 million in 1962. Thus, the Budget deficit financed by loan capital and foreign aid amounted to drs. 3,084 million against drs. 3,670 million in 1962. The reduction in the total deficit by drs. 586 million was due to the fact that investment outlays decreased by drs. 815 million.

Last year's deficit was financed as follows: drs. 2,010 million from domestic loans, drs. 73 million from transfers from abroad, drs. 25 million from foreign loans and the balance from temporary advances by the Bank of Greece. These advances were made against a special revenue of drs. 705 million, which represents the contribution of N.A.T.O. member-countries to Greek defence expenditure, and against the loan of drs. 300 million arranged with the American Government for the financing of the Government Investment Programme but not drawn in 1963. The advances will be repaid to the Bank of Greece within the current year out of receipts from these sources.

Ordinary Budget receipts from domestic sources amounted to drs. 21,383 million in 1963, against drs. 19,520 million in 1962, i.e., an increase of drs. 1,863 million or 9.5 percent. This increase in revenue was the result of the substantial increase in the national income, imports, consumption and transactions in general. The tax reforms of the summer of 1962—which only became effective for income tax in the fiscal year 1963—had no significant influence on the rate of increase in total budget revenue. The ratio of indirect taxes to total tax revenue was 80.6 percent in 1963, against 78.7 percent in 1962, with a corresponding fall in the ratio of direct taxes from 21.3 percent to 19.4 percent.

Almost the entire increase in ordinary Budget revenue between the years 1962 and 1963 came from indirect taxation, from which the revenue rose by drs. 1,772 million or 13.4 percent. In particular, customs receipts rose by drs. 611 million or about 10 percent, while revenue from other

indirect taxes increased by drs. 1,161 million or 16.4 percent. The tax reforms of 1962 made a contribution of approximately drs. 395 million to the increase in receipts from indirect taxes.

Conversely, revenue from direct taxes only showed a negligible increase as revenue from personal income tax decreased by drs. 100 million. This decrease was, however, offset by the higher revenue of property tax and the retrospective collection of past tax obligations. The previously mentioned increase in personal income tax revenue—despite the rapid increase in money incomes in 1962—was due to the reduction in the tax rates effective from 1st January 1963, and to other related tax reforms. The criteria for presumptive personal income did not greatly contribute to the decline of tax evasion and did not suffice to offset the revenue lost through the reduction in tax rates to any considerable extent.

The increase in receipts from the business activity of the State was negligible, amounting to drs. 40 million or 2.6 percent, whereas other ordinary revenue increased by drs. 233 million or 28.8 percent. Conversely, revenue from special sources fell by drs. 200 million.

The rapid rate of increase in ordinary Budget revenue was accompanied by an even faster rate of increase in the corresponding expenditure, which (exclusive of expenditure for infrastructure projects covered by N.A.T.O. contributions), amounted to drs. 19,965 million in 1963, against drs. 17,968 million in 1962, i.e. a rise of 11.1 percent. The major part of this increase can be attributed to higher outlays for subsidies to agriculture and price supports for agricultural products; higher expenditure on the remuneration of personnel, and the increased expense of servicing the national debt. The higher subsidies were largely due to an expenditure of drs. 300 million in the 1963 budget to assist cotton cultivation and livestock breeding, which had been covered in the past from the Consumer Goods Account.

The above developments in ordinary Budget revenue and expenditure are expected to result in a surplus of drs. 1,450 million for the fiscal year 1963 as against drs. 1,550 million in 1962. If the sum of drs. 450 million, advanced by the Bank of Greece against the special contribution of N.A.T.O. member-countries towards covering a part of Greek defence expenditure is added, then the total contribution of the ordinary Budget towards financing the Government Investment Programme amounted to drs. 1,900 million and exceeded the original provisions by drs. 750 million.

Total Government expenditure on investment amounted to drs.

5,035 million in 1963 against drs. 5,850 million in 1962. The decrease of drs. 815 million can be almost wholly attributed to the reduction in foreign exchange expenditure. Expenditure in drachmae remained at approximately the same level as in 1962. Moreover, in 1963 the expenditure for investments, was less than that originally foreseen in the programme by some drs. 1,215 million. Delays were noted in land improvement and communication projects, education and public administration.

The financing of the Government Investment Programme encountered difficulties because a major portion of the expected foreign loans was not forthcoming. Thus, against an estimate of drs. 2,180 million, utilised foreign loan capital amounted to drs. 25 million, excluding the proceeds of the aforementioned loan by the American Government. Another drs. 73 million derived from foreign transfers for the financing of investment. Consequently, the larger part of the investment programme, i.e., drs. 4,937—out of a total drs. 5,035 million—was covered by the ordinary Budget, investment revenue, domestic borrowing and temporary advances from the Bank of Greece. In particular, domestic borrowing reached approximately the same level as in 1962, i.e., drs. 2,000 million, of which drs. 1,500 million were raised by the Government bond loan and the balance from the sale of short-term Treasury Bills. However, there was progress over 1962 as regards the structure of domestic borrowing. Thus, long-term borrowing, which is an orthodox method of financing long-term investment, increased by approximately drs. 500 million, while short-term Government borrowing showed a corresponding decrease.

It will be seen from the available provisional data that parallel investments, i.e., investments undertaken by the Public Power Corporation, the Greek Telecommunications Organisation and the Workers Housing Organisation including investments financed by long-term loans from the Agricultural Bank of Greece and the Economic Development Financing Organisation, amounted to approximately drs. 3,500 million, i.e. an increase of drs. 290 million or 9 percent in 1963. This increase can be attributed to the investments of the Public Power Corporation and the Greek Telecommunications Organisation and the advances made by the Agricultural Bank of Greece, all of which showed increases ranging from 9 to 20 percent.

Developments in the Consumer Goods Account in 1963 were satisfactory. In the past this account was a source of serious expansionary influences on the currency circulation. Thus, the deficit on this account decreased by drs. 302 million in 1963, whereas it increased by drs. 887 million in 1962. This

development was mainly the result of the reduction in Government stocks of wheat and olive-oil and the settlement of claims arising from agricultural subsidies in the years 1960 to 1962. The settlement of these claims was not effected from ordinary Budget sources but through the transfer of drs. 450 million from the loans of the Bank of Greece to the Government totalling drs. 2,200 million and consolidated in October. Nevertheless, the fact that the Consumer Goods Account no longer includes elements alien to its nature constitutes a step forward.

According to Government statements the ordinary Budget for the fiscal year 1964 will leave a surplus of drs. 1,100 million which will be used to finance the investment programme. The Budget for 1964 also provides for an increase in expenditure on current account amounting to drs. 1,620 million, in order to implement the measures announced by the Government. These measures include : the subsidising of the rates of interest on agricultural loans ; free education ; and the improvement in the salaries of civil servants. The new Budget will also provide the credits necessary to cover the normal increase in expenditure, unforeseen expenditures of the ordinary Budget, and any other additional expenditure on current account, including the implementation of the Government policy of supporting and subsidising agricultural income. All probable increases in expenditure have been taken into account and it should thus be possible to achieve the expected surplus in the ordinary Budget and ensure the smooth financing of the Government investment programme.

Apart from their social importance, the above-mentioned Government measures can help to place the economic development of the country on more sound foundations. The success of the effort to accelerate the rate of economic growth is also dependent to a great extent on Government investment. The necessary Government investment can be undertaken without risk of more general monetary disturbances if two basic pre-requisites are observed : First, the investment programme must be soundly financed and, second, an improvement must be achieved in the structure of the expenditure for this programme in order to secure higher productivity.

In past years, a considerable percentage of Government investment expenditure was financed by loans. As a result, Government loan obligations have increased substantially and represented approximately 16 percent of the gross national income at the end of 1963 against 5 percent in 1957. If the unsettled pre-war external debt is taken into account, then

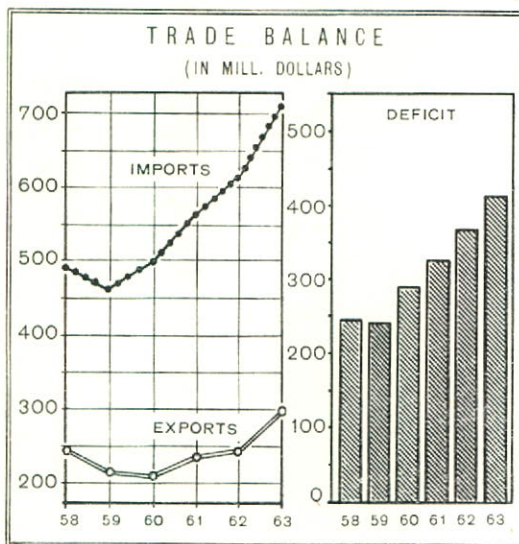
the ratio of the national debt to gross national income amounted to approximately 22 percent at the end of 1963, against 15.5 percent in 1957. Generally speaking, borrowing—in particular domestic loans to finance investment for economic development—is a sound practice. Comparisons with other countries show that the ratio of the total national debt to gross national income cannot be considered excessive. On the contrary, it can be argued that there are margins for further borrowing. However, a basic condition of the success of the policy is that Government investment should make a large contribution towards increasing the national product, so that the simultaneous increase in Government revenue can easily provide the funds necessary to service the expanding national debt.

V. BALANCE OF PAYMENTS

The three main categories of Greece's current transactions with foreign countries increased considerably in 1963. Imports and invisible receipts rose at a higher rate, while foreign exchange earnings from exports also increased substantially, in contrast to the slight changes observed in previous years.

Total payments for imports rose from \$ 608 million in 1962 to \$ 708 million in 1963, a rise of 16 percent. Similarly, the value of exports increased from \$ 243 million in 1962 to \$ 296 million last year, a rise of 22 percent. Although the rise in exports was considerable, it covered only half of the

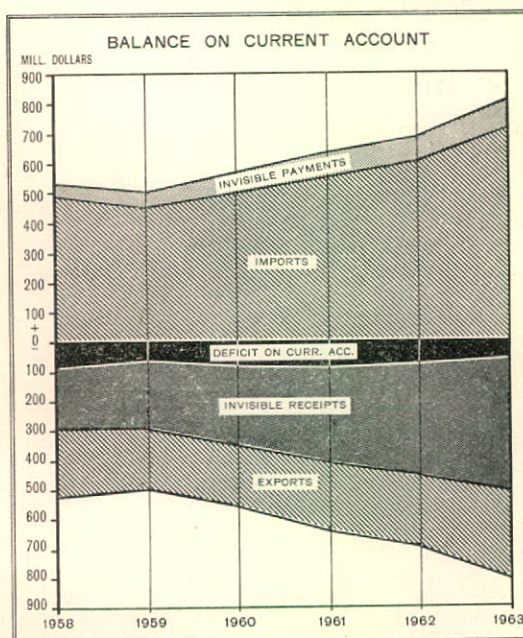
increase in import payments and thus raised the country's trade deficit from \$ 365 million in 1962 to \$ 412 million in 1963. For the second year running, however, the deficit on current account decreased by an appreciable amount owing to a further substantial rise in invisible receipts. Net invisible receipts for 1963 amounted to \$ 356 million against \$ 292 million in 1962, an increase of \$ 64 million or 22 percent. The deficit on current account thus fell from some \$ 74 million in 1962 to \$ 56 million in 1963.



Although, on the whole, these are favourable developments, they cannot be considered to be indicative of a real improvement in the Greek balance of payments. In the first place, it should be stressed that the rise in export earnings is largely due to exceptionally high export prices for tobacco and cannot therefore be interpreted as representing a more permanent improvement in Greek export trade. On the other hand, the increase in imports is expected to continue under the influence of expanding economic activity and rising incomes, although perhaps not at last year's rate, which was the highest in recent years and largely reflects the effect of extraordinary factors such as the need for higher imports of basic food-

stuffs on account of poor harvests. Thus, at least in the immediate future, invisible receipts will continue to be the principal factor for maintaining and improving the country's external position, with a favourable outlook for their further increase. In the longer run, however, it is essential to achieve a considerable rise in exports, accompanied by a readjustment in their structure which will place the Greek balance of payments on a broader and stronger basis.

In 1963, net capital inflow amounted to \$ 75 million, marking a slight increase over 1962. Combined with the decrease in the deficit on current account and the utilisation of a larger amount of U.S. aid the increased capital inflow allowed a further small rise in the country's foreign exchange reserves and enabled Greek commercial banks to create working capital in foreign exchange, which is needed to facilitate foreign transactions following the modifications introduced last year, especially in the system of payments between the countries of the European Monetary Agreement.



Thus, in spite of a further substantial rise in foreign exchange liabilities, particularly in foreign suppliers' credit, the country's balance-of-payments position remains strong from every point of view. The effort to accelerate economic development and the rapid increase in commercial transactions necessitate the inflow of short and long-term loan capital from abroad. It is essential, however, to exercise some control over obligations to foreign countries, not only as regards the volume of borrowing but also as regards its actual contribution towards facilitating the country's productive effort and mobilising its resources.

1. Commercial Transactions

In 1963, import payments amounted to \$ 708 million against \$ 608 million in 1962. Both years, however, were marked by a substantial rise

BALANCE OF PAYMENTS

(Million U.S. dollars)

Items	1958	1959	1960	1961	1962	1963
Imports CIF (payments)	491.5	454.8	497.1	561.2	608.5	708.4
Private	(437.2)	(416.1)	(448.1)	(502.0)	(557.6)	(646.4)
State	(54.3)	(38.7)	(49.0)	(59.2)	(50.9)	(62.0)
Exports FOB	242.8	212.5	208.6	234.3	242.6	295.9
NATO exports included.....	(4.5)	(5.8)	(4.9)	(7.8)	(5.7)	(1.2)
TRADE BALANCE	-248.7	-242.3	-288.5	-326.9	-365.9	-412.5
Invisible receipts	217.6	237.2	273.2	319.6	379.6	454.3
Foreign travel	(36.2)	(41.7)	(49.3)	(62.5)	(76.0)	(95.4)
Transportation (shipping).....	(60.3)	(60.3)	(76.5)	(102.0)	(108.7)	(125.3)
Emigrant remittances	(76.7)	(88.6)	(90.4)	(98.3)	(117.2)	(128.5)
NATO infrastructure	(13.4)	(10.8)	(15.5)	(9.3)	(10.0)	(7.8)
Wages-Salaries	(1.3)	(1.3)	(4.1)	(12.6)	(24.3)	(41.6)
Other	(29.7)	(34.5)	(37.4)	(34.9)	(43.4)	(55.7)
Invisible payments	47.7	54.9	65.5	76.1	87.6	97.9
Foreign travel	(15.3)	(15.4)	(18.8)	(19.3)	(21.8)	(27.5)
Government	(8.1)	(10.3)	(12.3)	(12.4)	(13.0)	(13.0)
Other	(24.3)	(29.2)	(34.4)	(44.4)	(52.8)	(57.4)
BALANCE ON INVISIBLES	169.9	182.3	207.7	243.5	292.0	356.4
BALANCE ON CURRENT ACCOUNT	-78.8	-60.0	-80.8	-83.4	-73.9	- 56.1
MOVEMENT OF CAPITAL (net)	36.8	58.0	48.5	84.6	71.2	75.3
Entrepreneurial private capital	13.5	22.1	15.3	18.6	27.5	44.3
Other private capital	30.4	30.1	26.9	40.2	47.0	46.9
Government and public enterprises loans...	—	15.4	15.1	34.7	15.8	6.2
Liquidation of the Greek - Egyptian clearing	—	4.3	4.3	4.3	1.2	1.2
E.P.U. credits	9.8	5.9	—	—	—	—
E.M.A. and clearing accounts	-13.4	-0.6	9.1	0.4	-9.3	— 6.9
Amortization (and purchase of Electr.	—	—	—	—	—	—
Power Co)	-3.5	-4.2	-22.2	-8.8	-11.0	- 16.4
I.M.F. quota payment	—	-15.0	—	—	—	—
Loans to Cyprus	—	—	—	-4.8	—	—
BALANCE BEFORE AID	-42.0	-2.0	-32.3	1.2	-2.7	19.2
AID - REPARATIONS - RESTITUTIONS	23.1	41.1	42.6	37.6	55.7	43.0
American aid	22.9	31.8	39.4	36.1	16.6	29.7
Development loans (D.L.F. - A.I.D.).....	—	8.4	2.4	0.6	1.2	7.2
Reparations - Restitutions	0.2	0.9	0.8	0.9	37.9	6.1
ERRORS AND OMISSIONS	- 1.8	- 2.2	4.2	- 9.7	2.6	- 26.9
BALANCE OF EXTERNAL TRANSACTIONS .	-20.7	36.9	14.5	29.1	55.6	35.3
Non monetary gold	3.5	9.0	1.4	0.6	-28.8	—
OFFICIAL FOREIGN EXCHANGE RESERVES	-17.2	45.9	15.9	27.0	19.4	7.9
Changes in foreign exchange	-20.7	36.9	-34.5	16.2	29.1	7.8
Changes in gold	3.5	9.0	50.4	10.8	-9.7	0.1
Exchange reserves with the Bank of Greece (end	—	—	—	—	—	—
of period)	(161.7)	(207.6)	(223.5)	(250.5)	(269.9)	(277.9)
Changes in for. exch. reserves of commercial banks	2.7	7.4	27.4
Suppliers' credit (change in outstanding balance)....	18.3	-4.5	7.8	6.0	31.8	23.2
Short - term	5.1	-11.9	11.7	4.1	20.7	16.6
Long - term	13.2	7.4	-3.9	1.9	11.1	6.6
End of period balance	(105.6)	(101.1)	(108.9)	(114.9)	(146.7)	(169.9)

Remarks : (1) Imports : Not including suppliers' credits (time settlements), machinery under L.D. 2687/53, charity organizations aid, common use items in kind and the NATO Canadian aid (1963 \$ 1 mill. in kind).
(2) Foreign reserves : Not including the British stabilization loan and the gold tranche at the IMF.

in foreign suppliers' credit, which had an appreciable effect on the development of imports as compared with the period between 1958—1961, when changes in the outstanding balances were very limited.

Foreign suppliers' credit increased by \$ 32 million in 1962 and by \$ 23 million in 1963. The corresponding increases were \$ 6 million and \$ 8 million respectively in 1961 and 1960. If these changes are taken into account the total value of imports in 1963 amounts to approximately \$ 732 million, against \$ 640 million in 1962 and \$ 567 million in 1961. These figures show that the total value of imports rose at the rate of 14 percent between 1962 and 1963 and 13 percent from 1961 to 1962, as compared with 16 and 8 percent respectively in the case of import payments. This difference between the rates of increase in total import value and import payments is due to the slower—in comparison with 1962—increase in foreign suppliers' credit as a result of a slight decline in imports of capital goods as compared with the appreciably higher rate of increase in consumer good imports. More particularly, a survey of import trade on the basis of data concerning payments and foreign suppliers' credit shows the following developments:

The major increases in 1963 took place in imports of foodstuffs and finished manufactured goods. Thus, food imports amounted to some \$ 134 million against approximately \$ 86 million in 1962, an increase of 56 percent. About two thirds of this rise were due to special factors such as the low harvest for wheat, other cereals, pulses and olive oil—and the higher price paid for imported sugar owing to the Cuban sugar crop failure. Even if these abnormal imports are ignored, the rise in food imports remains considerable, largely owing to increased imports of meat and live - stock, which reflect the rise in price levels and the continuing inability of domestic production to satisfy a rapidly increasing demand.

Payments for imported manufactured consumer goods in 1963 increased by some \$ 38 million or 21 percent. Almost two thirds of this rise was due to an expansion in imports of non-essential consumer goods, including textiles, private cars, electrical appliances, household equipment and some secondary categories of commodities. Imports of raw materials and fuels also increased, though at an appreciably slower rate.

Imports of capital goods, including changes in the outstanding balance of foreign suppliers' credit, fell short of the 1962 figure by \$ 14 million or 9 percent. It should be remembered, however, that imports of capital goods were exceptionally high in 1962 owing to the orders placed for ferry boats through Italian reparations. If this factor is disregarded, 1963 imports

of producer goods still remain slightly less than in 1962, mainly as a result of lower imports by public corporations and by the private sector of machinery on credit, the net change of which was limited to \$ 13 million in 1963 against \$ 25 million in 1962. As, however, other indications show that private productive investment increased by a considerable amount in 1963, this slight decline in capital good imports should rather be regarded as a fortuitous phenomenon arising from the time schedule of the investment programmes of various enterprises.

The analysis of imports in 1963 leads to the conclusion that, in spite of the expansionary effect of special factors on last year's import trade, the increased demand for foreign products is mainly due to the rapid rise in incomes and consumer demand, especially for types of goods associated with a higher standard of living and not produced by domestic manufacturers.

The rise in export earnings in 1963 resulted almost exclusively from a substantial increase in receipts from tobacco exports, which were double those of the previous year and amounted to some \$ 128 million. Export earnings in 1963 were considerably influenced, in the first place by the export during that year of a larger than usual proportion of the exportable quantities of the 1962-63 period, and secondly by a rise in the average export price of about 27 percent. In view of international developments in production and prices the latter factor is not expected to exercise an influence in 1964. Small increases also took place in currants and raisins, citrus fruits and olive-oil exports, while cotton exports decreased owing to a delay in harvesting caused by rains. Exports of resin products, fruit, vegetables and manufactures, especially textiles, also decreased.

Industrial exports only amount to 3 percent of the total value of exports. This is indicative of the inability of Greek industry to adjust itself to competitive conditions abroad and underlines the extent of the effort that Greek enterprise must make in order to increase industrial exports—a sine qua non for the promotion of Greek economic development—and to create a more permanent basis for a stable balance of payments.

As regards the geographical distribution of Greek foreign trade, the main feature of 1963 was the substantial increase in the share of the United States following the particularly large rise in imports—owing to Greece's increased need for foodstuffs—and exports, owing to the tripled value of tobacco exports. Both these developments should be considered to be of a temporary nature. On the other hand, the share of E.E.C countries in

Greece's imports and exports showed an appreciable drop, while that of other multilateral trading countries remained virtually unchanged. These developments resulted in a slight increase in the share of multilateral

MULTILATERAL AND BILATERAL TRADE TRANSACTIONS *

(Million U.S. dollars)

1. IMPORTS

	1958	1959	1960	1961	1962	1963
IMPORTS (total)	491.5	454.8	497.1	561.2	608.5	708.4
<i>A. Multilateral</i>	427.8	383.5	405.2	463.6	514.9	612.2
a) E.E.C.	(210.5)	(191.9)	(196.8)	(232.2)	(284.2)	(296.4)
b) Other	(217.3)	(191.6)	(208.4)	(231.4)	(230.7)	(315.8)
<i>B. Bilateral</i>	63.7	71.3	91.9	97.6	93.6	96.2
a) Soviet area	(36.6)	(43.6)	(57.6)	(59.9)	(60.6)	(62.4)
b) Other	(27.4)	(27.7)	(34.3)	(37.7)	(33.0)	(33.8)

2. EXPORTS

	1958	1959	1960	1961	1962	1963
EXPORTS (total)	242.8	212.5	208.6	234.3	242.6	295.9
<i>A. Multilateral</i>	178.1	154.8	143.1	155.3	163.2	213.5
a) E.E.C.	(101.3)	(83.1)	(67.8)	(73.9)	(84.2)	(89.6)
b) Other	(76.8)	(71.7)	(75.3)	(81.4)	(79.0)	(123.9)
<i>B. Bilateral</i>	64.7	57.7	65.5	79.0	79.4	82.4
a) Soviet area	(37.7)	(33.6)	(45.4)	(52.2)	(53.4)	(60.9)
b) Other	(27.0)	(24.1)	(20.1)	(26.8)	(26.0)	(21.5)

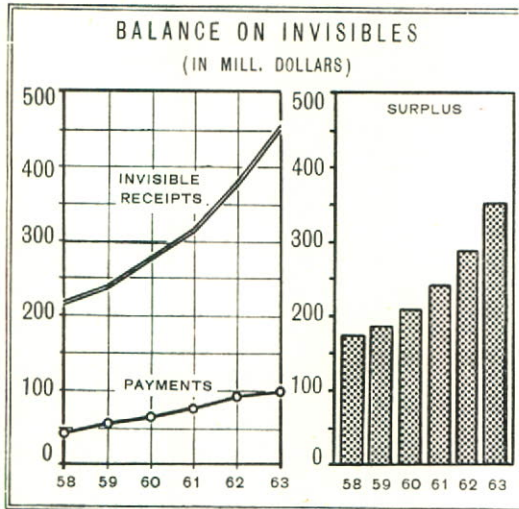
* Based on foreign exchange statistics.

trading countries in Greek foreign trade, from 80 percent in 1962 to 82 percent in 1963, with a corresponding reduction in the share of bilateral trade. There was only a slight increase in imports and exports between Greece and her partners in bilateral agreements in 1963. Thus, the share of bilateral trading partners in Greek exports dropped from 33 percent in 1962 to 28 percent last year, mainly owing to reduced exports to Yugoslavia.

2. Invisible Transactions

Current invisible receipts continued to increase in 1963 at an even more rapid rate than in previous years. Invisible receipts in 1963 amounted to \$ 454 million compared with \$ 379 million in 1962, i.e., a rise of some 20 percent, against 19 percent in the preceding year.

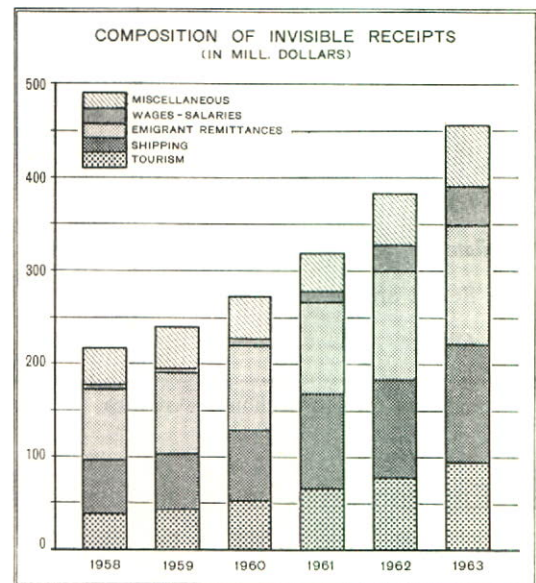
Of the three categories of invisible receipts, the largest increase in both absolute and relative terms was observed in foreign exchange receipts from the tourist trade, which totalled \$ 95 million last year, an increase of 26 percent over 1962. In the long run, the inflow of foreign tourists can develop into the most dynamic source of



invisible receipts. During the past five years the average annual rate of increase in receipts from tourism has exceeded 20 percent, with favourable prospects for a further rise if the country continues the effort to create additional accommodation and especially to encourage winter tourism.

Foreign exchange receipts from shipping in 1963 increased by \$ 17 million or 15 percent. This substantial increase was mainly due to a rise in shipowners' remittances, while remittances from merchant seamen were slightly less than in 1962 owing to the unfavourable effect of the shipping crisis in the first half of 1963.

Emigrants' remittances showed a further rise in 1963 while a particularly rapid increase was also noted in remittances from Greek workers employed in West European countries



and chiefly in West Germany. The latter rose from \$ 24 million in 1962 to \$ 42 million in 1963.

Invisible payments also rose in 1963—although at a slower rate than in previous years—owing to an increase in expenditures by Greek tourists abroad. Thus, invisible payments totalled \$ 98 million last year against some \$ 88 million in 1962. As a result of these developments in invisible transactions, net invisible receipts rose by 22 percent last year, against 20 percent in 1962 and 17 percent in 1961.

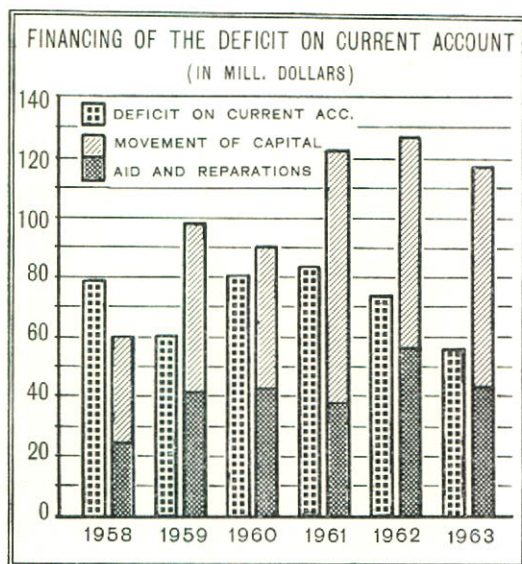
The rapid rise in invisible receipts in recent years is one of the most important factors in the favourable development of the Greek balance of payments. Net invisible receipts in foreign exchange are already 20 percent higher than export earnings, with good prospects for further increases. It has repeatedly been stressed, however, that the continued stability of invisible receipts does not reduce the need to increase exports and improve their composition, since invisible receipts cannot be a substitute for exports as a factor promoting Greek economic growth nor in the long run can they constitute such a solid foundation for the country's foreign exchange position as exports, especially of industrial products, which are not liable to sudden fluctuations in demand and prices, or the adverse effects of psychological factors.

3. Capital Movements — Reparations — US Aid

The net inflow of capital amounted to \$ 75 million in 1963, compared with \$ 71 million in 1962. This slight increase was due to a considerable reduction in funds borrowed abroad by the Greek Government and public corporations and an increase in amortization payments made by the State. By contrast, the inflow of private, especially venture capital, showed a very considerable rise.

Total private capital inflow in 1963 amounted to \$ 91 million, against \$ 75 million in 1962. This increase is attributable largely to venture capital imported mainly for long - term investment on the basis of Law 2687. The total amount of these funds imported in 1963, amounted to \$ 29 million against \$ 15 million in 1962. Of this sum, approximately \$ 22 million were imported by the Hellenic Shipyards Co., the Greek Aluminium Co., the Esso-Pappas group, Pirelli and the National Industrial Investment Bank. It should be noted that authorised investment by these enterprises covers more than half of the total value of investment so far approved. An appre-

cialable increase was also seen in imports of venture capital not covered by Law 2687, i.e., \$ 16 million last year compared with \$ 13 and \$ 11 million in 1962 and 1961 respectively.



additional capital owned by Greek residents abroad is being imported at an accelerating rate from regions where there are no special reasons for the liquidation of Greek property. These funds, which are at present invested largely in real estate, can contribute substantially to the economic development of the country, particularly if advantageous terms are introduced for investment in stocks and shares. Moreover, the balance of short-term capital deposited with Greek banks on the basis of Law 2687 amounted to \$ 28 million last year, a slight rise over 1962.

Apart from US aid and other loans repayable in drachmas, the amount of capital imported on behalf of the Government and public corporations totalled \$ 6 million last year, against \$ 16 million in 1962. This reduction was due largely to organisational and administrative weaknesses which delay the preparation and implementation of specific development projects which could be financed from such loans. Another reason for the reduction mentioned above is the existence of restrictions on the use of funds under loan agreements concluded in previous years. Last year was also marked by an appreciable rise in payments in settlement of previous debts incurred by Government and public corporations, entailing a net outflow of \$ 3 million in 1963, compared with a net inflow of \$ 8 million in 1962. It should be noted in this context that the total burden on the Greek economy from amortization payments showed an appreciable increase in

Private non-business capital imported in 1963 amounted to \$ 48 million, an increase of 12 percent over 1962. The corresponding increase between 1961 and 1962 was 10 percent, which shows that this type of capital inflow is rising steadily from year to year. Non-business capital largely originates in the liquidation of property owned by repatriated Greeks and is therefore a capital movement of a special type. There are indications, however, that apart from these funds,

1963, amounting to \$ 16 million against \$ 11 million in 1962 and \$ 9 million in 1961.

It seems unlikely that the reduction in the capital inflow on behalf of Government and public corporations will occur in 1964 also. The Greek Government has already entered into loan agreements with the European Investment Bank for a total of \$ 23 million, to be used principally for road construction. A part of these loans is expected to be used during the current year. The Government has announced its intention of speeding up the compilation of technical and financial studies which can form a basis for the attraction of additional capital from abroad in order to finance economic development projects.

A substantial reduction was also observed last year in receipts from reparations and indemnities. This was due to the fact that the greater part of the amount to be paid by the West Germany Government as indemnity to victims of Nazism was collected in 1962, and the major part of the balance of Italian reparations to Greece was also absorbed in 1962 by the order for ferry-boats. Thus in 1963, the reparation and indemnities collected from these two countries totalled \$ 6 million, against \$ 38 million in 1962.

The amount of US aid and development loans utilised in 1963 totalled some \$ 37 million, compared with \$ 18 million in 1962. Two thirds of this increase are attributable to larger imports, especially of wheat cereals from US agricultural surpluses, imported to offset reduced crops in 1963. A part of US aid was available to the Greek Government in the form of grants within the framework of the N.A.T.O. programme to support the Greek defence effort. The adoption of this programme, in which the major member countries of the Atlantic Alliance participate, implies recognition of the need to give collective support to this country's defence effort. This effort is not merely of importance to Greece. Generous participation by the USA is a vital factor in the continuation of this programme at a level covering the excess burden of the country's defence expenditure. The maintenance of Greece's ability to defend herself entails very considerable expenditure of a non-productive character, which cannot be shouldered solely by Greece at the expense of her economic development. On the other hand, it should not be assumed that any eventual reduction in aid for defence purposes could be offset by the extension of more loans to finance economic growth as this would actually amount to the financing of purely consumer expenditure with loan capital.

4. Foreign Exchange Reserves and Liabilities

In 1963, the country's foreign exchange reserve rose by \$ 8 million, against \$ 19 million in 1962. On the basis of import payments, Greek foreign exchange reserves at the end of last year (\$ 278 million) correspond in value to the imports of four and a half months. In this sense, therefore, the country's reserves are within satisfactory limits by international standards. Thus, Greece's external position remains strong, in spite of the rapid increase in imports and the widening trade gap.

The stability of the country's external position in recent years together with the rapid expansion of foreign transactions has allowed some additional measures to liberalise external payments, the most important of which was the abolition of centralised accounts for relations with EMEA member countries. This measure has increased the role played by the commercial banks in facilitating Greece's transactions with foreign countries, but has also necessitated the reinforcement of their working capital in foreign exchange to a sufficient level.

Total foreign exchange liabilities at the end of 1963 amounted to \$ 552 million, of which some \$ 100 million represent US aid loans repayable in drachmas. At the end of the year total liabilities repayable in foreign exchange thus amounted to \$ 453 million, including the outstanding balance of the portion of the pre-war national debt settled in 1962 by agreement with US bond-holders. At the end of 1962, the corresponding amount of liabilities repayable in foreign exchange totalled \$ 408 million.

Last year was marked by substantial increases in liabilities arising from long-term investment on the basis of Law 2687 and from foreign suppliers' credit. These increases totalled \$ 53 million in 1963 compared with \$ 44 million in 1962. In contrast, the outstanding balance of capital borrowed by Government and public enterprises decreased.

It should be stressed in this context that liabilities from foreign suppliers' credit in the past two years have increased at a much faster pace than in 1961. Thus, at the end of 1963 these liabilities totalled some \$ 170 million, an increase of \$ 55 million or about 50 percent since 31st December 1961. Some three fifths of the last two years' increase in debts to foreign suppliers refer to imports of capital goods and reflect an appreciable rise in imports of machinery during the two years 1962-1963, as compared with previous years. At the end of 1963 such liabilities from capital good imports amounted to \$ 76 million or 45 percent of total foreign trade credit liabilities, against

\$ 39 million or 34 percent of the total at the end of 1961. During the last two years extensive use of foreign suppliers' credit was also made for raw material imports. The utilisation of credit extended by foreign suppliers for imports which promote and increase the country's production potential is a positive contribution to the Greek economic development effort.

VI. CREDIT DEVELOPMENTS

1. Changes in Deposits

At the end of December 1963, private deposits with banks and financial intermediaries amounted to drs. 30,662 million, thus showing an increase of drs. 5,929 million or 24 percent compared with drs. 5,011 million or 25.4 percent in 1962, and drs. 3,090 million or 18.6 percent in 1961. The expansion of private deposits continued at a fast pace throughout the year except for the last two months, in which the rate of increase was slower than

PRIVATE DEPOSITS
(Million drachmae)

Categories	Outstanding deposits at the end of 1963	Annual Changes						
		1957	1958	1959	1960	1961	1962	1963
TOTAL	30,662	+ 3,292	+ 2,421	+ 3,595	+ 3,005	+ 3,090	+ 5,011	+ 5,929
<i>Sight</i>	4,447	+ 391	+ 171	+ 468	+ 534	+ 384	+ 262	+ 338
Public utilities (1)	247	...	— 68	+ 162	+ 187	+ 125	— 337	— 138
Other	4,200	...	+ 239	+ 306	+ 347	+ 259	+ 599	+ 476
<i>Savings</i>	19,837	+ 2,345	+ 1,669	+ 2,772	+ 2,292	+ 2,029	+ 2,663	+ 4,311
<i>Time</i>	4,736	+ 397	+ 481	+ 168	— 136	+ 342	+ 2,063	+ 1,194
Public utilities (1)	760	...	+ 150	— 97	— 39	— 23	+ 488	+ 243
Other	3,976	...	+ 331	+ 265	— 97	+ 365	+ 1,575	+ 951
<i>Restricted</i>	1,642	+ 159	+ 100	+ 187	+ 315	+ 335	+ 23	+ 86

(1) Including deposits of the Industrial Development Corporation and oil companies.

in the November - December period of 1962 and 1961 owing to psychological factors which diverted some private savings to purchases of gold sovereigns.

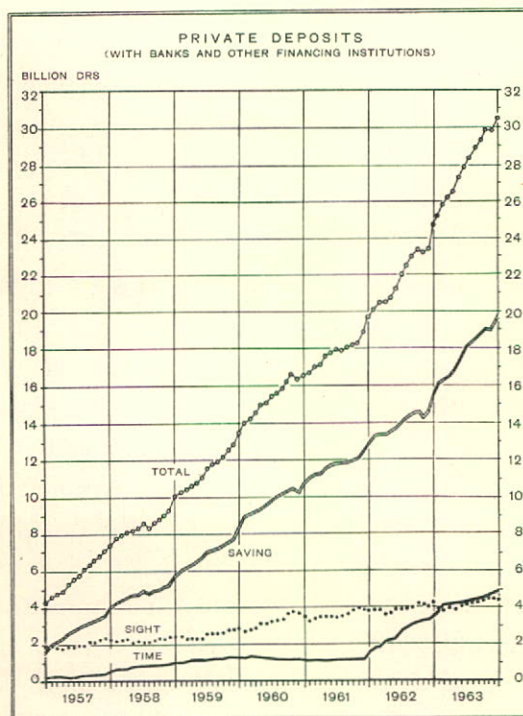
The greater part, i.e. drs. 5,505 million or 92.8 percent, of the over-all increase in private deposits last year consisted of savings and time deposits. This rise in savings and time deposits corresponded to some 5 percent of

last year's gross national income at current prices, against 4.6 percent in 1962 and 2.4 percent in 1961. It should be noted, however, that the larger portion of national income devoted to such deposits in 1963 does not necessarily indicate a stronger propensity to save, since other forms of private investment remained stationary or decreased in comparison with 1962. Thus, the amount of private savings drawn from the capital market in 1963 did not exceed drs. 700 million, against some drs. 1,300 million in 1962, while last year's building activity is provisionally set at a slightly higher level than in 1962.

In greater analysis, savings deposits increased in 1963 by drs. 4,311 million i.e., by 62 percent over 1962 and more than 100 percent over 1961. In contrast, last year's time deposits rose by drs. 1,194 million or 33.8 percent, falling short of the corresponding increase in 1962 by drs. 869 million. This difference in the rate of increase in time deposits during the past two years was due in part to the different movement of Industrial Development Corporation savings accounts in those years. Furthermore, the slight reduction in interest rates on time deposits, effected in February last year, may possibly have had an adverse influence on a small number of savers.

Nevertheless, last year's rise in time deposits can be considered satisfactory. This is supported by the fact that the share of time deposits in total private deposits showed a further improvement compared with previous years. At the end of 1963, time deposits represented 15.5 percent of total private deposits, against 14.3 and 7.5 percent at the end of 1962 and 1961 respectively.

There was also a notable increase in sight deposits in 1963. Sight deposits by private savers and private companies, not including deposits by public utilities rose by drs. 476 million or 12.8 percent. The correspon-



ding increases for 1962 and 1961 were drs. 599 million or 19.2 percent, and drs. 259 million or 9.1 percent respectively.

As in previous years, the greater part of the increase in private deposits last year consisted of a rise in deposits with commercial banks (drs. 4,039 million or 68.1 percent of the total increase). Another considerable portion (23.8 percent) of the total increase represents deposits with the Postal Savings Bank. Drs. 2,661 million or 61.7 percent of the total increase (drs. 4,311 million) in savings deposits in 1963 resulted from a rise in deposits with commercial banks; drs. 1,413 million or 32.8 percent from a higher level of deposits with the Postal Savings Bank and drs. 237 million or 5.5 percent from an increase in deposits with the Agricultural Bank and other credit institutions.

It should be noted that the expansionary trend of private deposits has been resumed since the general elections of February 1964. The increase in private deposits in 1964 is expected to be higher than in previous years.

The considerable rise in time and savings deposits last year was accompanied by an appreciable increase in the number of savers. Thus, the number of deposit accounts with the Postal Savings Bank in December 1963 amounted to 633,400 against 538,100 in December 1962, i.e., a rise of 95,300. Time and savings deposit accounts with the commercial banks increased by 132,800 between July 1962 and June 1963. The number of savings accounts with commercial banks and the Postal Savings Bank in June 1963 totalled 1,292,900 against 1,097,900 in June 1962, i.e. a rise of 195,000 within the period of twelve months.

In 1963, deposits of insurance funds and other public entities accumulated by the Bank of Greece on the basis of Law 1611/50 rose by drs. 79 million compared with drs. 857 million in 1962 and drs. 955 million in 1961. The difference was due in part to the fact that about half of the increases in 1962 and 1961 had resulted from deposits by the Agricultural Insurance Organisation, which decreased last year by drs. 151 million, chiefly owing to the fact that the Organisation started to pay out pensions in the second half of 1962. If A.I.O. deposits are excluded, deposits by public entities rose by drs. 230 million in 1963 against drs. 429 and 536 million respectively in 1962 and 1961. The smaller rise of this kind of deposits during the last year as compared with the previous two years was due mainly to increased investment in Government and Public Power Corporation securities on the part of public entities.

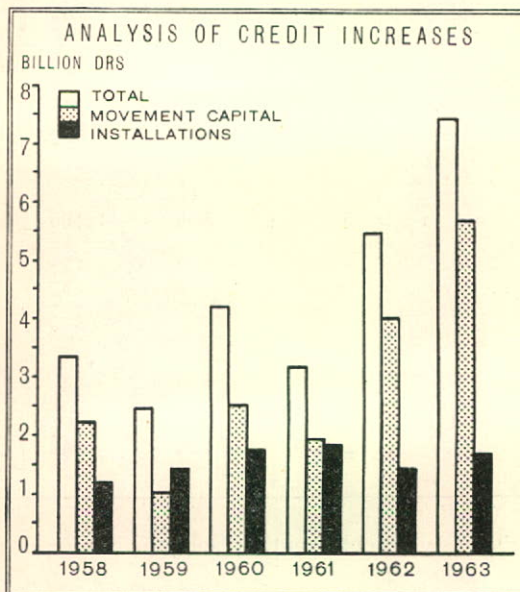
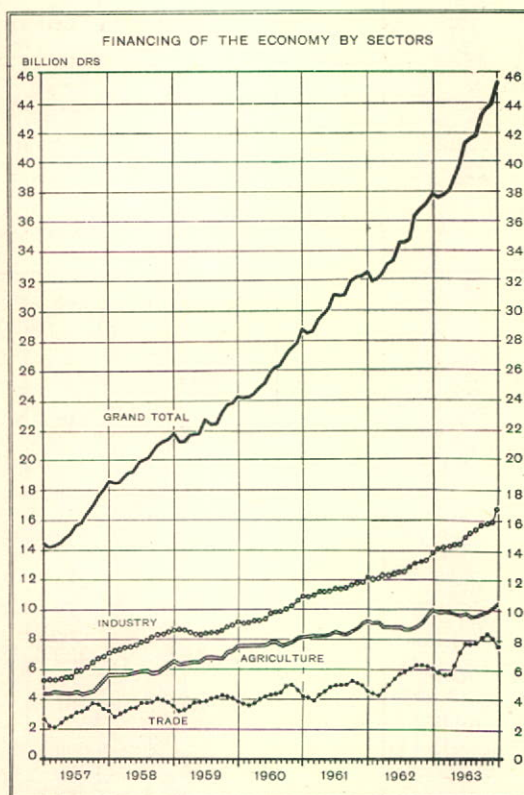
2. Developments in Bank Credit

Total outstanding credit to the economy by banks and financial intermediaries amounted at the end of 1963 to drs. 45,245 million, i.e., a rise of drs. 7,409 million or 19.6 percent. This is appreciably higher than the increases realised in the previous two years, i.e., drs. 5,449 million or 16.8 percent in 1962 and drs. 3,692 million or 12.9 percent in 1961.

In particular, short-term loans increased by drs. 5,692 million or 22.3 percent against drs. 4,053 million or 18.9 percent in 1962. It should be noted, that a considerable part of this increase is attributable to the special credit extended to the Public Power Corporation and the Greek Telecommunications Organisation, which rose by drs. 1,157 million last year compared with drs. 216 million in 1962. This large increase in special credit was due mainly to the fact that the P.P.C. did not issue bonds in 1963 and covered its needs by borrowing funds from the commercial banks.

In 1963, long-term financing also increased at a faster pace than in 1962. Thus, long-term loans increased by drs. 1,717 million or 14 percent in 1963 against drs. 1,396 million or 12.8 percent in 1962.

Between 1962 and 1963, the



CHANGES IN CREDITS (1)

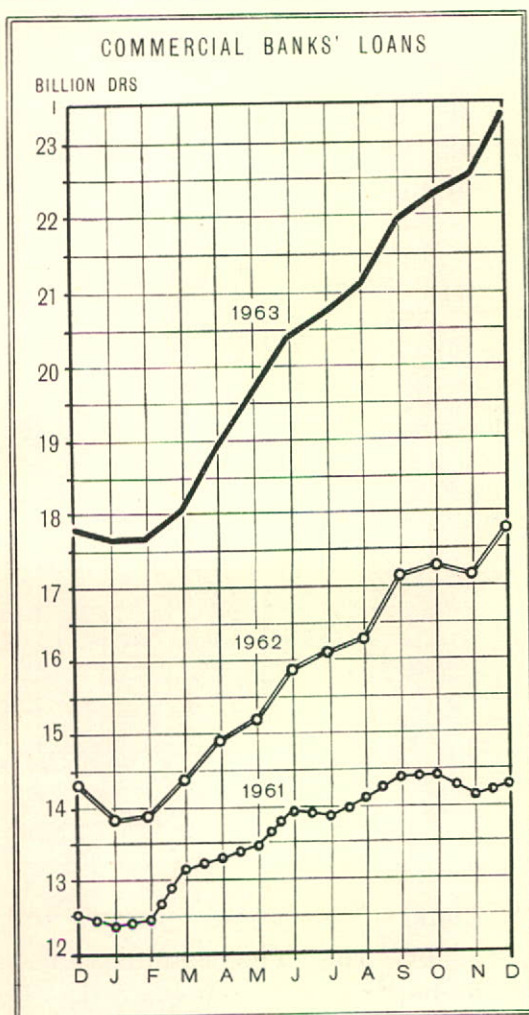
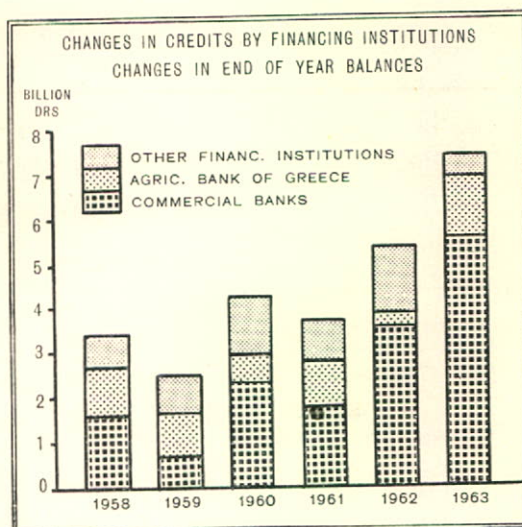
Categories	Outstanding Credits at 31 Dec. 1963 Million drachmae	Change in average annual levels				Change in outstanding credits at the end of year			
		Mill. drachmae		Percentage		Mill. drachmae		Percentage	
		1962 as against 1961	1963 as against 1962	1962 as against 1961	1963 as against 1962	1962 as against 1961	1963 as against 1962	1962 as against 1961	1963 as against 1962
TOTAL	45,245	+3,893	+6,522	+12.7	+18.9	+5,449	+7,409	+16.8	+19.6
I. LONG-TERM LOANS	14,023	+1,439	+1,657	+14.2	+14.3	+1,396	+1,717	+12.8	+14.0
1. Agriculture	3,420	+273	+213	+9.6	+6.8	+107	+252	+3.5	+8.0
2. Agricultural industries	862	+45	+18	+5.8	+2.3	+10	+30	+1.2	+3.6
3. Industries	3,116	+321	+636	+17.5	+29.6	+571	+656	+30.3	+26.7
4. Mining	756	+55	+30	+8.2	+4.2	+52	+13	+7.2	+1.7
5. Housing	2,026	+177	+277	+11.9	+16.7	+246	+239	+16.0	+13.4
6. Tourism	1,235	+216	+242	+37.4	+27.7	+178	+371	+26.0	+42.9
7. Public utilities	1,881	+377	+220	+30.6	+14.4	+292	+132	+20.1	+7.5
8. Transportation	539	+9	+40	+1.7	+8.2	+37	+61	+7.2	+12.8
9. Electric power	188	+16	+19	+6.9	+8.8	+23	+11	+10.4	+4.5
II. OTHER CREDITS	28,552	+2,216	+4,323	+11.5	+20.1	+3,837	+4,535	+19.0	+18.9
1. Agriculture	7,342	+346	+567	+6.1	+9.4	+562	+569	+9.1	+8.4
» (excl. supplies of the Agricultural Bank)	(6,676)	(+395)	(+553)	(+7.9)	(+10.2)	(+449)	(+605)	(+8.0)	(+10.0)
Cultivation loans	3,751	+140	+296	+4.0	+8.8	+194	+675	+5.9	+21.9
Collateral loans	2,685	+553	+266	+43.8	+14.7	+669	+94	+31.7	+3.4
Other loans	240	+18	+9	+8.0	+4.2	+26	+24	+10.7	+11.1
Agricultural supplies in warehouses of Agricultural Bank	666	+49	+14	+7.5	+2.3	+113	+36	+19.3	+5.1
2. Industry	10,249	+952	+1,380	+13.8	+17.6	+1,253	+1,503	+16.7	+17.2
Discounted bills (2)	2,414	+66	+246	+3.4	+12.3	+99	+228	+4.7	+10.4
Other credits	7,835	+886	+1,134	+17.9	+19.4	+1,154	+1,275	+21.4	+19.4
3. Handicraft	1,782	+61	+279	+4.5	+21.8	+120	+437	+9.8	+32.5
4. Trade	7,689	+856	+1,700	+18.3	+30.8	+1,654	+1,553	+36.9	+25.3
Domestic	4,366	+372	+733	+13.0	+22.6	+407	+929	+13.4	+27.0
Import	621	+42	+97	+15.5	+31.4	+57	+240	+17.7	+63.0
Export	961	+39	+127	+7.2	+21.9	+119	+231	+19.4	+31.6
Tobacco	1,741	+403	+743	+40.6	+53.2	+1,071	+153	+207.4	+9.6
5. Other	1,490	+123	+397	+15.9	+44.4	+248	+473	+32.2	+46.5
III. ADVANCES TO THE P.P.C.-G.T.O.	2,670	+238	+542	+19.8	+37.1	+216	+1,157	+16.6	+76.5

(1) Financing of private sector, public entities and public enterprises by the banks and special credit institutions.

(2) Including loans against bills.

average level of total bank credit rose by drs. 6,522 million or 18.9 percent, against an increase of 11.3 percent in gross national product at current prices. The disparity between the rates of increase in credit and production is even more pronounced in individual sectors, with the exception of agriculture. Excluding loans to farmers, the average level of short-term financing between 1962 and 1963 rose by 18 percent, i.e. at a rate about twice as high as the rate of increase in the income of the respective sectors financed.

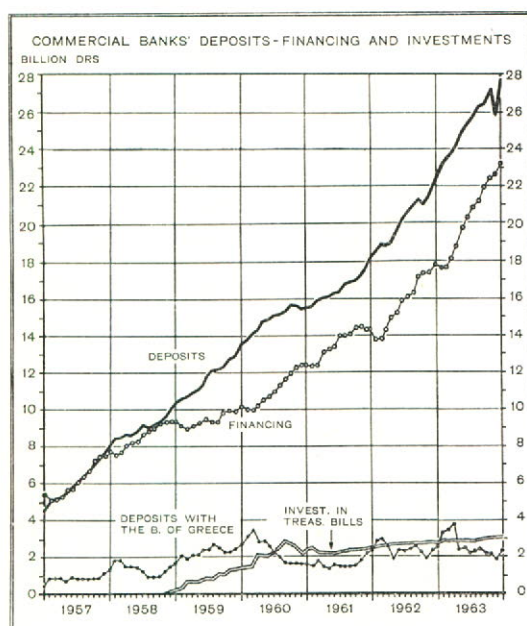
Most of the credit expansion in 1963 was due to loans extended by the commercial banks, followed by those of the Agricultural Bank. Commercial bank loans in 1963 rose by drs. 5,562 million or 31.3 percent, which is a far higher rate than in 1962. This expansion in credit was made possible by the higher rate of increase in deposits with the commercial banks and was particularly prominent in the second half of last year, in conjunction with the accelerating rate of expansion in economic activity. The decision taken by the Currency Committee in September 1963 to introduce more liberal credit rules also contributed to this favourable development, as it enabled the commercial banks to expand their financing activities. In consequence,



the rise in commercial bank credit absorbed almost the total amount of new deposits accumulated in 1963. Loans extended by the Agricultural Bank last year rose by drs. 1,395 million or 14.1 percent, against drs. 263 million or 2.8 percent in 1962. Last year's substantial expansion in Agricultural Bank credit is connected with corresponding developments in agricultural production, but it is also not irrelevant to the psychological climate prevailing in the second half of 1963, with the prospect of a settlement of outstanding farmers' debts and, subsequently, the direct impact of the respective settlement, which took place at the end of that year.

a. Credit for Working Capital

The credit extended by banks and financial intermediaries to manufacturing, agriculture and trade for working capital (excluding short-term credit to the Public Power Corporation and the Greek Telecommunications Organisation) amounted to drs. 28,552 million at the end of 1963, i.e., a rise of drs. 4,535 million or 18.9 percent over the year, against drs. 3,837 million or 19 percent in 1962. Some three quarters of last year's rise is attributable to commercial bank credit extended mainly to industrial and



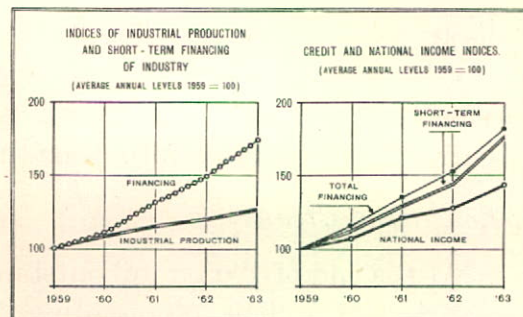
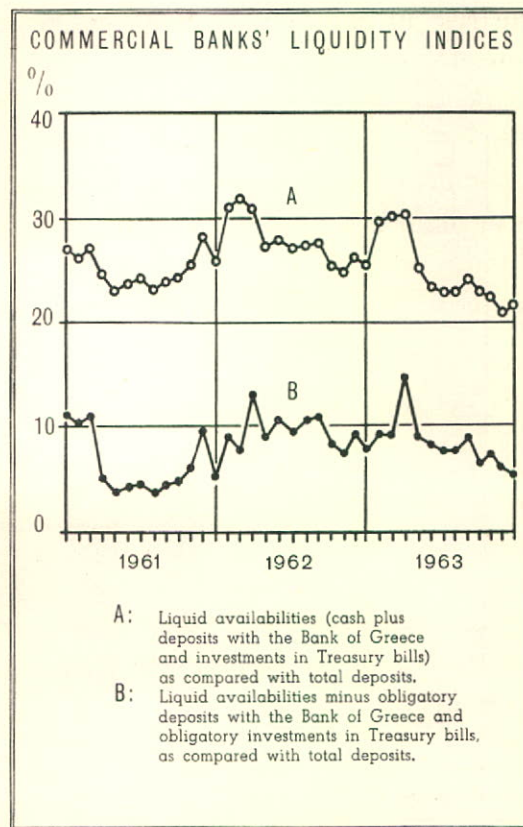
commercial firms, while the remainder represents credit to agriculture and other sectors. Between 1962 and 1963, the average level of loans for working capital increased by drs. 4,323 million or 20.1 percent, i.e., at about twice the rate of increase between 1961 and 1962. Given that the percentage rise in gross national product at current prices between 1962 and 1963 did not exceed half of the percentage rise in financing, it is likely that some of the credit extended last year leaked towards non-productive purposes. This development runs contrary to the efforts to accelerate

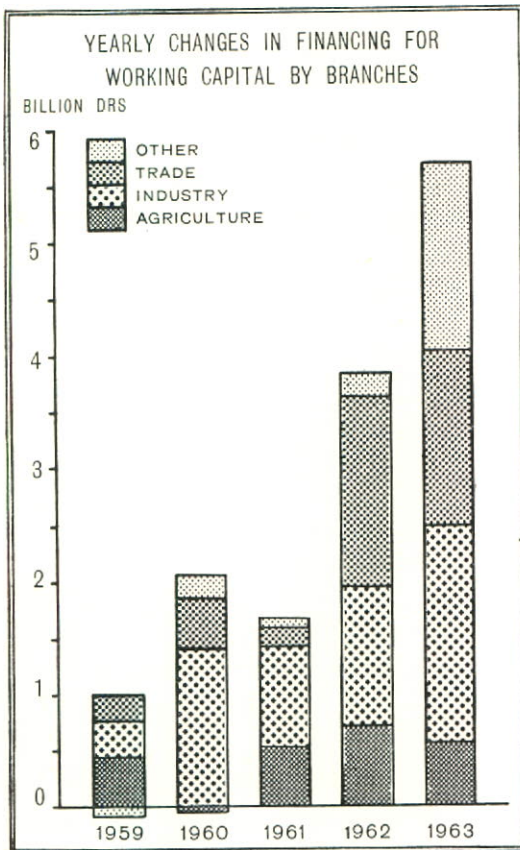
the country's economic growth and to stimulate productive activity in the short run. The commercial banks must consequently exercise a closer control over the use of the loans they extend.

A substantial portion of the increase in short-term financing in 1963 is related to loans directed to all branches of trade, particularly to domestic trade, in which credit expanded by drs. 929 million last year, against drs. 407 million in 1962. The tobacco trade was an exception, as credit expanded by drs. 153 million last year against drs. 1,071 million in 1962. The increase in 1962, however, was exceptionally high, and was caused by a considerable delay in the liquidation of credit which was due in its turn to delays in exports of tobacco.

In the past year, the financing of industry for working capital rose by drs. 1,503 million or 17.2 per cent. Between 1962 and 1963 the average level of short-term industrial loans rose by 17.6 percent, against a corresponding 7.7 percent rise in industrial output. The disparity between the two rates indicates either that bank credit is still leaking through industry to trade and consumption or that loan funds are being substituted for own capital. Both developments

are undesirable for the economy in general and for the firms in question, as the latter assume increased risks and operate under conditions which are unfavourable to business activity and competition. It should be noted that the disparity between the rate of increase in credit extended to trade and manufacturing for working capital and the corresponding growth in output and commercial transactions is seen to be even greater when short-term credit extended by foreign suppliers is taken into account.





This credit rose by some drs. 500 million or 24 percent in 1963. Credit to handicraft firms in 1963 showed a considerable rise of drs. 437 million or 32.5 percent against drs. 120 million or 9.8 percent in 1962.

Short-term credit to agriculture for covering cultivation expenses and carrying out price support operations increased by drs. 569 million or 8.4 percent over the past. Almost the whole of this increase was the result of a rise in cultivation loans by drs. 675 million owing to the expansion of various crops, mainly wheat, tobacco and cotton, and higher cultivation expenses. In contrast, collateral loans to individual farmers and cooperative associations decreased by drs. 94 million in spite of the rise in Agricultural Bank collateral

loans to tobacco growers. This reduction is attributable to the decrease in the loans granted by the Bank of Greece to the Autonomous Currants Organisation and the Cooperative Sultana Associations following the decline in currant and sultana output in the past year.

b. Long-term Credit

At the end of 1963, total outstanding long-term bank credit amounted to drs. 14,023 million representing 31 percent of total credit to the economy, compared with 32.5 and 31.9 percent at the end of 1962 respectively. The outstanding balance of long-term bank credit in 1963 increased by drs. 1,717 million or 14 percent, against drs. 1,396 million or 12.8 percent in 1962. In comparison to the previous year, however, new long-term loans in 1963 were considerably higher, amounting to drs. 3,644 million, i.e., drs. 822 million or 29 percent more than in 1962.

New long-term loans for industrial investment (excluding agricultural industries) in 1963 totalled drs. 1,327 million or 36.4 percent of total

LONG - TERM LOANS

(New loans granted during the year in million drachmae)

A'. BY BRANCH OF ACTIVITY

Branch	1 9 5 9	1 9 6 0	1 9 6 1	1 9 6 2	1 9 6 3
Agriculture.....	903	977	989	734	856
Fishery	44	30	19	15	18
Agricultural industries	130	128	120	66	110
Industry (other)	191	383	383	915	1,327
Mining	32	11	45	52	—
Tourism (hotels)	69	165	210	165	173
Housing	315	367	237	346	500
Works by local authorities	260	422	575	417	443
Other	36	55	76	112	217
TOTAL.....	1,980	2,538	2,654	2,822	3,644

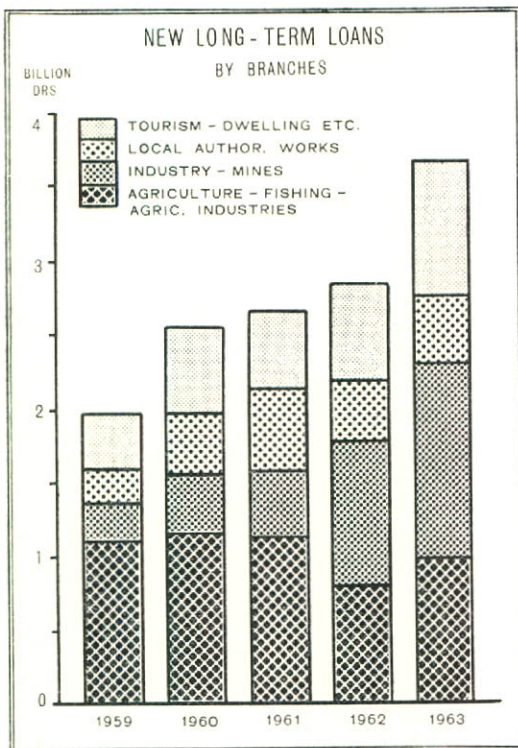
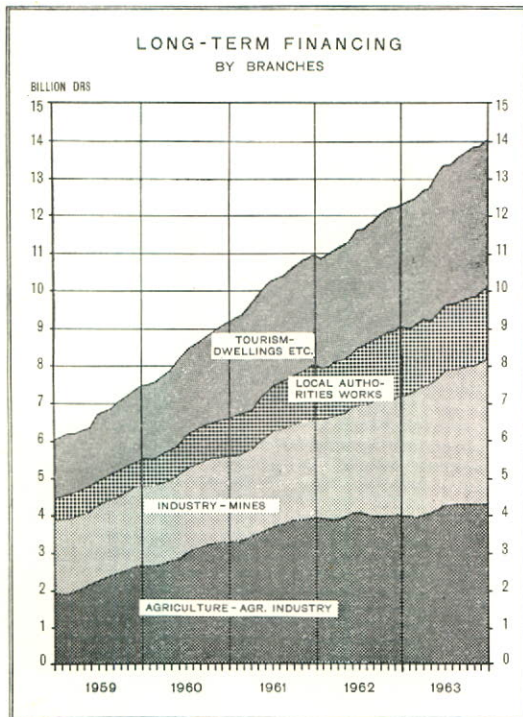
B'. BY SOURCE OF FUNDS

Source	1 9 5 9	1 9 6 0	1 9 6 1	1 9 6 2	1 9 6 3
BANK OF GREECE (1)	549	372	1,099	272	644
a) Through the Agricultural Bank of Greece ...	409	256	1,007	106	279
b) Through the National Mortgage Bank of Greece.	140	116	92	166	365
GOVERNMENT.....	433	201	19	5	2
a) Through the Agricultural Bank of Greece ...	374	140	—	—	—
b) Through the National Mortgage Bank of Greece ..	59	61	19	5	2
CREDIT INSTITUTIONS	998	1,965	1,536	2,545	2,998
a) Economic Development Financing Organisation	150	143	206	470	408
b) Commercial banks	228	830 (2)	496	759	1,178
c) Agricultural Bank of Greece	92	88	98	532 (3)	592 (3)
d) National Mortgage Bank of Greece	16	25	24	65	83
e) Postal Savings Bank	341	619	388	453	459
f) Consignment and Loans Fund.....	171	260	324	266	278
TOTAL.....	1,980	2,538	2,654	2,822	3,644

(1) Redistribution of public entity funds (Law 1611/50) and lending from repayment of loans.

(2) Including drs. 400 million for the medium and long-term loan programme of the Agricultural Bank of Greece

(3) Including drs. 400 million endowment to the Agricultural Bank of Greece from U.S. aid counterpart funds.



new loans, compared with 32.4 percent in 1962. Most of these loans, i.e., some drs. 940 million (against drs. 609 million in 1962), were extended by commercial banks. New industrial loans extended by the Economic Development Financing Organisation in 1963 totalled drs. 236 million compared with drs. 285 million in 1962. The main part of the new industrial loans—chiefly those extended by E.D.F.O.—in 1963 was granted to a small number of large industrial concerns of basic importance to the Greek economy. With regard to E.D.F.O., it should be noted that the number of approved industrial loans that had not been drawn upon at the end of 1963 represented some drs. 870 million against drs. 380 million at the end of 1962. A considerable expansion in E.D.F.O. loans should therefore be expected during the current year.

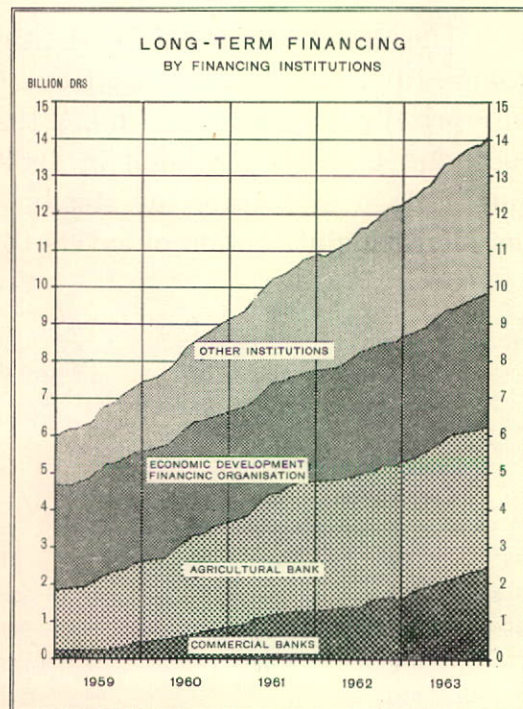
It should be noted that there is still an inadequate demand for long-term industrial credit in general, in spite of an expansion in the past year. Yet, the present level of industrial investment is wholly insufficient to accomplish the modernisation, reorganisation and development necessary to adjust Greek industry to modern conditions and requirements.

New medium and long-term loans to agriculture (farming, fish-

ing, agricultural industries) in 1963 totalled drs. 984 million or 27 percent of total new loans, against drs. 815 million or 28.9 percent in 1962. New medium and long-term loans extended by the Agricultural Bank in 1963 under the programme authorised by the Currency Committee amounted to drs. 964 million against drs. 1,393 million. A considerable portion of these loans was extended at a very low interest rate of 2 percent. Loans in this category can make a substantial contribution to crop structure readjustment and intensification, on two conditions: The productivity of the intended investment must be carefully investigated and, in particular, a control must be exercised over the use of the loans. In recent years, the amount of new loans in this category has fallen short of the respective programmes. It is clear that the further considerable expansion in these loans, necessary to the achievement of their purpose, can only be accomplished if combined with a series of organisational measures aimed at the more efficient implementation of irrigation and land improvement projects now under way and at improving agricultural productivity in general.

New long-term loans for tourist investment and public utility projects by local-government organisations in 1963 amounted to about the same level as in 1962. The latter category does not include credit or subsidies granted under the Government investment programme. Housing loans, on the other hand, showed a substantial increase totalling drs. 500 million compared with drs. 346 million in 1962. The total amount of housing loans last year was contributed in almost equal shares by the three credit institutions specialising in this field, i.e., the National Mortgage Bank, the Postal Savings Bank and the Consignations and Loans Fund.

The disparity observed last year in the rates of increase of the various categories of medium and long-term loans for fixed investment was accompanied by changes in the proportionate contribution by various sources



of financing. Thus, the share of Bank of Greece funds in the total amount of medium and long-term loans rose to 17.6 percent, against 9.6 percent in 1962, owing to the increased loans extended by the Agricultural Bank and the National Mortgage Bank. By contrast, the contribution from credit institution capital dropped to 82.3 percent, compared with 90.2 percent in 1962.

3. Developments in the Capital Market

The amount of capital drawn from the market in 1963 totalled drs. 1,560 million (drs. 1,500 million by Government and drs. 60 million by private enterprise) compared with drs. 2,192 million in 1962, drs. 879 million in 1961 and drs. 1,381 million in 1960. These developments over the past four years demonstrate the steady expansion of the capital market and the increasing attraction of savers towards longer term investment.

NEW SECURITY ISSUES

(Million drachmae)

Year	B O N D S				S H A R E S			Grand Total
	Public Power Corporation	Government	Private enterprises	Total	Banks	Other enterprises	Total	
1957	90	—	—	90	—	4	4	94
1958	490	—	—	490	—	64	64	554
1959	300	—	—	300	—	7	7	307
1960	580	750	—	1,330	—	51	51	1,381
1961	740	—	—	740	52	87	139	879
1962	500	990	110	1,600	542	50	592	2,192
1963	—	1,500	22	1,522	—	38	38	1,560

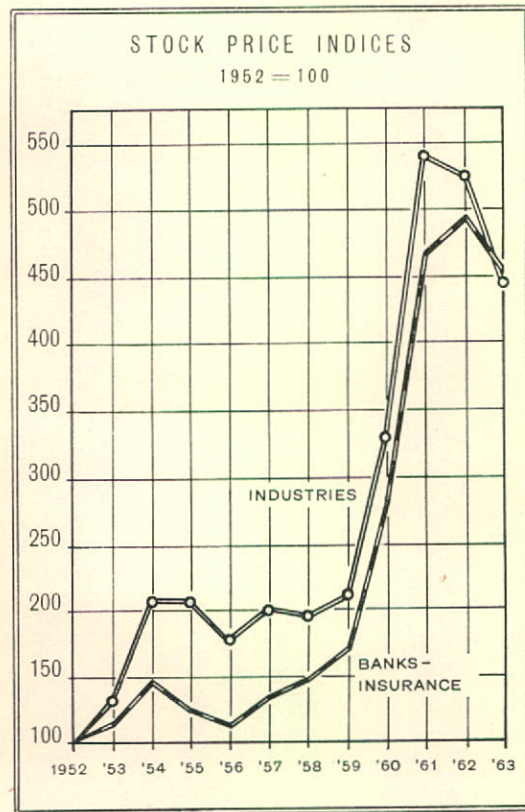
The strongest demand for funds from the capital market was exercised by the Government, followed by the Public Power Corporation, while the demand from private enterprise is still very weak. During the last four years, the Government absorbed drs. 3,240 million, the P.P.C. drs. 1,820 million and private enterprise drs. 952 million. If the latter figure is reduced by the amount covering new share issues by the banks, i. e. drs. 594 million, it will be seen that the capital drawn by other private firms over the past four years represents a mere 6 percent of the total funds drawn from the capital market during this period.

The foregoing discussion confirms that there is sufficient capital in existence to finance sound business projects. The enterprises which have so far resorted to the capital market have satisfied their needs within very short periods and under terms approaching those which prevail in advanced capital markets of Western Europe.

At the beginning of 1962, share prices showed a declining trend which continued last year, except for slight rises over short periods. Thus, the general index for industrials dropped by 16.8 percent in 1963, compared with 11.8 percent in 1962, while the index for bank and insurance company shares declined by 5.5 percent, against 6.4 percent in 1962. Following the strong upward trend of 1960 and 1961, the recent decline has led to a gradual adjustment of share prices at more normal levels and has also improved yields. On the basis of December 1963 prices, the average yields of stocks amounted to 3.86 percent, against 3.36 percent in December 1962 and 2.80 percent in December 1961.

In contrast, the prices of bonds issued by the Government, the P.P.C. and private enterprises remained above par throughout 1963. On the basis of December 1963 prices, Government bonds yielded between 4.20 and 5.50 percent, P.P.C. bonds between 5.98 and 6.93 percent and private bonds between 7.06 and 7.51 percent, compared with 4.83 - 4.91 percent, 6.72 - 7.20 percent and 6.92 - 7.73 percent respectively, in December 1962.

The volume of transactions in securities quoted on the Stock Exchange in 1963 amounted to drs. 610 million, against drs. 700 million in 1962 and drs. 680 million in 1961. The reduction in the value of security transactions by 13 percent between 1962 and 1963 is attributable to transactions on stocks, valued at drs. 148 million last year, compared with drs. 270 million



in 1962. This reduction was due to the drop in share prices combined with the shortage in the supply of stocks. This shortage in supply is a disruptive factor in the normal development of the stock market, as it often leads to inordinately high price levels, a fact which has a restrictive effect on the expansion of the stock market through the attraction of new savers.

VII. CREDIT REFORM

1. Simplification in Credit Rules and Procedures

In October 1963, the Government instituted a number of measures aimed at introducing substantial reforms in the system of bank credit, regarding both the terms on which credit can be extended and the cost of borrowing. These modifications, and those of the old rules which were retained, were included in a single text by Currency Committee ruling 1294/13 Oct. 1963. The measures in question can be classified into three general categories and are aimed at the following three specific objectives in the field of credit policy :

F i r s t : Simplification of credit rules and further substantial liberalisation of credit.

S e c o n d : Reduction in the cost of borrowing from the banks.

T h i r d : Strengthening of the incentives introduced in March 1962 to encourage export-orientation of the most dynamic Greek industrial and handicraft firms.

The simplification of credit rules and the further liberalisation of credit transactions was enacted in conjunction with the transfer of greater responsibility to the commercial banks in assessing the actual requirements of the firms financed and in keeping a check on the sound utilisation of loan funds, within the framework of the over-all objectives of credit policy. At the same time, the chief objectives of credit policy and guiding principles for the operations of commercial banks have been clearly stated. The object is to ensure that credit is extended to satisfy real needs in the productive process or investment activity of the firms financed, while endeavouring to mobilise their own capital to the greatest extent. More specifically, bank credit policy should be adjusted to the general aims of economic development and should contribute to the basic objective of modernising and expanding productive installations, with priority for export-oriented investment.

The following specific measures are a concrete expression of the foregoing general objectives :

1. An «over-all liquidity ratio» has been introduced for the first time in Greece and banks are obliged to adjust their loans and other assets accordingly by the end of the current year. Under the provisions of this measure banks must allot 55 percent of their total deposits to specific categories of loans and other assets representing current needs in the field

of production and transactions, and therefore easily liquidated. This ratio has been adopted with the aim of exercising control over the use of savings accumulated in the banks and channelling them towards safe and desirable investments.

2. The obligation continues whereby banks must allot 15 percent of drachma deposits by private individuals, public entities and public enterprises for medium and long-term loans to finance fixed investment in industry and some other categories of productive enterprises. At the same time, new measures have expanded the possibilities of covering the above percentage by adding further categories of loans relating to investment activity by enterprises. Thus, banks may now invest in new security issues by firms in the above mentioned categories. Long-term credit may be extended to private individuals intending to participate in the share capital of these firms and other related forms of investment may be effected as specified in the ruling. The commercial banks have thus been afforded wider possibilities to play a more active role in the investment activity of the Greek economy.

The major steps taken to liberalise commercial bank operations are as follows :

(a) Quantitative restrictions on credit to industry and handicrafts for working capital have been lifted. Industrial and handicraft firms are now freely financed for this purpose at the discretion of the banks, through the overdraft method and by interest-bearing loans which can be amortised over a maximum period of five years.

(b) The maturity and discount period for commercial bills delivered by industrial concerns has been extended. The banks already discount up to 6-month bills for their total face value and up to maturity, whereas previously the discount period could not exceed 5 months. Similar arrangements have been made for special categories of bills of longer maturity.

(c) The quantitative restrictions imposed on individual banks regarding financing for the import trade has been abolished, as has the restriction that they may only finance half of the value of imports. Banks may now finance 100 percent of import value for items included in the Ministry of Commerce lists of financed goods, with a settlement period of 60 days (against 45 days previously).

(d) Quantitative restrictions on credit to the handicraft sector have been abolished. The rules for handicraft credit are now the same with those for manufacturing. At the same time, the form of financing based on bills

without invoices continues to be available to handicraft firms and the limit per firm has been extended.

(e) The credit ceiling for domestic trade has been raised by drs. 630 million or 33 percent, i.e., by drs. 400 million in October 1963 and by another drs. 230 million from 1st March 1964. A similar increase has been made in credit to tradesmen.

(f) For the first time, private individuals have been permitted to obtain loans repayable in ten years in order to participate in the share capital of new or expanding firms, provided that at least half of their investment is financed by their own funds. This type of financing is considered to be additional to the credit for installations, which may reach 70 percent of the required expenditure and can be extended for a period of 10 years after the start of operations.

As already mentioned, an endeavour has been made to reduce the cost of borrowing from the banks. The main steps in this connection consist in reducing interest rates or commission charged on certain types of loan and in converting part of the commission into interest. More specifically :

(a) Commission on loans to domestic trade has been lowered by one point, thus reducing the total burden for interest and commission on these loans from 12 to 11 percent.

(b) The interest rate for delayed repayment has been lowered by one point and the discount rate on tradesmen's bills unaccompanied by invoices has been reduced by half a point.

(c) One point of the 2 percent commission on industrial loans has been converted into interest. As commission is charged by an indivisible part of each month and interest is calculated for each day, this change has brought about a slight reduction in the total cost of credit to industry.

The reduction in the cost of borrowing from banks has been achieved without influence on bank efficiency, thanks to a considerable expansion in banking operations, which in turn lowers the unit cost of credit. On the other hand, the banks have been allowed to invest part of their compulsory deposits with the Bank of Greece in interest-bearing Treasury bills. This investment may reach up to 3 percent of private deposits with each bank and allows the latter to make up for the loss of income resulting from the reduction in interest and commission charged on loans.

The third objective of the measures instituted in September 1963 was to strengthen existing credit incentives to export activities by industrial and handicraft firms. With this in mind, the system of special low interest

rates on loans to export firms has undergone substantial changes, and there has been a parallel expansion in the number of cases favoured by this system. The main credit incentives introduced in March 1962 for the promotion of exports consisted in the lower interest rates on aggregate short and medium-term industrial and handicraft credit (to a maximum of double the firm's own capital) by 3 to 5 points, subject to the export of a specific part of the firm's total output against free foreign exchange. Since September 1963 the above system has been reformed as follows :

(a) The rate of export performance required on the basis of the initial decision for the application of special low interest rates in 1963 and 1964 has been reduced. Thus, the export performance rates for 1962 were 6 percent for the application of the interest rate on export trade, and 12 percent for the application of a lower by two points interest rate. This initial requirement was extended for 1963 and 1964, when the corresponding performance, on the basis of the initial decision, was 9 and 12 percent (1963) and 15 and 20 percent (1964). The higher rates applying in the years following 1962, were then postponed until two years later than initially stipulated.

(b) The export performance required for reducing interest rates on short-term loans was extended to the category of long-term loans for fixed investment. Very high export performance rates had previously been required for the latter. The new arrangement has resulted in a considerable reduction in the export performance rate required for the application of special low interest rates on loans in this category. Thus, for the application of 4 percent interest it is now sufficient to export 12 percent of output in 1963 and 1964, whereas existing enterprises were formerly required to export 40 percent of their output and newly established enterprises 60 percent. Similar differences obtain for the application of other low interest rates.

(c) When, in any given year, the exports realised by industrial and handicraft firms do not meet the export performance rate required for that year, but exceed the rate stipulated for the previous year, then the firms involved may take advantage of a partial reduction in the interest rate on total credit received.

(d) It has been decided that the interest rate on credit to the export trade shall also be applicable to loans equal to the f.o.b. value of exports realised against free foreign exchange by industrial and handicraft concerns with a lower export performance than that necessary to qualify as export firms.

(e) The procedures for the application of lower interest rates on short and long-term credit have been simplified substantially and have thus become more flexible and accessible to firms.

Following these changes, the terms and cost of borrowing from banks are now not far from those prevailing in Western Europe. It should be noted that the export-promoting credit measures introduced in 1962 have started to yield results although their favourable influence has not been reflected in the development of total export earnings owing to a parallel change in composition. It is a significant fact that between 1961 and 1962, exports realised by industrial concerns which satisfied export performance requirements rose by some 70 percent. Relevant data for 1963 are not yet available.

2. Long-term Credit

In spite of considerably simpler credit rules and the entrusting of most of the responsibility for the extension of credit to commercial banks, there are still substantial margins for a greater simplification of credit rules. Further liberalisation in credit transactions should be combined with an adaption of the attitude of banks to the simplified system of credit rules already in force. At the present phase of Greek economic development, the banks have an important role to play in ensuring the required modernisation and rapid growth of Greek industry. The extent to which deposits accumulated in the banks and the fact that a high percentage are savings deposits necessitate and render possible—within certain limits and according to strict rules—initiatives towards merging and expanding existing firms and establishing new ones. They also allow the banks to take steps to promote every form of fruitful cooperation with foreign firms.

There are now considerable margins for developing commercial bank activities in these directions. Commercial banks are empowered to participate in the share capital of productive enterprises, in addition to their own capital (including all types of reserves) and up to a maximum amount corresponding to 5 percent of their deposits. The full utilisation of these possibilities requires that: (a) the banks should contribute to the widest possible mobilisation of private initiative and capital—domestic and foreign—for joint participation in the share capital of developing or newly established firms and (b) the banks should apply an active portfolio policy by offering securities for sale as soon as they become negotiable. To this end,

it would be advisable to introduce tax exemptions for profits realised by credit institutions from transactions in securities. This could perhaps be done by allowing the creation of tax-free reserves.

Efforts to mobilise the capital market could be stimulated by the cooperation of the commercial banks and investment banks, including the new credit institution which will be established after the merging of the Economic Development Financing Organisation with the Industrial Development Corporation. There are considerable margins for mobilising savings through the capital market, provided that suitable securities are offered for sale. Credit institutions and private enterprises will consequently be increasingly able to draw long-term capital to meet their needs. Moreover, the underwriting of part of new stock or bond issues, or the provision of guarantees that they will be fully subscribed, as is customary abroad, will greatly promote the Greek capital market and prove a decisive stimulant for industrial growth. Credit institutions in this country must take sound and bold initiatives in these directions and thus contribute more actively to the more rapid development of Greek industry.

Two private investment banks were established last year by the National Bank of Greece and the Commercial Bank of Greece respectively. Although most of the capital was contributed by the parent institutions, the participation of foreign banks specialising in long-term credit has also been ensured. Thus, foreign participation in the National Industrial Development Investment Bank amounts to drs. 71.4 million on a total paid-up capital of drs. 180 million.

The Bank of Greece has advocated the establishment of a single large investment bank, with the participation of the major Greek commercial banks and possibly of other Greek credit institutions. Wide participation by foreign banks and international financial institutions in the creation of this bank would be both possible and advisable, although the majority of shares should, of course, remain in Greek hands. An investment bank of this type would enjoy greater independence from the parent organisations and would be able to undertake bolder efforts in the framework of the country's economic development policies and objectives. Following the establishment of the two banks referred to above, it is imperative to ensure their best possible utilisation for the purpose of securing healthier credit conditions and promoting Greek industrial development.

The Currency Committee has determined the limits within which commercial banks may provide capital for investment banks, and particularly

funds intended for longer term loans. The commercial banks have thus been empowered to finance the investment banks out of funds earmarked for fixed investment in manufacturing, on condition that these loans will not exceed one third of these funds and half of the commercial bank's equity. When commercial banks have not invested in new shares the full amount allowed to them out of their total deposits (5 percent), they are similarly permitted to finance investment banks with the balance of this 5 percent quota for the purchase of new shares issued by productive enterprises.

It should be stressed, however, that investment banks will only be able to operate efficiently if they become channels through which foreign capital can be diverted into the country for cooperation with Greek firms or for direct investment in industrial ventures, with priority for export-oriented projects.

A Government decision related to the foregoing discussion provides for the creation of a new large credit institution through the merging of the Economic Development Financing Organisation with the Industrial Development Corporation. The new institution can make a substantial contribution to Greek industrialisation and will have two main tasks. First, to take the initiative in the merging, reorganisation and expansion of existing firms or the establishment of new ones and the widest possible promotion of fruitful cooperation with foreign firms. Second, to extend long-term credit. Whenever the banks or other credit institutions cannot provide credit, either to the required extent or under the necessary special conditions for industrial or other productive projects, the new institution will be in a position to intervene in order to supplement and assist them in their task, without competing with the private banks in the extension of long-term credit. The task of this institution is extremely important, from a number of aspects, to the acceleration of Greek industrial growth and the attraction of entrepreneurial initiative from abroad.

3. The Agricultural Bank and Agricultural Credit

The problem of agricultural credit is directly connected with the question of promoting agricultural development and improving crop yields. At the same time, there are adverse repercussions on the economy from the activities of the Agricultural Bank, which is still dependent largely on Bank of Greece funds. It is a characteristic fact that deposits with the Agricultural Bank before last war amounted to 75 percent of its total loans, while

today the ratio is only 16 percent. If it is to satisfy future requirements in the agricultural sector the Agricultural Bank must direct its efforts towards attracting capital from other sources. This was the aim of the higher interest rate stipulated for savings deposits with this bank as compared with the rate in force for deposits with the commercial banks.

Moreover, it is necessary for a number of reasons to re-examine and revise the methods and procedures involved in extending agricultural loans, as they have ceased to correspond to present - day conditions and requirements. In the case of medium and long-term loans, it is particularly essential to evaluate prospective projects and relate them directly to the specific objectives of the Government's agricultural development programme.

Lastly, if the Agricultural Bank is to carry out its tasks it will be necessary to ensure that farmers fulfil their own obligations regarding loans received. This is an indispensable condition of the bank's ability to satisfy credit needs in the agricultural sector.

In December 1963, the Government took two decisions of basic importance in this context : first, interest rates on loans extended by the Agricultural Bank were substantially reduced and, second, an arrangement was made regarding arrears of agricultural debts. The Bank of Greece has repeatedly stressed the need to ensure more favourable terms for financing agricultural activities, which mostly yield limited returns and are often hit by adverse weather conditions and other natural disasters. Thus, as from 1st January 1964, interest rates on agricultural loans have been lowered as follows :

(a) Cultivation loans, 5 percent (previous rate, 6½ percent).

(b) Collateral loans, 6 percent (previous rate, 7 percent).

(c) Medium and long-term loans, 4 percent (previous rate, 7 percent).

The special 2 percent interest for certain categories of loans has been retained.

(d) The interest rate on delayed repayments has been reduced from 9 to 7 percent, with retroactive operation as from 1st January 1963.

Interest rate discrimination between loans extended to individual farmers and loans to cooperatives has been retained and is calculated on the basis of the new interest rates. The Government, through the budget will cover the loss of Agricultural Bank revenue caused by this reduction in interest. The solution given to this problem must be followed by a more systematic reform of agricultural credit, to secure and control the produ-

ctive utilisation of loans to the agricultural sector. The implementation of this policy necessitates a wider reorganisation of the Agricultural Bank, which will entail a comprehensive readjustment of its operations so as to serve real interests of the Greek agricultural population.

The settlement of agricultural debts in arrears included all outstanding balances of loans owed by private individuals to the Agricultural Bank which fell due on the 31st December 1962. These balances have been exempted from interest on delayed repayments and will be settled in eight annual instalments at 4 percent per annum. It should be mentioned that the Bank of Greece has always advocated the retroactive cancellation of interest on delayed repayments as well as the settlement of debt on an individual basis. The latter view has been put forward in order to enable a detailed, specialised and objective assessment of each debtor's possibilities and reliability and in order not to weaken the sense of responsibility regarding the prompt fulfilment of obligations. Similar considerations dictate the need for a consistent application of the settlement approved by the Government in December 1963 subject to the agreed conditions and time-limits. It is also necessary to ensure the normal liquidation of Agricultural Bank claims, which is an indispensable condition for the proper functioning of the whole credit system and particularly of agricultural credit.

The promotion of agricultural development, the protection of farmers' interests and the substantial and steady improvement of living conditions in the rural areas of Greece require a systematic effort in a number of directions and by several different methods. The main purpose of the Agricultural Bank is to serve these objectives. It should therefore operate on the basis of special criteria and rules which correspond to the nature of agricultural activities and the specific conditions encountered in Greece. Within this framework the Agricultural Bank will be able to fulfil its task whilst retaining its character as a bank.

Ladies and Gentlemen,

During the present phase of Greek and international economic developments, it is more than ever necessary to mobilise our national resources in order to attain a higher rate of economic growth. To this end, it is of prime importance to exploit the valuable store of human energy and ingenuity available in Greece. Education, organisation and the removal of barriers to

creative initiative are high priority aims as they constitute the basis of further progress in every field of endeavour.

We should also seek to accelerate the modernisation of our capital stock so that, through better organisation, it will be possible to obtain a decisive improvement in productivity and an increase in production, thus enabling Greek enterprises to face international competition, which is constantly becoming stronger. It is particularly important to increase both agricultural and industrial export and the latter must eventually become the most dynamic sector of the Greek economy. The orientation of industrial production towards the extremely wide market of the European Economic Community with which our association ensures favourable terms for our products, will remove the disadvantage of the small market and create the framework for the rational technical and economic organisation of Greek industrial units.

Rapid industrialisation is now a social necessity, as it is the main condition for securing high and constantly rising standards of employment and stopping the outflow of human potential to foreign countries. Social and economic considerations also require that the fruits of economic progress be distributed justly among the different sectors of the population and the various regions of Greece. It will only thus be possible to mobilise the entire population towards active participation in the country's development effort.

The national effort aimed at the realisation of these goals should be guided by the following two principles.

First, there should be a clear distinction between economic development policy and social policy. When the latter interferes with the formulation or implementation of the former, it invariably leads to a weakening of both. While fair wages should be guaranteed to workers and farmers should be sure of reasonable prices, it is necessary at the same time to give steady and effective support to the growth-promoting forces of the Greek economy. It will thereby be possible to expand the possibilities for Government to apply a bold social policy aimed at a systematic and lasting improvement in the standard of living of economically weaker population groups.

The second principle concerns monetary stability. The Governors of the Bank of Greece have repeatedly stressed to this Assembly the direct interdependence of monetary equilibrium and economic and social progress. The stability of the currency is not only a basic prerequisite of economic growth, but a necessary condition for a just distribution of national income.

By contrast, monetary instability undermines economic progress, favours economically stronger groups and eliminates any benefits that may have been gained by the poorer sections of the population. In a developing economy, such as that of Greece, monetary stability in no way implies a freeze on wages and on money incomes. It is imperative, however, that money income should rise within the limits of increases in productivity and real national product. Any violation of these limits is bound to lead to a decline in the rate of economic growth which is the sole means of ensuring a continuous and steady rise in real income. It is characteristic that some of the richest countries in Europe have recently adopted austerity programmes in order to maintain monetary stability and safeguard their economic and social progress.

It should therefore be generally recognised that our basic social and economic aims are heavily dependent on the maintenance of the value of the Greek currency. The various social groups should weigh their claims carefully in the knowledge that only within the framework of total available resources can they achieve a real satisfaction of their needs and ensure the progressive improvement of their position. A consistent adherence to these principles will bring success to our national endeavour and accelerate economic development and social progress to the benefit of the entire population both now and in the future.

GENERAL BALANCE SHEET OF THE YEAR 1963

BANK OF GREECE

36TH YEAR

GENERAL BALANCE SHEET

As at December 31, 1963

ASSETS			LIABILITIES		
1962			1962		
8,250,344,019.30	Gold and Foreign Exchange:		168,000,000.—	Paid up Capital.....	Drs. 168,000,000.—
519,367,446.60	I. Bank of Greece Holdings.....	Drs.8,468,831,131.50		Reserves:	
123,180,590.—	II. A.I.D. available funds.....	» 339,003,236.40	46,488,400.—	I. Provision as per Art. 71 of the Statutes.....	Drs. 51,641,200.—
	Coins.....	» 127,895,304.95	168,000,000.—	II. Ordinary.....	» 168,000,000.— » 219,641,200.—
361,669,516.85	Drafts and Bills:		31,691,569.35	Difference from Readjustment (D.L. 14.11.1956).....	» 31,691,569.35
	Commercial Drafts and Bills.....	» 1,079,172,307.—	14,405,556,250.—	Bank Notes in Circulation.....	» 16,630,898,050.—
	Loans and Advances:			Sight Liabilities in Drachmae:	
	I. To the Government:			I. Current and Deposit Accounts	
	a) Ordinary Accounts:			a) Bank of Greece Accounts	
480,324,558.85	1) Greek Government—Con-		2,673,362,293.10	1) Deposits of other Banks...Drs.3,146,776,668.05	
	centration of Receipts		294,210,634.30	2) Import Guarantee Deposits »	349,544,043.60
	and Payments.....Drs. 452,776,464.60		7,667,960,256.65	3) Other Accounts.....»	8,036,759,293.40
4,445,588,767.45	2) Greek Government—Cur-		13,218,240.—	4) Dividends for 1963.....»	13,218,240.—
	rent Acc. for the Finance of			5) International Organisa-	
2,110,059,788.20	Consumer Goods Supplies »	4,143,438,839.25	1,524,822,062.10	tions Deposits.....»	1,538,312,811.10Drs.13,084,611,056.15
	3) Greek Government—Spe-			b) Government Accounts	
	cial Advances Account... »	— Drs.4,596,215,303.85		1) Greek Government concen-	
	b) Special Accounts:			tration of Receipts and	
	1) Greek Government—Ad-			Payments.....»	—
—	vance Payments against			2) Government Services....»	1,213,540,313.95
	A.I.D. aid funds in drach. »	749,601,173.75	1,290,433,366.50	3) Greek Government A.I.D.	
1,609,641.—	2) Greek Government—Ac-		134,952,962.70	Drachmae Account.....»	37,129,878.55
	count for Payments of			4) Greek Government Sup-	
	Goods shipped by A.I.D. »	33,997,241.40 » 783,598,415.15		plementing of Agricul-	
	c) Greek Treasury Interest			tural Bank (of Greece)	
	bearing Bills.....»	10,000,000.—		funds with American Aid	
	d) Credits on the basis of special			funds for the promotion	
	agreements:			of Agricultural Economy »	1,026,800,000.—
1,530,040,000.—	1) Participation in Internatio-			5) Greek Government In-	
	nal Organisations,Drachmae »	1,530,040,000.—		vestment Account.....»	461,480,772.95 » 2,738,950,965.45
444,132,886.10	2) Participation in Internati-			II. Sight Drafts and Bills.....»	26,211,131.70 » 15,849,773,153.30
	onal Organisations, Gold..»	444,132,886.10		Foreign Exchange Sight Liabilities:	
	3) Agreement of 23rd Oct.1963 »	2,200,000,000.— » 4,174,172,886.10		I. Bank of Greece Accounts.....»	145,098,562.50
8,223,803,061.60	II. Other Loans and Advances.....»	8,903,140,287.20		II. A.I.D. Accounts:	
12,066,979.80	III. Other Loans and Advances in Foreign Exchange »	12,057,454.50 » 18,479,184,346.80		A.I.D. authorized Purchases Account.....»	444,509,178.90
3,025,436,418.65	Deposits at interest with Banks of available funds of legal Entities			Other Liabilities.....»	1,709,197,206.65
165,448,666.25	(Law 1611/1950).....»	3,257,600,851.70			
	Investments.....»	124,168,609.15			
	Fixed Assets and Installations of the Bank				
	Value of Land property.....Drs. 151,166,548.75				
	Value of Buildings and InstallationsDrs.427,621,817.20				
	Less Depreciation:				
317,397,841.80	Past fiscal years Drs.234,047,034.25				
	Current fiscal year. » 13,894,040.45 »	247,941,074.70 » 179,680,542.50 » 330,847,091.25			
	Value of Bank note printing materials.....»	42,601,533.10			
27,493,431.50	Less depreciation.....»	16,711,912.25 » 25,889,620.85			
3,003,377,405.85	Other Assets.....»	2,966,216,421.10			
33,041,341,019.80		35,198,808,920.70			
			33,041,341,019.80		Drs. 35,198,808,920.70

DEBIT		PROFIT AND LOSS ACCOUNT		CREDIT	
1962		1962			
282,785,589.80	Expenses:	599,189,534.20	Interest, commissions and other earnings.....	Drs. 637,596,590.90	
28,286,878.50	Wages and salaries, other costs.....Drs. 290,271,641.—				
	Compensations(Law 2510 /1953 etc.)Drs.27,811,246.50				
	Pensions and Dividends to Person-				
20,182,092.—	nel voluntarily retired in 1959 /				
	1960 and 1963.....» 21,827,490.50				
	Compensations to Personnel volunta-				
	rily retired in 1963.....» 6,075,023.— » 55,713,760.—				
59,917,601.20	Other Administrative Expenses.....»	64,601,910.65Drs. 410,587,311.65			
	Contribution to Staff Funds:				
28,955,375.—	Pension Fund.....Drs. 29,275,457.—				
12,570,408.90	Staff Association Share Fund.....»	13,445,025.80			
8,931,412.50	Self Insurance Fund.....»	10,236,322.—			
8,856,837.85	Mutual Assistance Fund of Staff Association.....»	9,556,274.95			
		Drs. 62,513,079.75			
5,781,350.—	Contribution to welfare of staff members' children..»	5,862,386.85			
1,890,000.—	Contribution to T.B. seriously ill personnel etc.....»	1,890,000.— » 70,265,466.60			
	Contribution to Distributory Account (Law 3868 /58) and				
7,389,331.75	Unemployment Branch.....»	6,680,465.—			
10,000,000.—	Contribution in Favour of Pension Fund of the Staff of Ex National				
	Bank of Greece.....»	10,000,000.—			
	Depreciation and Provisions:				
13,008,141.45	Value of Bank note printing materials.....Drs. 16,711,912.25				
	Fixed Assets and Installations of the Bank				
11,732,710.65	Value of fixed Assets.....Drs. 11,316,817.95				
2,485,510.—	Value of Installation expenses..»	2,577,222.50 » 13,894,040.45			
5,000,000.—	Provision for various purposes.....»	6,000,000.—			
400,000.—	Reserve against risk of currency dispatches.....»	400,000.— » 37,005,952.70			
	Net Profit:				
91,016,294.60	Net Profit for 1963.....»	103,057,394.95			
599,189,534.20		» 637,596,590.90			
			599,189,534.20		Drs. 637,596,590.90

DISTRIBUTION OF NET PROFIT OF DRACHMAE 103,057,394.95

(Article 71 of the Statutes)

1962			
4,551,000.—	Provision as per Art. 71 of the Statutes.....	Drs. 5,152,800.—	
	Dividends (80,000 shares at Drs. 84 per share less		
6,609,120.—	stamp duty).....Drs. 6,609,120.—		
110,880.—	Stamp duty on dividends.....»	110,880.— » 6,720,000.—	
	Extra dividends at Drs. 84 per share less stamp		
6,609,120.—	duty.....Drs. 6,609,120.—		
110,880.—	Stamp duty on extra dividends.....»	110,880.— » 6,720,000.—	
73,025,294.60	State share.....»	84,464,594.95	
91,016,294.60		Drs. 103,057,394.95	

Athens February 26, 1964

XENOPHON ZOLOTAS
GOVERNOR

ALEX. RIMAKIS
MANAGER ACCOUNTANCY DEPARTMENT

