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NATIONAL BANK OF GREECE

REPORT

FOR THE YEAR 1949

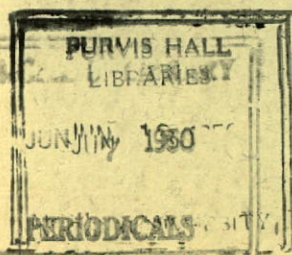
OF THE GOVERNOR OF THE NATIONAL BANK OF GREECE

GEORGE J. PESMAZOGLU

AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

ON MARCH 18TH, 1950

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BALANCE SHEET

AS ON DECEMBER 31ST, 1949

REPORT OF THE GOVERNOR

GENTLEMEN,

The Board of your Bank appearing before you today, in order to present an account of what has been achieved in the past year, 1949, think it their foremost duty to pay tribute to the gallant men who fell in the victorious fight for the independence, integrity, and freedom of our country. Their glory will shine for ever. And ever-lasting will be the gratitude future generations will bear them. I believe I am expressing the unanimous feeling of this Assembly by asking you to keep one minute's silence in their memory.

The newly-dug graves of our heroic dead, the endless procession of the orphans, the disabled and the homeless, and the miles of devastated country, mark the end of a critical period in the history of our Nation.

But it is precisely the heavy sacrifices of the last decade that now make it possible for our country to enter upon a period of peace, of free political life and creative effort once again.

The current year should bring justification for the immense sacrifices made. Each one of us, from the political leader down to the last citizen, is called upon to give of his utmost to make these sacrifices worth while. The necessary prerequisites already exist: there is, first, the indefatigable industriousness of our race; then, the valuable moral and material support extended to us by the free nations of the world; but above all the generous and unreserved assistance of the great American Nation.

In order, therefore, to tackle successfully those problems which exercise a restraining influence on the progress of Greek economy, we need sound central economic guidance, sensible administration of foreign financial assistance, and unity of action. The problems to be dealt with are mainly related to the unfavourable conditions of Greek public finances, and to the poverty of large sections of the population; these have resulted in an acute economic, monetary and social instability.

After the brilliant victory which Greece has won for the entire civilised world, we feel certain that the economic leaders of this country will work to produce an atmosphere of effective concentration on a supreme and constructive national effort. This effort is the exclusive guarantee for the creation of the conditions and possibilities which will bring the country face to face with a great opportunity, i. e. for Greek economy to take its allotted place in the orbit of the international economic community. For now more than ever, this will open wide fields to private initiative; and this in its turn is the sole guarantee for the ultimate survival of the Greek nation.

With the vivifying spirit of American Aid and under the constructive guidance of the great American Democracy, an effort is being made to mould the free nations of the world into a mutually completeive community, which will make people free from want and fear. Greece should spare no effort to enter this new pattern of international co-operation and exchanges. On the contrary, even if more sacrifices and further effort is asked of her, Greece should seek, for the sake of the principles professed, to develop and to vindicate the position which by right belongs to her for the services and sacrifices she offered in the common struggle for civilisation.

Before we submit to you the Bank's balance sheet for the year 1949 - according to the Statutes - we shall proceed to review the development of Greek national economy in 1949 and the part played by our Institution. Before doing this, however, we deem it necessary, Gentlemen, to throw a quick glance on the international situation, and especially on the developments in the European economic situation in 1949; because now more than ever before Greece's economy and the effort being made to restore it, is linked with general world economic conditions, and with those of Europe most particularly.

A. - *Development of international economy.*

1) Devaluation of the pound sterling.

There is no doubt that the most sensational economic event during the year under review has been the revaluation of the British currency. On September 18, 1949, following the Anglo-American economic talks held in Washington, and after much hesitation, the British Government abandoned

the official parity between the pound sterling and dollar in force up to that day. Thus, the pound rate was reduced from \$ 4.03 to \$ 2.80 per sterling, or to a level which was slightly lower than the actual parity on that day, which varied around \$ 3 per sterling.

This devaluation gave the signal for the devaluation of most other currencies. Thus, nearly all the currencies of Western Europe, South America and the countries of the British Commonwealth were devalued in relation to the dollar by about 30.5 %, this being the percentage by which the sterling was devalued in relation to the U. S. dollar.

In spite of the confusion it caused, it is believed that the decision of Great Britain to revalue her national currency helped to create conditions more suitable to the constructive development of world trade relations – as for instance a slackening in the shortage of dollars. In Western Europe at least, the dollar shortage was also due to a considerable extent to the fact that the official parity of European currencies in relation to the dollar was too high before this devaluation. This high ratio between currencies was an additional obstacle in the way of exports to the dollar area and in the acquisition of more dollars by means of the other resources of European countries.

2) Gravity of the dollar crisis.

It is a fact that foreign trade and the dollar problem have been the critical points in European economy, in spite of the development of the productive potential which resulted from the reconstruction work achieved in the various countries receiving Marshall Aid. They were most seriously manifest in British economy. Through this chronic dollar shortage and the non-convertibility of European national currencies – the result of two destructive world wars – Europe's dependence on supplies from North America has become more obvious than at any other time. It was the war period, in fact, which obliged North America to become practically self-sufficient from the agricultural and industrial point of view, and also to increase her productivity, so that she would require practically no supplies from any other country.

The deficit towards the rest of the world, in the general balance of payments of that part of Europe which participates in the Marshall Plan, is truly indicative of this dependence. This deficit still amounts to the enormous sum of over four milliards of dollars, and is entirely due to the passivity of business transactions with the dollar area, and especially with the United States.

The influence of the dollar crisis was particularly manifest on British economy by the rate at which the gold and dollar reserves of Great Britain and the other countries of the sterling area began to run out as from the 2nd quarter of 1949. By June 30, 1949 these reserves had dropped to £ 406 mill. from £ 457 mill. as on December 31, 1948 and continued to decline until September 18, 1949, the day on which the devaluation of the pound sterling was officially announced; on that day they reached the low figure of £ 330 million. Since then this trend has been reversed, and during the 4th quarter 1949 the gold and dollar reserves of the sterling area increased by £ 94 million (at the new sterling-dollar parity).

Agricultural production in England and in many European countries has nearly reached its pre-war level (95-100% according to countries), while industrial production has exceeded that level (118% during the first half-year, according to the ECA report). Should the balance of foreign payments continue to show deficits in these countries, it will constitute the weak point of European economy from now on.

It appears the participating countries have failed to make good use of the results obtained so far, although each of them has succeeded in solving her own internal problems to some extent. Restrictions and barriers in the way of international transactions, the result mainly of the existing differences in production costs between the various countries, are naturally an impediment to international business transactions and also to the widening of the field of international economy. The definite stability of the economies of the various countries, the raising of their standard of living, the development of their industrial and agricultural production on the basis of their respective natural resources, and mass production (mainly industrial), are only possible within the framework of such an international economy. A more effective exploitation of all the resources of Western Europe, jointly if necessary, has been rightly recognized as the best means, under present conditions, of overcoming the considerable technical disproportion in terms of production as now exists between the United States and the rest of the world. The extent and intensity of this disproportion becomes obvious, when we remember that, according to the last ECA report, money invested in Europe in 1948 amounted to \$ 12 per capita, as compared with \$ 65 per capita in the United States.

Under these pre-conditions, the Marshall Plan has endeavoured, from the first phase of its application, to create little by little a situation favouring the close co-operation of European countries. Such co-operation would lead

to free international communication – both economic and commercial – under the most stable economic and monetary conditions possible in current times.

3) Anatomy of the dollar crisis.

As proved by the development of post-war conditions, it is not so easy to join together those parts of the world which are not under Russian tutelage, into one large whole. Economic and commercial co-operation between them is also not an easy matter.

During the second half of the 19th century, a state of international relations was created under British inspiration. Commodities could circulate freely in the world and currencies could be exchanged without restrictions. A return to a similar state of things is not an easy goal. If such a system was successful in the 19th century, it was because Great Britain, being the world's economic leader of the time, offered a very considerable contribution to it. This contribution was that she sacrificed practically the whole of her agriculture. It was only in this manner that the British production machine, which was considerable, could go on turning round, exporting her industrial products and other services to the rest of the world, without disturbing the balance of payments of the countries with whom she traded. It was kept going by Great Britain absorbing a very large part of their agricultural production.

4) The United States seeks to remedy the dollar crisis.

The United States, which is almost self-sufficient from an industrial and agricultural point of view, is now seeking to maintain economic order in the world through a contribution of corresponding size, but of a different nature. This contribution takes the form of free disposal of the surplus of that country's national wealth in favour of Europe. The United States seeks to obtain a remedy for the European shortage of dollars by solving problems with American Aid, by increasing productivity and by restoring economic stability to each country – not only separately, but by developing simultaneously the economies of other countries. This she does mainly by promoting economic transactions between them.

The initiative undertaken by the United States necessarily makes other countries develop their economy in the same spirit – if they wish to enjoy the advantages of this new evolution. Huge amounts of American money

are spent in helping the transition from economic disunion to European economic unity, and thereby to world economic co-operation.

5) The first phase of the Marshall Plan.

The first year of application of the Marshall Plan offered the necessary relief, as well as the means for recovery. American Aid partly took the form of Inter-European assistance, which is based on bilateral agreements and on the well-known system of drawing rights. This application of the Marshall Plan proved two things: first, that each of the participating European countries tried to draw up a national plan of its own with which to remedy its deficit and secure economic self-sufficiency by the time-limit set at 1952; secondly, that the bilateral agreements ended in a form of planned trade which has the danger of perpetuating the inequality of prices fixed in countries between which there is no competition.

6) New forms of co-operation.

Thanks to American Aid and initiative, greater economic efforts have been undertaken, which are intended to clear up the consequences of this first period and also to restore more freedom in trade and to ensure a greater degree of convertibility of national currencies. These efforts have led first, to a system of payments and compensations which was introduced under the agreement of October 16, 1948. This agreement states that payments resulting from commercial transactions between participating countries will be covered through compensation, and in fact through a system of multilateral compensations. The Bank for International Settlements at Basle was found to be best suited for the application of this agreement. Secondly, under the O.E.E.C. agreements of November 2, 1949, existing quantitative restrictions on imports were partly abolished (by 50%). The application of this measure has been connected with the readjustment of foreign exchange parities already mentioned, and also with the very difficult problem of convertibility of national currencies, at ratios as stable as possible. Very acute differences of opinion arose between Great Britain and Belgium over this latter problem. In order to facilitate a settlement of this issue, an idea was put forth: to set up a European Monetary Fund, to be financed with percentages from Marshall Aid and with contributions from the main European creditor countries, especially Belgium. The building up of a reserve fund of \$ 150

million, which was formed by contributions from countries participating in American Aid for the current year, is connected with this idea. This reserve fund is intended to make up the deficits which are expected to result from the application of the system of partial liberation of imports.

7) Liberty of imports.

The decision to restore partial liberty of imports between European countries (taken in accordance with the Annecy Tariff resolutions) is one of the basic ideas for removing obstacles which are in the way of European trade, and for bringing the countries of Europe together in the economic field. The question of free imports, which was raised on July 4, 1949, has made rapid progress. Within the limits agreed upon at O.E.E.C. on November 2, 1949, the countries of Europe have undertaken to submit lists of their products, which would be free thereafter of any restriction for import or export. The products thus liberated represent 50% of the trade between European countries.

It is hoped that the restoration of liberty in the movement of intra-European trade, along with the readjustment of foreign exchange rates of European countries, will help prices for commodities and production to be formed on the basis of the unrestricted operation of the law of supply and demand. Owing to the competition which will necessarily develop between exporting countries, and to the differentiation and the increase of productive efforts, there is no doubt that this liberty will bring about a revival of trade and a drop in prices. Furthermore, freedom in trade will help the economies of European countries to complement each other in more normal economic surroundings. This freedom will also help to make the present dearth of dollars less acute. Such an objective is doubtless the ideal to which all European countries should strive. And in this direction too all measures concerning production, currency, trade etc., should strive in future in a systematic and co-ordinated manner. In this way the rebuilding of European economy will be achieved on common lines throughout the whole Continent.

B. - The attempt to set up Greek economy within the international framework.

1) Partial liberation of imports.

Greece was the first country to comply with the decision reached on

the partial liberation of intra-European trade, and she has already put this measure into application, as a first step towards placing herself within the framework of international economy. Free importation of goods into Greece applies to imports from European countries, the estimated value of which for 1949-1950 is about \$ 69.6 million, on a total of \$ 319.8 million, according to the Import Programme, i. e. \$ 19 mill. for foodstuffs, \$ 26.5 mill. for raw materials and \$ 24.1 mill. for industrial products.

The eagerness shown by Greece to accept the free importation of European products before any other country, and this in spite of the disorder wrought on her economy by the war and the Communist bands, gives the measure of her desire for an unrestricted restoration of intra-European trade.

It is well-known that the decline of the European market, due to the war, has made the problem of the revival of Greek economic activity still more acute. The European market used to cover the greater part of Greek foreign trade before the war. Both by nature and on account of her particular position, Greece belongs to Europe as regards trade. Consequently, a greater development of European trade transactions, a closer economic co-operation on more stable economic foundations and on the basis of each country's natural possibilities, would increase the prerequisites for the normal agricultural and industrial development of the country. It would facilitate Greece's entry into the new community that is now taking shape, and assure to her economy contact with the circulation of international liquid funds.

2) Difficulties encountered by the effort to liberate imports.

Under present conditions (which are the result of ten whole years of war and devastation) the introduction of freedom in imports is not without risks for the country's branches of production; further it relies absolutely on the country's ability to pay in foreign exchange. It should not be forgotten that in the midst of problems relating to taxes, credits, currency and others—problems which have long ceased to exist for other countries—Greece's productive machine is still in the initial stage of its readjustment effort.

For the above reasons, it would shake the present unstable economic balance of this country (a balance only kept artificially by American Aid) to jump from a regime of high tariff protection, which the present economic situation necessitates, to a state of international competition, before basic international and internal conditions change. At present the country's branches

of production also contribute substantially to the maintenance of this balance. They make the shortage of commodities offered less acute, they help to maintain the standard of living and they act as a controlling factor on the irregularity of the currency; they help to mitigate the need for imports and to stimulate the country's present poor foreign exchange resources, which are built up from the country's own forces. Therefore, a premature shaking of these branches of production might cause a very considerable deficit in meeting the country's requirements, and a dangerous crack in her economy as a whole.

3) The pre-conditions: a) a long-term programme; b) an economic policy.

The application of this measure must therefore depend on two things: the restoration of the former productive activity and the creation of a more normal analogy in production and consumption conditions between Greece and the Western European countries. This measure is and should be a clear warning to Greek branches of production and especially to certain industries which now operate under high costs and low output. It also requires that the present grave shortage of Greece's foreign exchange resources be made less acute. This shortage is temporarily met by American Aid.

If the Western European countries, in their effort to develop intra-European trade, were willing to help Greek products return to the position they held in the European market before the war, foreign exchange conditions could be improved in Greece. These countries would thus help Greece to earn an additional income in foreign exchange, by restoring partial freedom of imports. It is regrettable, however, that the concessions, which Greece has made for the free import of European commodities, do not appear to have been met up to now by corresponding concessions, as they should have been according to the principle of mutual European aid.

This is also proved by the application of the system of indirect aid, which has had results for Greece which were not what one would have expected from its general aims. For, in spite of the endeavours made by this country during the negotiations of trade agreements, commercial transactions with the creditor countries have developed so little that the drawing rights were not used, as it had been foreseen, to cover the Greek trade deficit with these countries, but merely as amounts to be spent. The failure of indirect aid to promote the disposal of Greek products in European

markets and its use instead as a direct «consumption» aid must be mainly ascribed to unwillingness to collaborate on the part of the creditor countries.

It should be admitted, however, that the problem of increasing the country's resources is more closely related to the underdeveloped state of Greek economy, and to Greece's ability to take advantage of the new conditions and make easier the placing of her products on the European markets; in other words, to Greece's ability to adjust her production costs to the international level. The high cost of production in this country is now considered to be the basic obstacle to her entering the world economic community, an object which, as already stated, must be attained in order to ensure Greece's economic future.

The general factors which determine this entry are two. One is the *long-term* factor that refers to the elements which aim at reducing production costs by means of organic and structural measures through the work of reconstruction, which is mainly based on the generous American Aid. The other is the *short-term* factor which is connected with the application of a sound and systematic economic policy. Such a policy should be directed to the creation of the following conditions: a normal foreign exchange order, a steady monetary situation which during the year under review has only been obtained on the surface, an effective and consistent credit policy, favourable production conditions and an efficacious system of direct and indirect controls which will aim at reducing the disproportion between supply and demand. This short-term factor is equally, if not more, essential than that of the long-term work of reconstruction. The reason for this is that a rational organisation and operation of the country's economic mechanism is not only the best foundation for the work of reconstruction, as it attains the object aimed at by this reconstruction, but it succeeds also by short-term methods to reach much the same object: the reduction in the cost of production, the development of foreign trade and a rise in the standard of living.

C.-The economic policy applied in 1949.

1) General characteristics.

Unless organic measures are taken, we cannot expect Greece to effect her entry into the European economic community. Greece's weakness is merely a magnified repetition of her pre-war problems. It is very serious.

Without fundamental changes in her economy, she cannot possibly regain a semblance of lasting balance or the strength to compete in the international field, where economic antagonism is on the increase. As stated at the end of this report, the long-term programmes drawn up deal with the structural solution of the country's economic problem, which is expected to be reached by 1952. Although it seemed possible, owing to the particular conditions prevailing in Greece, that these programmes might not fulfil the expectations which had been founded upon them, it is nevertheless a fact that the reconstruction problem has become the object of systematic study and is being met by long-term plans. And this fact is satisfactory in itself. The more so, as it may be confidently hoped that in future these plans will be revised and drawn up in a more practical way. And we must bear in mind that the whole economic future of our Nation depends on these plans.

Whilst the long-term problem of rebuilding Greek economy and effecting radical changes has been the object of systematic enquiry and research, it appears that during the year under review, as will be explained further on, an equally systematic effort to co-ordinate the short-term economic policy has not been made. This policy would facilitate the application of the reconstruction programme and of American Aid to Greece.

On account of bandit activities and the ensuing disorder and piling up of war damage general conditions in the country shaped themselves in an unfavourable and unexpected manner throughout the greater part of 1949. Under these conditions economic action based on a well-defined programme to be applied to the letter became very difficult. It was a herculean effort for Greece, in spite of the adverse factors attaining to her hard struggle for freedom, to make the advance she has done towards a more normal functioning of her economic and, in particular, of her productive mechanism. This has been achieved thanks to the strong will of the Greek nation to work hard and to maintain freedom.

There are, however, many elements of our own force which, if made active, would enable us to mobilize the potential of the country's economy and regain basic stability through the application of the Plan. These elements would enable us, more generally, to further improve the country's economic mechanism, on which the work of reconstruction will also be based. Because long-term plans, without strong and practical foundations, are more of a charge on the country's economy than a benefit to it.

A careful analysis of the way in which Greece's economic mechanism

has operated this year discloses that the country's economic potential has not been used as it could have been. Research on the use of this potential was mostly based on exclusive monetary or fiscal criteria owing to the lack of a comprehensive and carefully drawn-up general programme, to cover all the aspects of Greece's economic problem. A programme, for example, which would relate to production, and aim at making better use of the country's existing productive forces and at making the most of her output. No such programme can be said to have existed. The Greek credit policy was not applied in a consistent manner. Greater liberty was used at first, and results on the country's economy from the application of this policy were then very favourable. Afterwards, and as the country's economy was still under development, the credit policy was subjected to relentless restrictions, which greatly handicapped the production and circulation of goods. As will be explained below, this was done for reasons of public finance. On the other hand, owing to a lack of rhythm in imports and of order in the fixing of costs, the Greek import policy did not meet the country's requirements regularly and multiplied the unfavourable effects on prices. Finally, no policy of controls, either direct or indirect – including a general ration-book for distributions – has been applied. Such a policy would have produced order in the «consumer» market and it would have prevented profiteering and have brought about uniformity in the formation of incomes. The absence of a suitable policy which would promote the reconstruction work is confirmed by the fact that, according to data officially released and which will be dealt with in greater detail in another chapter of this report, only 20% of the Aid funds in dollars and 59% of those in drachmae, which were provided for for reconstruction, were spent for this purpose during the calendar years 1948 and 1949. Consequently, the fact that suitable economic conditions (and in this instance mainly conditions of public finance) have not yet been established, does not only undermine reconstruction work in drachmae, but, to a much larger extent, makes it impossible to utilize the available dollar funds for the purchase of reconstruction material, which would help create the economic equipment necessary for increasing the potential of the Greek nation.

It must, therefore, be admitted that the fundamental preconditions for leading the country towards a more normal economic life were only incompletely attained. And not only has the handling of the country's economic problems been inefficient, but there has also been a tendency on the part of the Government to ignore provisions decreed by it. This should make it

easier to understand the reasons for the present depression, which imposes such an intolerable burden on production costs and reduces the individual's productivity—the very thing we seek to increase. We are also led to understand better the causes for the intense mistrust which keeps even the small amounts of Greek capital away from the country—a particularly characteristic sign of this period. In combination with the prevailing uncertainty, this mistrust makes the crisis greater and its consequences deeper and more permanent.

The fact that, in spite of all this, a relative monetary stability and, more generally, a relative balance in our economy was attained in 1949 must be attributed to the combined working of three factors: the indomitable productive effort of the Greek people, the considerable drop in international prices and, more particularly, the utilisation of American Aid for consumption purposes mostly and for public finances.

The whole economic, monetary and financial situation, which is a result of the application of this policy, does not however show signs of a steady and favourable development—in spite of the use made of American Aid, of the successful productive effort of the Greek people, of the very heavy taxes on the population and of the lowering of the people's standard of living.

The conflict between inflationary factors does not appear to be taking a favourable turn for our country, as the internal value of the currency, maintained by artificial means, has again shown tendencies to depreciate since January last. This is happening at the expense of the standard of living of the larger classes of the population and of the reconstruction effort.

2) Foreign exchange policy.

The first systematic effort for rationally connecting this country's economy again with the rest of Europe was made on September 21, 1949, when the foreign exchange value of the drachma was readjusted according to the plan worked out by Mr Al. Diomedes. Set against the lack of a pre-arranged short-term official programme for Greek economy, there was a clear line which Mr. Diomedes had drawn long before. Mr. Diomedes based his programme on the short-term possibility of increasing the country's own resources by the creation of a somewhat more natural balance between her external and internal economy. To this effect, Mr. Diomedes sought to influence the basic factors of Greece's economy through a suitable handling: 1) of the rates

of foreign exchange, and 2) of the country's credit machine. That is to say, through measures which he considered to be within the immediate sphere of government influence. Through this monetary readjustment, he sought to obtain a speedy self-produced revival of Greece's sources of foreign exchange. Through the regulation of credit, he aimed at broadening the country's productive basis, at facilitating transactions and finally, on short term, at reducing production costs.

One of the principal obstacles to a positive handling of the Greek problem during the year 1949 and until the readjustment, was the artificial treatment of foreign exchange. Until foreign exchange rates were readjusted, the Greek exchange policy during the year under review was basically determined by the operation of the system of foreign exchange certificates and by the application of an import programme. Foreign exchange certificates were mainly intended to subsidize exports, while the regulation of imports aimed at satisfying, in line with a programme, the country's extensive requirements through the limited resources at its disposal.

The keeping of the rates of foreign exchange at a low level, which had no connection whatever with the purchasing power parity, was due to the aims of internal monetary stability. In the absence of an effective control on prices, of a system of distributions through ration cards and of a reasonable policy on taxes and credit, the handling of the official foreign exchange rates was the most handy mechanism under Government control to prevent sharp fluctuations in the prices of commodities and services, and thus secure a firm standard of living. To attain these aims, the above policy was mainly based on American Aid as the most effective factor. This Aid bridged the gap between the country's own available resources and the requirements of the larger classes of the Greek people. It thus staved off the danger of the country entering a circle of nightmare tribulations.

An objective review of the results of the foreign exchange policy applied leads to the conclusion that this policy did not succeed in the purpose it aimed at. Neither the system of foreign exchange certificates, introduced on October 14, 1947, succeeded in promoting exports, nor the artificial foreign exchange parity in keeping prices down. As already stated, this was due to causes related to the economic policy followed: the policy on imports, which did not succeed in regularly providing the country with supplies; the policy on production for increasing the supply of commodities from the country's own sources; the policy of controls, which has failed in reducing

charges on commodity prices due to profiteering, etc. Thus, the cost of living was being decided on the basis of foreign exchange rates in the free market, and often at even higher rates. Moreover, and as we have explained in detail in a special essay on the subject of currency, the differentiation between the official and the free foreign exchange rates caused by the policy followed has been harmful in many respects. Among the more evident consequences of this differentiation were the two facts that the country was deprived of foreign exchange deriving from its invisible exports and that difficulties were put in the way of its visible exports.

Greek economy could not continue to exist and operate on such precarious foundations. A first step to do away with the inflexibilities which have brought the country's economy to a deadlock, would be to bring the official external value of the drachma down on a level with its real exchange value. At the same time, an effort should have been made to keep the general level of prices firm.

The international conditions created on September 18, when the pound sterling was devalued, and the fact that most of the other currencies closely followed this devaluation, helped to reach the objectives of the Diomedes plan.

The change in the drachma rate was not intended to merely follow the devaluation of the pound sterling. If this had been so, the ratio between the drachma and the pound would have been left the same, i. e. 32,000 drs. to the pound, while the dollar rate would have been raised from 10,000 to 12,000 drachmae according to the new international parity between pound sterling and the dollar (£ 1 = \$ 2.80). This change has introduced a new parity for the drachma, which is 42,000 drachmae for the pound and 15,000 drachmae for the dollar. This new parity proved that an effort was made to put Greek economic policy on a footing with world economy.

The Greek currency readjustment took place at the request of the Government and in agreement with the Currency Committee and with the American Mission to Greece. The request was addressed to the International Monetary Fund, which then approved that Greece should fix a new parity to the United States dollar and to the pound sterling, and correspondingly to other foreign currencies.

From a formal point of view, this currency readjustment consists in a change of prices for foreign exchange certificates, which have been kept in circulation. Thus, while the rate for dollar was left at 5,000 drachmae and the rate for sterling at 20,000 drachmae as fixed by Law 879/1946,

the rates of foreign exchange certificates were fixed at 10,000 drachmae for the dollar and 22,000 drachmae for the pound. Actually, the official rate for the dollar rose from 10,000 to 15,000 drachmae and the official rate for sterling from 32,000 to 42,000 drachmae as from September 21, 1949. These changes were put into effect through decision No 804 of the Cabinet Council, dated September 21, 1949, which was ratified by Decree-Law No 1159 of October 5, 1949.

At the beginning, this adjustment of Greek foreign exchange policy had favourable effects on the foreign sector of the country's economy. Based on sound foundations and no longer on fictitious data, this policy created the conditions for a development in production. By recognizing the automatically formed rates of foreign currencies, it opened possibilities for concentrating foreign exchange resources, such as emigrants' remittances, which increase the holdings of the Bank of Greece. The illegal foreign exchange market was paralysed and exchange rates were brought near to the parity of purchasing powers. Export trade, being protected by the new drachma rates for dollar and sterling, was helped to compete in foreign markets. Thus it was no longer necessary to resort to the system of private barter, which is so costly for home consumers, or to the system of subsidizing exports with funds taken from the State budget.

But by this foreign exchange measure, however successful at its base, the main object was not attained. A start only was made. The new parity was merely a prerequisite for effecting certain readjustments in the national economy and for applying a new short-term policy, which would be adaptable to Greek conditions: a policy aiming at the smooth self-development of the country's economy and at the valorization of the favourable conditions resulting from the new exchange order established. It would further create more suitable conditions for balancing our external economy.

In final analysis, the irregularity in foreign exchange rates was due to deep-seated causes, as: a low productivity and a state of parasitic employment in economy, both of which run counter to the efforts made to increase the national income, and all of which reduce the country's competitive capacity. Consequently, the major problems connected with this foreign exchange irregularity ought to be met by radical measures. In other words, it was imperative to try to strengthen the productive capacity of the country's economy by applying the suitable productive, commercial and credit measures, and to attain a better equilibrium of our balance of payments through the increase of our

production and the reduction of its cost to a level nearer to the cost of production of the other countries. There was further the need to bring to a stop the hitherto irregular use of the monetary mechanism to satisfy requirements of public finances and the resulting monetary inflation. This increase in monetary circulation altered the balance of the inner foundations of the currency and has created the greatest obstacles to the task of reconstruction and rehabilitation. An effort was finally made to apply an effective control system, in order to complete the economic policy.

Instead, however, the Greek currency adjustment began by introducing a system of subsidies in favour of primary necessity goods imported from abroad, which consisted in fixing lower foreign exchange rates than the established ones of 15,000 drachmae to the dollar and 42,000 drachmae for the pound. This system created multiple foreign exchange rates and added a burden of 684 milliards of drachmae on to the State budget. This burden, together with the very heavy deficit from the handling of wheat, a deficit amounting to 250 milliards of drachmae, strengthened that factor which is now the most serious threat to the entire economy of our country. Premiums were paid on imported products on the excuse that this measure was intended to stabilise the internal value of the drachma and thus to hold the general standard of living at a firm level.

It was doubtful, however, whether the general class of consumer, for whose benefit the system was introduced, was to benefit from these subsidies, if it is considered that before the monetary readjustment the Government had come to the decision to levy a tax on imports, in spite of the fact that this indirect tax would obviously fall in the end on the consumer. This taxation was meant to reduce profits made from the foreign exchange rate, which was then considered to be low. It should further be observed that the measure of subsidies was taken in spite of the fact that conditions had meanwhile developed which facilitated a painless lowering of the external value of the currency - external conditions which refer to the continuous fall of international prices, and internal conditions with which we shall deal in the following chapters.

3) Monetary policy.

It is a fact, that the intensive inflationary phenomena with which the country was beset in 1948, had begun to recede in the course of the year under review. These phenomena were due to reasons relating to trade,

production and, in connection with these, to profiteering which had caused a reduction in the supply of goods.

	Bank - note Circulation	Bank of Greece Cost of Living Index	Bank - note Circulation in index drachmae
1949 January	1,130 mrds.	28,009.3	40.4 mrds.
February	1,135 »	28,337.8	40.0 »
March	1,125 »	29,047.0	38.8 »
April	1,250 »	28,504.9	43.8 »
May	1,219 »	28,537.0	42.7 »
June	1,217 »	29,574.6	41.1 »
July	1,292 »	27,792.5	46.5 »
August	1,355 »	27,862.1	48.6 »
September	1,403 »	28,557.5	48.8 »
October	1,506 »	27,718.2	54.3 »
November	1,534 »	28,224.4	54.6 »
December	1,855 »	28,334.0	65.5 »

The above figures show that, in spite of the fact that paper money circulation increased from January 31, 1949 to December 31, 1949, by 725 milliards of drachmae, or 64 per cent, the cost of living showed a beneficial stability. The additional amount of means of payment was conveyed to the money market mostly in the form of credits to the various branches of the country's economy, and was absorbed by the increase in the volume of available commodities and by the improved economy. The same material and psychological factors as those which prevailed in 1948, though acting invertedly, have helped to keep prices of commodities more or less stable. This is due to the generous granting of import licences in May and June, to the timely use made of direct and indirect Aid, to the increased output of basic products, such as olive oil, rice, vegetables, etc., and to the drop in prices of basic commodities in the international market. Thus, the Greek currency problem was no longer faced with «open inflation» alone (i. e. by measures almost exclusively affecting the monetary factors), as it was until the middle of 1949. Not only were increased incomes given to wage-earners, but also the anti-inflationary policy of selling gold sovereigns was applied on a smaller scale; and the Bank of Greece, which is the country's bank of issue, moved with greater ease to help and support the country's productive branches. To prove this, it may be observed that the credits mentioned below, which were given from the money in circulation, in order to

increase the yield of the country's economy, were not less than the drachma amounts allocated from the American Aid to increase her productivity. Results from these credits have been favourable for the country's economy and rehabilitation. Larger credits given to the country's economy helped productive activity and improved general conditions. In fact, interest rates in the free market, though always onerous, have shown a tendency to drop. The drachma gradually recovered its former position in the conscience of business people, and the speed of circulation showed a relative slowing down.

This independence of prices from the amount of money in circulation, and the fact that before the readjustment prices for imported commodities were fixed at, or slightly above, foreign exchange rates in the free market, offered a unique opportunity for laying the foundations of an economic policy aimed at moving away from the prevailing differentiation between prices of commodities, services, foreign exchange, etc. We think that this would have been the proper moment for fixing a standard rate of the dollar for all imports and exports; for applying a uniform foreign exchange policy supported by the organic measures we mention in this report and in greater detail in our essay on «Directives of Economic Policy». We believe that such a policy would succeed in creating the elements of a unique and stable monetary unit and of favourable credit conditions, and, by not throwing on the budget the burden of subsidies, would avert the strengthening of that element which constitutes the most dangerous form of inflationary threat. This threat was aggravated by the increase of credits given to the Government from the money in circulation towards the end of 1949, i. e. the creation of an excessive amount of available money which did not come from a corresponding increase in the national wealth, or from a growth in transactions. This sudden increase of about 300 milliards of drachmae within the second half of December, combined with information that the budget will show a still greater deficit, and with the rise in the prices of certain commodities in the international market, caused fears that prices might rise appreciably, these fears were expressed by a quicker movement in circulation of money.

With the exception of the original absorption of a sum of \$ 5.5 million from the market, the results obtained from the policy applied on the occasion of the currency readjustment have been rather slim, both as regards the balance of payments and as regards the internal value of the drachma. The fear of monetary inflation began to revive again, and the public again sought to safeguard savings by investing them in gold

sovereigns; thus the status quo of prices is again in danger of breaking down. From the beginning of the year 1950, the price index shows an upward trend which the stability of the gold sovereign is unable to check. However, the Government, instead of developing the country's economy and trying to abolish the causes which are having such a disturbing effect on prices, turns its back on remedies which would prove efficacious against unfavourable monetary developments. The deterioration of public finances and the threat they hold is one of these causes.

4) Credit policy.

As stated above, when credits to the country's national economy were increased by about 1,000 milliards of drachmae in 1949, it was a help to production, and had a favourable effect on prices. There is no doubt also that during the next few months, when the general situation is expected to improve and the country to return to more normal political conditions, economic activity will increase and production will meet a wider market for consumption. It is obvious that, given these circumstances, credits should be granted more liberally to encourage production and imports, and facilitate the work of reconstruction.

It should be remembered in this respect that bank credits, especially to trade and industry, in spite of their increase in 1949 and of the existence of a large unofficial market for loans in gold sovereigns, continue to represent but a small percentage of the requirements which the productive activity of an economy under reconstruction would justify. The high level of interest rates and the retardment in the country's economy go to prove how much these credits are needed.

We have not forgotten, of course, that in the process of financing economy, the state of public finances and existing conditions, as well as productive requirements, should be taken into account, in order to avoid prejudicial effects on prices. Under abnormal conditions, such as the present ones, the sensitive psychological factor reacts to every increase in the amount of money in circulation. The effect of this reaction is that the price index goes up and this induces the Bank of Greece to restrict productive credits. The only effective means to avoid currency complications arising out of such credits, would be to control prices, and also to control and follow up the way in which credits are used. A control on prices would ensure the necessary economic stability, while the credit mechanism would have the

power of increasing the money in circulation to the extent of financial requirements. At the same time, the control and following up of credits would ensure the greatest possible production of commodities, which would cover existing consumption needs. Subject to this condition, any amount of currency, whether of existing or of newly-created purchasing power, cannot be considered excessive, as long as its return to the originating source is assured within the necessary time limit. Such timely return will only be achieved if the loans are covered entirely by collateral securities which can be liquidated within the time of expiry.

Such a system, however, involves an effective control of credit. In other words, an exact following up of each credit, along the whole course of its utilization and until the money is returned. Such following up should guarantee the fulfilment of production and consumption conditions for each grant.

We would point out, however, that the control applied until now did not comply with these conditions, as it was not perhaps exercised to the best advantage.

Therefore, as long as effective control is unpracticable, other, more automatic, ways and means should be sought, in order to maintain the monetary and credit circulation within the limits laid down by the safety of the currency and by production requirements. To grant loans in a currency of unquestionably stable value would be a case in point. Already over an extensive field of the country's economy grants are made whether legally (in dollars under American Aid), or illegally (in gold sovereigns), in a currency of stable value. Were loans in hard currency more general, the demand for credits would be reduced.

Even after such a reduction of credits, the large disproportion existing between possibilities of supply and demand of liquid funds would continue. Such a disproportion would be expressed by the level of interest rates. Another way to restore normal conditions for production is to keep interest rates at low levels, as an element of cost. To this effect, a deliberate policy on interest should be applied. Such a policy should aim, among other things, at taking measures, whereby:

- 1) the interest rate for credits given to Banks by the Bank of Greece is reduced;

- 2) the burden imposed on banking institutions owing to their obligation to deposit with the Bank of Greece an excessive percentage of money deposited

with them is lightened by releasing such Banks of the burden of interest on a corresponding percentage of credits granted to them by the Bank of Greece;

3) loan operations from those charges – as, for instance, stamp duties, etc. – which increase the rate of interest to an extent that seems small at first sight, but is most onerous in reality, are dropped. The gradual reduction of general expenses of credit institutions, by subjecting them to control, would also help to exercise a lowering influence on the rate of interest.

The high level of interest rates at which loans are now concluded in the free market – a level which is socially and economically unacceptable – is one of the most unhealthy symptoms of the country's economy. Consequently, this is also one of the main causes of the failure to reduce production costs, which we seek for Greece's entry into the world economic community. The causes are multiple and the effects on monetary stability manifold. Besides the disproportion between possibilities of supply and demand of liquid funds, one of the causes for the present level of interest is the fact that interest rates in the free market include items which could be done away with under certain conditions – mainly the insurance premium against the risks of illegal action, a premium constituted by the height of the agreed interest rate. An eventual recognition of loans in currency of a stable value would greatly reduce the insurance premia ruling at present. Accounts in such currency have long been in use in the field of commercial transactions. Should such accounts be extended to the sector of credit, conditions would be created which would reinforce the position of the Greek currency through the offer of gold sovereigns. It would also gradually increase Bank deposits. Thus, an increased supply of savings and a reduced demand of credits in currency of stable value, as stated above, would equally help to effect the desired reduction of interest rates, and thereby the organic improvement of the country's economic health.

Moreover, if banking accounts in currency of stable value were introduced, the gradual supply of the natural credit channels with funds coming from hoarded and therefore unproductive savings (which, according to arbitrary estimates, amount to a figure of around 9 million gold pounds and show a pronounced preference for «liquidity in gold», i. e. investment in gold sovereigns) would increase the rate of satisfying the requirements of Greek economy – as expressed by the high level of interest – by the Banks' own financial means. The lack of confidence in the drachma and the poorly state

of Greek economy have led to most of the availabilities now created by the Banks and used for the regular financing of economy in all its forms, coming from persons obliged to deposit their cash availabilities with Banks by law (Legal Persons, etc.) and to a lesser degree from starvation savings, i.e. money saved from the thin Greek income.

Following the general improvement of conditions, there is however a tendency for savings to be deposited again with Banks. Thus, on December 31, 1949, the total amount of deposits with Banks was 1,178,345 million drachmae. Out of this amount, deposits with the National Bank were 603,174 million drachmae. The level of present deposits with Banks, however, in relation to that of 1939, cannot be compared either in quantity or quality, because very deep changes have occurred in the actual composition of deposits with Banks. Term deposits, for example, the principal custodian of which was the National Bank, have largely disappeared. Out of a total of about 4,500 million drachmae in term deposits on December 31, 1939, the National Bank had 2,100 millions. Most of the balance was in the hands of the Agricultural Bank of Greece, which based the financing of long-range projects on this money. Term deposits with the National Bank now amount to 76,807 million drachmae, on a total of 603,174 million drachmae with us. These latter mostly represent sight deposits which necessitate the keeping of a great liquidity and thereby increase the cost of banking money.

Under present conditions, the credits granted from the privilege of money issue seek to make up the partial inability of Banks to finance the country's economy with deposits in their hands. Thus, issuing possibilities and bank deposits, which rise slowly for well-known reasons, are the main source for obtaining financial means with which to satisfy the country's extensive credit requirements. This inadequate source of credit, which is very poor in relation to pre-war, produces results which are not to be despised. It supplies the country with commodities and gives work to unemployed labour, which is in a very unsatisfactory proportion with the country's real and monetary capital. Credits thus granted totalled 3,387,966 million drachmae on December 31, 1949, being analysed as follows: to agriculture 1,211,374 million drachmae, to industry 363,927 mill. drachmae, to trade in general 1,213,776 mill. drachmae (373,448 millions of which to tobacco trade), to various other branches 245,612 million drachmae, and for concentrating agricultural products 353,277 million drachmae.

The following table gives an analysis of credits extended to the

national economy according to category and source of grant.

Category of grant		Source of grant	
Loans to Industry ... Drs.	363.9 mrds.	The National Bank from her own available funds	Drs. 103.4 mrds.
		Other banks from their own available funds...	» 73.9 »
		The Bank of Greece directly and through other banks	» 186.6 »
Loans to Commerce... Drs.	840.4 mrds.	The National Bank from her own available funds	» 348.6 »
		Other banks from their own available funds.....	» 219.0 »
		The Bank of Greece directly and through other banks	» 272.8 »
Loans to Tobacco Trade Drs.	373.5 mrds.	The National Bank from her own available funds	» 34.9 »
		Other banks from their own available funds...	» 0.2 »
		The Bank of Greece directly and through other banks	» 338.4 »
Loans to Agriculture... Drs.	1,564.6 mrds.	The Bank of Greece directly and through the Agricultural Bank	» 1,300.3 »
		The Agricultural Bank and other banks from their own availabilities	» 264.3 »
Various Loans..... Drs.	245.6 mrds.	All banks	» 245.6 »
<i>Total</i> Drs.		<i>Total</i>	Drs. <u>3,388.0 mrds.</u>

The evolution of banking credit in Greece continued to present a belated form, as regards quantity, in 1949. Pre-war financing, on the one hand, and the requirements for a normal operation of the country's productive machine as well as the level of her national income, on the other, lead to this conclusion. As against credits of 23,054.7 million drachmae granted to

the country's economy before the war, exactly on December 31, 1939 (out of a total bank financing of 26,213 mill. drs.), total outstanding credits on December 31, 1949 amounted to 11.957 millions of pre-war drachmae (on the basis of cost of living index). This comparison shows that present credits amount to 52% of the pre-war figure, while according to preliminary estimates the index of production in 1949 reached about 87% and national income 81% of the pre-war figures. To these should be added the credits from American Aid funds, which on December 31, 1949, amounted to 10,732 million drachmae and \$ 9,504,443.90 from ERP Aid, and 23 milliards of drachmae and \$ 838,851.83 from AMAG Aid.

A natural result of the above is that the credit demand, not being met by lawful banking money, turns to the free money market; this leads to the formation of a high price for money. In calculating the cost of commodities, both from home production and of foreign origin, it is this high price which is mainly taken into account and which has put Greek economy into such an unfavourable position.

Thus, Greek banking credit, under the exhausting pressure of an anti-inflationary policy, continues to be in want of the basic terms which would facilitate conditions of normal productive development and of a speedy and harmonious circulation of incomes. Unfortunately, no proper effort appears to have been made up till now for the simultaneous reforming and reorganization of the relative factors and technical means. As stated above, such an effort, backed by the possibilities of the country's economy, would be directed towards abolishing the causes of the shortage in the Banks' disposable funds and in the money market. In such periods of an inflationary increase in monetary circulation—an increase due to the state of public finances—we seek to restrict it by limiting that part of the money which is lawful, i. e. the number of bank-notes issued for production. We seek thus to remedy the situation by sticking to the quantitative theory and applying it exclusively. This policy has a prejudicial effect on the currency and on the country's economy, as the retarding it causes to productive activity only widens the sphere of inflationary influence.

But the qualitative synthesis of the credits granted takes also a form worthy of attention. On a total of 2,276,760 million drachmae given out from the money issue privilege, 947,025 million drachmae represent credits to agriculture. From a total of 1,111,206 million drachmae given out from the Banks' own availabilities, the larger part represents credits to trade, the

tobacco trade and industry. On December 31, 1949, credits extended to basic productive branches from availabilities of the Bank of Greece and of commercial banks were in percentages on their total as follows: for agriculture 35.8%, for the concentration of agricultural products 10.4%, for industry 10.7%, for trade in general (except tobacco trade) 24.8%, for tobacco trade 11%, and for other branches 7.3%.

Following a decision of the Currency Committee the percentage of obligatory non-interest bearing deposits of commercial banks with the Bank of Greece, are to be increased. This increase will influence the distribution of total credits to the country's economy. The percentages were fixed at 25% for deposits belonging to Legal Persons at Public Law (instead of 22% previously) and at 12% for other deposits with Banks (instead of 10% previously) as from February 1, 1950. If we take into account that credits granted by commercial Banks out of their own availabilities are also subject to control by the Currency Committee, it will be seen that this measure does not aim at a control of credits, but that, in final analysis, it constitutes a charge on the cost of money.

5) **Productive policy.**

The application of a rational credit policy is not necessarily an exclusive condition for economic progress, although it may be the centre point of an economic policy designed to regulate a country's activity as a whole. A proper productive procedure and a co-ordinated effort of the various agents of production for increasing the output of goods for internal and external consumption, are the basic factors for this purpose. But the problem of production is in many ways a social (labour), financial and monetary problem, and a labour, finance and currency policy may constitute a power which may either advance or impede constructive efforts. During the year under review, for example, the country's productive machine offered possibilities of a downward pressure of prices, by a greater supply of products and by healthier competition as a result of this supply. Greek farmers have proved that, undernourished and poor as they are, they can nevertheless increase their effort continually, in order to obtain better results. Thus, areas under cultivation were not only nearly as large as those cultivated before the war, but were even larger for some products. Areas producing rice, for instance, were 304% of those in 1939, potatoes 146%, and table grapes 135%. In spite of the hard conditions which govern the life and work of the country's

farming population, the output for some products was higher than pre-war figures, notwithstanding the fact that reconstruction had been delayed for various reasons. Thus, rice production rose to 431% in comparison to 1939, potatoes to 202%, vegetables to 172%, edible olives to 126%, table grapes to 122%, must to 117%, olive oil to 111%, and cotton to 104%. The general index of industrial production also shows a steady rise. During the month of December it reached 97% (on the 1939 basis), while it was 88% throughout the year 1949, as compared with 73% approximately in 1948. It may be said that Greek industry has developed organically, as a result of the reconstruction effort. Production has increased, particularly for metal working (68.5%, as against 58% in 1948), mechanical engineering (63%, as against 54%), building (82%, as against 72%), and the spinning and textile industry (79%, as against 70%). Production also rose in the foodstuff industry (80.5%, as against 69%), cigarette industry (164%, as against 152%) and electrical appliances (110%, as against 66%). It is believed that the increase will be still greater in future, if credit conditions are favourable.

Production, however, and especially agricultural production, was not accorded the necessary attention and assistance by the Government. If we consider that this production effort has been achieved under conditions which prevented its full success, it is obvious that it has still greater possibilities. «Increasing production» is a concept with a much broader content. It includes and implies a series of measures, whose purpose is not only to build up additional national wealth, but also to ensure a better and fuller administration of this wealth. As long as the farmer encounters difficulties in disposing profitably of his produce, larger crops instead of helping to improve the country's economic conditions and to increase the steady supply of commodities, will cause an uneven balance between the factors of economic production, and will lead to disappointment, a drop in the standard of living and, finally, to monetary irregularity. If the prices for farm products were held by the Government, not only would the production of agricultural goods drop and the income of their producers decrease, but possibilities for the sale of products of other branches of production would also decline. These other branches are in fact now faced with an anaemic demand, which has led to production costs per unit being higher. It is therefore an obligation on the part of the intervening State to offer its help in improving general conditions of production, on the one hand, and in facilitating the completion of the productive procedure by a better disposal of farming products, on the other.

Nevertheless, in opposition to this view it has been argued that the prices decided upon by the Government for concentrating farming products are often below their marginal cost of production and are based on the estimated price of such products (after deducting transport and other expenses) on the international market. This is done in order to facilitate the sale of Greek products on the international market.

We do not mean to underestimate the value of the efforts which are being made to settle the problem of production costs. This problem is vital for Greece and for her external economy. The policy, however, of fixing concentration prices in a somewhat arbitrary manner appears at first sight to help the export of Greek products, but does not necessarily give the expected results. There is the danger that it may lead in the end to a falling off in the production effort, through the farmers getting disheartened. Most likely of all Greek products may be driven out of foreign markets, and imports may have to be increased because of the reduced supply of domestic commodities. This supply coupled with other factors should be the primordial concern of an economic policy, as an element closely affecting the purchasing value of the country's national currency. As we have repeatedly pointed out, when a currency has no independent circulation of its own, it becomes an organ of productive circulation (of commodities) and its price is largely determined by such circulation.

Moreover, and especially under the present unstable conditions, production costs cannot be reduced by fixing low safety prices. Measures have to be taken for making the country's economy sound, within the framework of an economic policy such as specified above. This should be done by improving working methods, by regulating taxation burdens according to the actual financial resistance of the productive machine, by abolishing various tax-contributions, by improving credit terms, and finally by fixing reasonable selling prices for the industrial products which are necessary for the subsistence of the worker and for the plying of his trade. The fact that the prices of certain products have already greatly exceeded the prices at which they were concentrated, proves that safety prices are not always fixed with due attention. Consequently, the term of «safety price» has no real meaning any longer. Not only consumers do not benefit from such prices, but considerable irregularity has been created in the distribution of the country's national income, at the expense of farmers. The indices drawn up by the Agricultural Bank of Greece for prices of farming products, on the

one hand, and for factors of production, on the other, give a clear picture of the unsatisfactory state of agricultural production:

(1938 = 1)	Agricultural products	Factors of their production
1948	266.8	346.8
1949 January	311.9	380.2
February	319.1	390.2
March	337.6	395.0
April	346.5	408.4
May	342.0	402.5
June	330.6	413.2
July	331.3	405.9
August	327.3	407.5
September	332.0	407.3
October	337.5	409.1
November	324.4	408.6
December	324.7	408.1

According to the above figures, while the price index for agricultural goods shows a drop, the index for factors of agricultural production shows a rise. Actually, the application of the policy of fixing low prices for concentration really means that the policy for the protection of agricultural products, and of wheat especially, has been abandoned. Such a policy was in force before the war and under it wheat growing became more extensive and more intensive.

6) **Public finances policy.**

Taxation and public finances in general constitute – and justly so – the most dangerous and complicated aspects of the country's short-term economic problem. An exhaustive taxation policy, owing to the burden it imposes on the cost of production, means that the credit policy, the programme of reconstruction and, finally, Greece's economic chances in the field of competition are all interwoven, both in theory and in practice, with the deficit of the State budget.

Finding it easy to obtain funds from the privilege of money issue, from American Aid and from indirect taxes, the Greek Government continues to live at a spending rate which can no longer be considered reasonable. As

compared with 3,945 milliards of drachmae spent in the fiscal year of 1948, expenditure for the year 1949 - 50 is 5,747 milliards of drachmae, according to the budget submitted on November 19, 1949, - an increase of about 40%. Public expenses thus absorb over 30% of the country's national income, and yet these expenses do not, as they did before the war, include any productive expenses, nor even extra military expenses, as the latter are covered by the corresponding military aid. These expenses represent a burden on the country's economy which would be intolerable even under conditions of full prosperity and of elasticity.

Under present conditions, the country's national income has ceased to constitute the foundation for regulating Government expenditure.

Government revenue moves within the very limited boundaries of the country's national income, which has increased very little in relation to last year, and her revenue has thus reduced to a minimum the amounts left over for the subsistence of the Greek people and even more those for building up savings. On an income which is near the sum of 19,000 milliards of drachmae approximately, estimated arbitrarily of course, revenue for the budget has been fixed as follows (in milliards of drachmae):

Revenue	1949 - 1950	1948 - 1949	Increase
a) From direct taxes	968	501	467
b) » indirect taxes	2,602	2,238	364
<i>Total revenue from taxation</i>	3,570	2,739	831
c) Other Government revenue . .	293	153	140
<i>Income from Greek sources</i>	3,863	2,892	971

The huge gap between revenue and expenditure is covered at the expense of the future survival of the Greek people, i.e. from American Aid. Allied help used for this purpose amounts to 1,750 milliards of drachmae. It is therefore 67% greater than last year's, which was 1,048 milliards of drachmae. According to the new budget, this revenue comes 31.1% from American Aid and 68.9% from national resources, while the budget revenue during the fiscal year 1948-1949 came 26.6% from American Aid and 73.4% from national resources. In spite of the fact that the major part of receipts from American Aid - totalling 3,000 milliards of drachmae approximately - was used in this manner, the State budget leaves a deficit of 144 milliards of drachmae, which is expected to be covered by unused allotted credits.

This low state of Greek public finances makes it quite clear that the relative stability maintained by the currency and the fairly level of consumption ratio are only assured by aid received from abroad, and are of an artificial nature.

In spite of conscientious efforts made by the Government to keep the balance, the structure of the State budget continues to be anti-economical, and therefore does not favour the development of the country's economy. The reasons are: a) Heavy and anachronistic indirect taxation: these taxes help to balance the budget, but at the same time they tend to raise commodity prices, thus burdening the poorer classes and upsetting the balance aimed at. b) The parasitic character of the budget: salaries and pensions absorb 60% of revenue from taxes (as compared with 40% before the war) and 15% of the national income (as compared with 7%).

It is a favourable sign that in this budget direct taxes are increased by 94%, while indirect taxes only by 16%, as compared with the preceding year. It offers good hopes that the structure of the State budget will become sounder. In this connection, the measures against tax evasion are of considerable importance, as their application would help to bring about the economic soundness aimed at. There is no doubt, however, that under present administrative conditions it would take a long time to apply such measures successfully. We also fear very much that, owing to the urgency of the financial requirements of the State, the fiscal aspect of ready money will prevail for a long time over the production and social aspect.

7) Application of the reconstruction programme.

The sector of reconstruction is the one which is most directly and seriously affected by the unfavourable state of public finances outlined above. As we have said, an eventual increase in the deficit of the State budget will give rise to the danger that a sum of American Aid drachmae intended for reconstruction will be immobilized, and that this sum will be greater than the one already tied down. Thus, the sum of 1,030 milliards of drachmae, which was originally allotted to reconstruction runs the risk of being less than that spent in 1948-1949.

If we remember that even the sum of 1,030 milliards of drachmae is most inadequate for attaining the objectives laid down by American Aid, the eventual reduction of this amount would have far-reaching effects on Greek economy. American Aid aims at obtaining economic results and

structural changes which will ensure viability for Greece after the end of the Aid. This justifies what we have stressed at the beginning of this report, i. e. that before the country can meet reconstruction, her public finances, credit, currency and production must be put into condition. In other words, we need an economic policy which will be able to obtain the amount of investment necessary to conform to the goals of the programme.

Greece's economy, which is based exclusively on American Aid at present, is to be improved by structural changes advocated in the programme submitted by the Greek Government to O.E.E.C. in Paris. This programme after being examined by that Organization, is submitted to the Economic Cooperation Administration at Washington. On the basis of this programme, ECA fixes the amount of annual aid to be extended by U. S. A. to Greece.

The Greek Government has submitted programmes, both for the four years of 1948-1952 and for each year separately. In December 1948 the Government submitted a programme for the year 1949-1950 which has since been revised.

The original programme was as follows:

Foreign payments in general	\$ 490 million
Resources from exports	\$ 99.5 million
Revenue from other sources	\$ 57.0 "

Or a deficit of \$ 333.5 million.

The revised programme is as follows:

Foreign payments in general	\$ 406.8 million
Resources from exports	\$ 91.9 million
Revenue from other sources	\$ 17.9 "

Or a deficit of \$ 297 million.

American Aid, which was fixed at \$ 263.6 million for 1949-1950, undertook to cover this deficit. As regards the balance, the deficit will be covered from reparations (\$ 30 mill.) and from the unused balance of drawing rights from Italy for the year 1948-1949 (\$ 3.4 mill.).

Out of the \$ 263.6 million from E. R. P. Aid, \$ 156.3 million refer to direct aid.

On the other hand, the Aid for the year 1949-1950 is expected to be used as follows:

for import of capital goods \$ 89.9 (as against 45 million of previous year)
 » » » consumer » \$ 173.7 (» » 173 » » » »)

It is estimated that the sale of Aid supplies until June 30, 1950, will bring a sum of 3,120 milliards of drachmae, which will be disposed of as follows:

To cover budget deficits for the period 1948 - 1950	Drs.	315 mrds.
To help the 1949 - 1950 budget	»	1,650 »
For reconstruction	»	1,000 »
Reserve	»	155 »
	Drs.	<u>3,120 mrds.</u>

The total of American Aid during the calendar year 1949 was \$ 248.6 mill., and German reparations represented \$ 4.1 million. These figures refer to shipments of capital and consumer goods made during that year.

The total amount of drachmae which came from the sale of American Aid dollars reached 2,551.8 milliards of drachmae in 1949, and 3,829.2 milliards of drachmae since American Aid began. Accounts kept with the Bank of Greece have been credited with these amounts.

Out of these amounts, the following sums have been used (in milliards of drachmae):

	In 1949	Up to December 31, 1948	Total up to December 31, 1949
For reconstruction	600.7	711.1	1,311.8
For the State budget	538.6	295.9	834.5
	<u>1,139.3</u>	<u>1,007.0</u>	<u>2,146.3 *</u>

These credits come from the sale of consumption goods imported under the Marshall Plan and are spent for reconstruction expenses in drachmae which constitute the basis for this work.

Credits provided for reconstruction from the drachmae account have been distributed to the different sectors of the economy as follows (in milliards of drachmae):

* A part of the remaining 1,682.9 milliards was used to cover expenses of the Mission (drs. 183.9 milliards) and the balance on December 31, 1949 (1,499 mrds.) was available with the Bank of Greece.

	1949 Credits used	1949 - 1950 Programme
Primary production.....	170.2	251.2
Secondary production.....	1.2	102.5
Transportation.....	177.8	346.0
Subsistence.....	211.0	279.3
Administration.....	40.5*	53.0
	<u>600.7</u>	<u>1,032.0</u>

Money used under the E.R.P. drachmae programme until December 1949 has amounted to 789.0 milliards of drachmae, as against 1,354 milliards of drachmae originally estimated. This has covered 59% of the programme. Credits granted for reconstruction during this period have amounted to 857.5 milliards of drachmae.

On the other hand, the work done up to December 31, 1949, to complete the AMAG programme is valued at 196.3 milliards of drachmae, representing 84% of the final programme of 234 milliards of drachmae.

Finally, credits opened for the import of capital goods against Marshall Aid amounted to 67.3 million dollars by December 31, 1949, or 36% of the \$ 188 million of the original programmes for the years 1948-1949 and 1949-1950.

With regard to achievements made, drachma expenses showed good results in the branches of communications and social services: road building, railways, civil aviation, housing, public health and education, i. e. branches which have no direct bearing on production. From a study of the above details the following conclusion can be reached: whereas the object of reconstruction was originally to carry out a programme of extensive activity based on wide objectives proportionate to the great possibilities offered by this gratuitous Aid, the prospect has gradually changed, so that the Aid is now being used to help a limited number of undertakings and works that mostly fall in the category of maintenance. As preoccupation with minor projects tends to wear out the cohesion of the big problems at issue, deviation of the Aid seems to be the right term to use in this connection. Reconstruction should have included electric power schemes which would bring about a more permanent and deeper transformation of Greek economy. Such projects

* This amount includes loans given to various branches of production on behalf of the Greek Government.

would further ensure productivity, both for industry and agriculture, and would help the country's economy to enter more smoothly into the orbit of world economy. Thus tolerable living conditions for the increasing population of Greece would also be assured.

The war made impossible the co-ordination of reconstruction projects, as well as their adaptation to a wide reconstruction programme. But Greece is no longer at war and can no longer justify these conditions.

As regards the objectives of the long-term programme drawn up, these are given in the list of investments which had been foreseen for the four-year period of the Marshall Plan. Out of a total expenditure of \$ 572 million in foreign exchange for the import of capital goods etc., and of drs. 6,000 milliards in drachmae, the following items are foreseen for the principal categories of investment:

	Million dollars	Milliards of drachmae
Mines - Industry	134	61
Communications	123	114
Agriculture - Fishing	119	95
Electric power	87	70
Hydraulic works	29	64

It is hoped that these will increase the volume of production and the variety of exports, and will reduce imports by the percentages stated in the programme.

Irrespective of the reservation expressed above (as to the use of American Aid in the form indicated, and as to the measures proposed for attaining the objectives set), we believe that reservations are also justified as to the possibility of reaching these objectives. This is due to the lack of an economic policy to conform to the Plan - one which would ensure the financing and guiding of the country's activity, both for increasing the volume of production and for increasing real capital.

According to official statements made since December 31, 1949, the above long-term programme will be further reduced to 62%. It will be seen that this reduction is of still greater importance to Greek economy when we consider that the original programme also, which aimed at restoring the viability of Greek economy, allowed for a deficit of about \$ 90 million in the trade balance after the full application of the programme.

8) **Balance of payments.**

Throughout this report it has been stressed that Greece's economic problem is basically determined by the position which this country holds in the international market. Given that this is true, then it is clear from Greece's balance of payments that Greek economy is not in a very pleasant position. It also shows clearly the danger in which Greece will find herself when American Aid comes to an end. If the dangers due to the present huge gap in the country's balance of payments are not at present evident, it is because American supplies give a false impression of plenty; and the hope that the reconstruction programme will materialize keeps at bay worse misgivings.

The course of Greek exports affords a characteristic example of the unfavourable development of Greece's balance of payments. The final goal of the reconstruction programme is to attain a balance of trade by increasing exports and home production.

Exports which were to improve the position of the country have actually followed a course that is far from satisfactory, despite the country's production effort; and this, in spite of the foreign exchange measures taken (as mentioned above) to adjust the prices of Greek products to those offered by other countries. This fact is recognized in the revised reconstruction programme which envisages \$ 91.9 million of exports for the whole year, instead of the 99.5 million of the original programme. The inefficiency of the measures applied has contributed to this. But the inadequate way the country's export trade has been handled is not enough to explain the problem of the balance of payments. As already stated, the country's economic structure has changed considerably since the war and Greece has very heavy burdens to bear as a result of long tribulation and of superhuman efforts to get back to normal. This is why Greek products cost more to produce than foreign products of the same kind, and why the country is suffering from a foreign exchange shortage.

On the other hand, unfavourable conditions for Greek foreign trade have been caused by the lack of absorbing capacity of the countries which have always been clients of Greece, by the unwillingness of other countries to buy, because they want cheaper quality goods (as we see from American exports of tobacco), and by the elastic demand of our products. All these factors weaken Greece's capability for export, no matter how she may improve conditions on the home front.

This is how the deficit of the Greek trade balance has increased. According to preliminary figures, the value of import licences issued during 1949 totalled \$ 433.1 million, and that of export licences \$ 83.6 million. Thus the deficit of our trade balance increased from \$ 301 million in 1948 to \$ 349.5 million last year.

On the other hand, total commitments for imports and freights during the fiscal year 1949-1950 are estimated at \$ 406.8 million. This total is \$ 9.1 million more than the amount paid in 1948-1949. To cover these foreign payments for the year 1949-1950 we are counting on: exports to the value of 91.9 million dollars (as against \$ 89.8 million in 1948-1949), net indirect resources \$ 17.9 million (as against \$ 22.1 mill. in the previous year), foreign aid \$ 263.6 million (as against \$ 267.8 million in 1948-1949), balance of drawing rights from Italy \$ 3.4 million and \$ 30 million from reparations. To cover foreign exchange commitments in 1948-1949 it has been necessary to use a part of the monetary cover.

As already stated, we expect to pay \$ 89.9 million for the import of capital goods out of the sum of \$ 406.8 million of our foreign payments for the fiscal year 1949-1950 (as against \$ 45 million during the previous year). Thus, \$ 302.6 million are left for consumption, as compared with \$ 352.7 mill. in 1948-1949.

The present system of imports continues to show irregularity in the supply of the country. This has an unfavourable effect on prices and the work of reconstruction.

For want of reliable information on the import and export of foreign exchange in 1949, it is not easy to specify at this moment the deficit in the country's trade balance - which constitutes the main deficit in the balance of payments - during the calendar year 1949. However, we may form some idea of the unsatisfactory progress of the country's balance of foreign payments, if we take into account the following: that the gap between imports and exports has widened, as stated above; that the passivity of our clearing agreements with other countries has increased (this passivity is estimated at about \$ 4.5 million for the year 1949); finally, that the cover for the drachma has decreased. (Gold and foreign exchange decreased by 71.2 milliards of drachmae between December 31, 1948, and December 15, 1949. Commitments in foreign exchange increased by 124.5 milliards of drachmae over the same period).

To cover the above deficit, \$ 247. 8 million were spent from American

Aid within the calendar year 1949. This shows, therefore, that unfortunately Greece is still unable to solve the problem of her subsistence without Allied help. She has absolute need of it.

Greece's deficit in foreign exchange is not due only to a gap in the country's trade balance, but also to reduced receipts from invisible exports. No specific particulars of these resources are so far available for the year under review. (What we have stated above is only an indication of how we stand). These resources for the current fiscal year are estimated at \$ 17.9 million, as against \$ 22.1 million in 1948-1949. According to the country's long-term programme, invisible exports for 1952-1953 are estimated at \$ 60 million at their present value, i. e. at 75 % of the pre-war figure. This reduction is due to an appreciable decline of foreign exchange imports from emigrant remittances. Foreign exchange from shipping, on the contrary, is expected in the long-term programme to reach the same level in 1952-1953 as in 1938. Tourist foreign exchange is expected to increase.

One has the right to hope that foreign visitors to Greece will spend more money in the course of time, as communications and accommodation improve. One cannot be equally optimistic, however, about shipping remittances. Yet such remittances could have been a very considerable contribution to improving the country's balance of payments. The present shipping crisis and the exclusion of the Greek flag from ERP transports have been prejudicial to Greek shipping. Also the policy applied by the Government has kept shipping money away from Greece. It is worthy of note that while shipping under the Greek flag ranks ninth in the world tonnage, with 1,385,000 tons, as against 1,892,000 tons at the beginning of the last war, ships owned by Greek nationals rank third, with vessels of a total tonnage of more than 5 million tons gross.

GENTLEMEN,

These are the conditions under which this Institution has developed its constructive activity during the year under review. The picture is not very pleasant. No one can fail to see how serious the position of our country's balance of payments is. The problems which will arise soon, mainly after the end of American Aid, are reflected in the nightmare deficit of this balance. There is no doubt that for the present the aspect of public finance of the

Greek problem is of the greatest importance, because the position of our currency and the progress of reconstruction, as well as the revival of the country's production through a credit policy, all depend on public finances.

Although our observations on the economic situation are not very favourable, it should not be forgotten that the conditions which prevailed during the year under review are a result of events imposed on Greece from outside, and are the effect of the deadly and unprecedented struggle that this country, which is the smallest country of Europe in material potential, has carried on practically throughout the whole year of 1949.

It is not surprising, therefore, that Greece has not been able to draw up a programme capable of dealing with the acute crisis which has continued throughout 1949. The country has been under the influence of most destructive material and psychological effects arising from this struggle and from the resultant unstable economic conditions.

What should be stressed, on the contrary, is the work done in the productive, and especially, the agricultural, sector of the country's economy. Because, while the Greek national army was fighting with heroism and self-sacrifice to drive out, once and for all, the nightmare of Communist destruction which had covered the whole of Greece, her productive population succeeded with patience and self-abnegation in the creative sector, and attained the encouraging results which we have already noted.

These results are in many ways parallel to those obtained in Western Europe, which has been left to recover in peace. They constitute one of the finest and most considerable records of the vitality of our Nation and of its determination to bring the initial stages of the revival and reconstruction of the country's economic life to an end as soon as possible.

These results are also positive factors in meeting optimistically those difficulties which may arise as our economy develops; the more so, when we remember that, in meeting these difficulties, we have the priceless support of the generous Aid extended to us by the great American Republic.

But productive efforts and American Aid should be assisted by an official economic programme, which will have clear and stable directives for a policy relating to currency, trade, credit and public finances especially. We shall never tire of reverting to this point again and again.

Exemplary order is necessary in public administration, now more than ever before. Intensive work within the country and omni-directional efforts towards productive activity are necessary before any far-reaching plans are

laid out and before money is sought abroad. These efforts are necessary in order to increase the resources with which to meet our obligations arising from imports, to reduce the huge gap between the two sides of Greece's trade balance and to increase the wealth of our country. These will restore our currency to its real function. In this manner the work of reconstruction will be done.

Now we present for your approval the Balance Sheet for the year 1949, with our general remarks on it.

General remarks on business.

Deposits.

Our deposits rose from 405,737 million drachmae at the end of 1948, to 640,593 million drachmae at the end of 1949. Thus, they showed an increase of 234,856 million, which corresponds to about 58%. Of this amount, 603,174 million was deposits in drachmae. If it is considered that the total of deposits in drachmae with the other banking institutions in Greece on December 31, 1949 was 575,171 million drachmae, it will be seen that deposits with our Bank on the above date represented 51.19% of the total deposits in the country. This total of deposits in Greece, as compared with that of bank-notes in circulation, continues to be much behind the ratio between these two amounts before the war. Because, while the amount of deposits was over double the amount of money in circulation before the war, deposits now represent only 75% approximately of circulation. But the major part of deposits with Banks continues at present to represent deposits belonging to Legal Persons at Public Law. Owing to the difficult conditions which still prevail in the economy of our country, private savings have not yet acquired their natural size. Private savings with Banks are extremely limited at present, as, owing to lack of confidence in the drachma and to certain legislative measures, these savings are invested in sovereigns. We estimate that private savings amount to about 9 million gold sovereigns. Only part of them is used to finance production, and this financing is done under very onerous conditions through the unofficial market. As the effort for the reconstruction of the country and for improving general conditions continues, we hope that private savings will increase. Also that they will be conveyed

through credit institutions to assist productive branches of the country's economy.

Deposits with our Offices in Egypt have shown an increase. From Egyptian pounds 1,132,740 at the end of 1948, they increased to Egyptian pounds 1,456,894 on December 31, 1949.

As compared with December 31, 1948, an analysis of deposits with us in drachmae and in foreign exchange, which amounted to 640,593 million, is in million drachmae and by categories as follows:

	Dec. 31 1948	Dec. 31 1949	Difference (+ or -)
Sight Deposits	290,572	540,246	+ 249,674
Savings-bank Deposits	9,178	17,408	+ 8,230
Deposits at fixed terms and permanent	105,987	82,939	- 23,048
	<u>405,737</u>	<u>640,593</u>	<u>+ 234,856</u>

Financing by the Bank of Greece.

In addition to money obtained from deposits, our Bank was also financed by the Bank of Greece during the past year in order to help trade and industry. The balance of this financing on December 31, 1949 was 386,491 million, as compared with 234,969 million at the end of last year. The Bank of Greece further gave us temporary loans in foreign exchange for the import trade.

Investments.

A. - *Commercial business.* During the past year, we have been able to increase considerably our loans to trade and industry, thanks to increased deposits which have been placed with us, and financial help extended by the Bank of Greece. On December 31, 1949, these loans amounted to 1,053,087 million, as compared with 723,071 million drachmae at the end of the previous year, thus showing an increase of 303,016 million drachmae. Investments made by our Offices in Egypt were Egyptian pounds 1,338,111 on December 31, 1949 as against Egyptian pounds 879,994 in 1948, thus showing an increase of Egyptian pounds 458,117.

An analysis of grants made on 31 December 1949, as compared with those on 31 December 1948, reveals, by categories and in million drachmae, the following:

	Dec. 31 1948	Dec. 31 1949	Difference (+ or -)
Discounts and open accounts against personal guarantee.	267,324	434,247	+ 166,923
Loans and open accounts on pledge of securities	3,636	4,635	+ 999
Loans and open accounts on pledge of commodities	452,111	614,205	+ 162,094
	<u>723,071</u>	<u>1,053,087</u>	<u>+ 330,016</u>

Although our loans to industry and trade have considerably increased, this increase did not satisfy the actual productive requirements of our clients, because of the credit policy applied in general. Instead of regulating the amount of financial assistance granted to the economy in such a way as to satisfy all requirements for the production of goods to meet existing consumption needs, credits given to the economy through Banks are subject to unstudied limitations. Such limitations are intended to safeguard our economy against risks of inflation. However, inflation is due rather to the money issued to cover the deficit in our State Budget. Thus, a considerable part of trade and industry requirements is covered by loans contracted in the free market, but by this system, money is saddled with the well-known high level of interest rate. Prices for most of the commodities produced in Greece are affected by this high interest rate. Commercial expenses are calculated on this basis, and thus consumers never profit from the relatively low interest rates at which banking credits are granted.

B. - *Loans to, and Bonds of, Legal Persons.* The very small sums invested in this branch were reduced by 155 million. Their balance on December 31, 1949 was 278 million drachmae. Under present conditions, no funds can be invested in this branch.

C. - *Loan to the Greek Government.* A loan of 45,000 million drachmae was extended to the Greek Government during the past year, jointly with the Bank of Athens, the Commercial Bank, the Ionian Bank, the Bank for Commercial Credit and the Popular Bank, under an agreement dated June 1, 1949. The Greek Government intended to use this money to give a loan to government employees at 5% annually, repayable in 24 equal fortnightly instalments. The National Bank gave 30,725 million drachmae towards the total of this loan. On December 31, 1949, the debt to our Bank under this loan, which is repaid regularly, amounted to 17,331 million drachmae.

D. - *Reconstruction loans for account of the Greek Government.* Under the basic agreement of November 12, 1948 and the approved Greek Reconstruction Programme, which is included in the ECA programme, loans are given for account of the Greek Government for industrial and agricultural development. Under an agreement between the Greek Government, our Bank and the Bank of Greece, signed on April 28, 1949, our Bank participated in the granting of such loans. This latter agreement was signed in conformity to the agreements between the Special Mission of ECA, the Greek Government and the Bank of Greece, dated November 12, 1948 and April 15, 1949, and following the Economic Co-operation Agreement of July 2, 1948 concluded between the Greek Government and the U. S. A. Government.

The granting of such loans began in September last. The sum lent through our Bank up to December 31, 1949 was \$ 74,485, the accounting equivalent of which is 372,425,050 drachmae. The remuneration to our Bank for this service consists in an annual percentage on the total amount of this loan, after deducting the amounts payed off by instalments. This percentage will be fixed by the Central Loan Committee and is not to exceed 2 % annually.

Crédit Mobilier.

Our Bank's portfolio in bonds of National Loans and Greek Treasury Bills remained unchanged throughout the year.

Our portfolio in shares of Banks and Companies has increased by 674 million drachmae, owing to small changes in its composition.

Bank's Premises and Real Estate.

A sum of 2,103 million drachmae was spent in 1949 for expenses to improve the Bank's premises, and 915 million drachmae for their maintenance. A site was bought at Aetolicon for 46 million drachmae, on which to construct a branch Office.

Expenses on improvements mainly concerned the Central Office and were to the sum of 1,921 million drachmae. As we advised your General Meeting last year, certain changes were made in our Central Office. The separation of the business services of our Central Office from those of our Head Office (Governorship and Central Administration), which took place on January 1 this year, and necessity to improve the installations and functioning

of this Office, made these changes essential. The maintenance expenses concerned the premises of both our Central Office and the other Offices of our Bank.

Very small expenses amounting to 9 million drachmae were incurred for improving the Bank's real estate. On the other hand, property was sold in Egypt, which is shown as worth 106 million drachmae in our books, and property was sold in Greece, which is shown as worth 2 million drachmae in our books.

Writing off in the book value of premises and real estate was 3 milliards of drachmae.

Thus, on December 31, 1949 the book value of premises and real estate of the Bank was 97,753 million drachmae.

Installation Expenses.

New items of installation were bought in 1949, worth 1,086 million drachmae, 379 million of which were paid for the purchase of calculating machines. A sum of 543 million drachmae was spent for the maintenance of old installation items. An amount of 4,000 million drachmae was written off on the book value of these items.

Thus, the balance of installation expenses on December 31, 1949, was 11,840 million drachmae.

Results of the year.

The Bank's gross profits during the year ended have amounted to Drs. 162,037,072,185.

Were we to depart from the long tradition of our Institution, which obliges us to serve the productive requirements of our country's economy first and foremost, the amount of gross profits and consequently of the net profit of the Bank might have been considerably larger. We would not think, however, of doing this. Thus, not only charges on credits granted by our Bank were not in excess of the limit of 12% or 16% fixed by the Currency Committee, in cases where it is allowed to collect a commission, but the average rate of interest and commissions which we have collected was at a lower level. This is due to more favourable terms applied to loans given to co-operatives, employees, public utilities and institutions for charity.

Owing to the competition existing between Banks in Greece, the cost

of money which they obtain from deposits increases from day to day. The growing demand for money intensifies this competition. After the end of the war against Communist aggression, productive activity and the import trade increased. These factors account for the increased demand for money.

Although we have so far abstained from taking part in this competition, in the hope that wiser views would prevail, interest rates paid to depositors are rising continually. On these rates there is a charge of at least 35 %, as a result of our obligation to deposit a certain percentage of our money with the Bank of Greece and of our need to keep sufficient ready money available. If the maximum limit of interest paid on deposits belonging to Legal Persons at Public Law is taken into account, the cost of money obtained from these deposits is 6.75 %, without taking into account any charge due to the inactivity of our deposits.

Expenses and interest paid by the Bank amounted to. . . . Drs. 138,846,976,768

Of which there were:

Expenses. Drs. 108,938,949,618
Interest paid. Drs. 29,908,027,150

Expenses come under the following headings:

Administration expenses. Drs. 102,379,130,907

of which:

Staff salaries.	Drs. 73,402,116,432	*
Contribution to Staff Pension, Mutual Assistance, and Self-Insurance Funds	* 18,268,475,777	»
Office expenses (writing material, lighting, heating, correspondence, telegrams, etc.)	* 8,365,161,738	»
Indemnities to pensioners and discharged employees.	* 1,434,734,235	»
Various contributions and donations for charity	* 908,642,725	»
Taxes (income-tax, turnover tax, etc.)	» 6,559,818,711	
<i>Total</i>	Drs. <u>108,938,949,618</u>	

The following table gives the proportions of each category of expenses in relation to the total, as compared with the previous year and with the year 1939:

	1939		1948		1949	
	In mill. drs.	%	In mill. drs.	%	In mill. drs.	%
Staff Salaries	206	67	52,054	70	73,402	67
Indemnities to pensioners and discharged employees	7	2	990	1	1,435	1
Contributions to Staff Welfare Funds . .	26	8	9,978	13	18,269	17
Taxes	22	7	5,110	7	6,560	6
Various contributions and donations for charity	6	2	988	1	908	1
Other expenses	43	14	5,535	8	8,365	8
<i>Total</i>	<u>310</u>	<u>100</u>	<u>74,655</u>	<u>100</u>	<u>108,939</u>	<u>100</u>

Interest paid on different accounts was as follows:

Interest on sight-deposits	Drs.	11,240,062,447
» » savings bank deposits	»	426,070,204
» » term and permanent deposits	»	6,351,698,242
» » creditor current accounts	»	11,890,196,257
<i>Total</i>	Drs.	<u>29,908,027,150</u>

A total of Drs. 15,992,153,452.— was paid for interest in 1948.

You will observe, Gentlemen, that expenses and interest incurred by the Bank have been much heavier than the previous year. You will see, however, from our following notes that we did everything in our power to restrict these items. As regards interest, the increase is due, on the one hand, to more capital which we obtained for investment, and to the 5% interest rate which the Bank of Greece charges (with a few special exceptions) for money obtained from that Bank for investment. On the other hand, our obligatory deposit with the Bank of Greece, which averaged about 90 milliards of drachmae, does not bring us any interest. The increased interest item is finally due to increased interest rates on deposits for the reasons we have mentioned above. For the same reasons, we estimate that interest payable will increase during the next year. As regards our general expenses, you will observe, no doubt, that the items—indemnities to pensioners and discharged employees, collections and donations to charities, as well as other expenses—under our control have been reduced to a minimum, although the Bank has made quite considerable contributions in response to national appeals. These expenses, from 56 million in 1939, rose to 10,708 million in 1949. On the other

side, pay to staff, which was 206 million in 1939, rose to 73,409 million during the past year. The increase over and above the depreciation of the drachma is due to the following three reasons: 1) The Bank's senior employees are more numerous than the juniors. 2) The Government law concerning salaries to workers has to be applied. This has increased this pay about 20% retroactively as from October 1948, which means that this year's expenses are charged with 4 milliards of drachmae, which relate in fact to the year 1948. 3) The Bank's staff has been increased by 381 members compared with 1939.

The increase in our staff is due to the following causes: the methods of bureaucracy imposed – which in many cases are useless; mobilization; legislature which obliged us to engage 201 employees; the obligatory transfer of members of our staff to Government services; and the increase by 16 in the number of our branch Offices.

Contributions to Staff Funds have increased in comparison to the pre-war figure (1939: 26 million; 1949: 18,269 million) owing to the increase of salaries (as contributions depend on salaries), to the increased percentages of these contributions, and to the creation of the Supplemental Fund to which the Bank's contributions amounted to 3,700 million.

We cannot overlook the fact that these charges are heavy for our Institution and for our credit economy in general. A different way of handling of our staff's salaries could not be thought of, however, so long as this pay is still below the level of the cost of living. Nor would it be possible to reduce the amounts paid for developing Staff welfare, as the progress and the future of the Bank depend on the welfare of its staff. For this reason, we have turned our efforts also to another direction – complementary to the development of the Bank's business. We have arranged to organize our services in a rational way from now on, so that our increased business will not cause a corresponding increase in our general expenses.

The separation of our Central Office from our Head Office, which began this year, has been made both as regards premises and organization with this object in view. We also envisage further mechanisation of our accounting services and greater efficiency. By organizing ourselves more rationally and by developing our business naturally, without reducing our staff or their salaries, we shall increase the scope of our business to the benefit of our Institution and of the country.

At the same time, we make the necessary efforts to ensure the future

well-being of our staff. Thus, an Endowment Fund began operating satisfactorily last year for the female children of members of our Staff, without expense to the Bank. We are now studying the question of housing, which is acute, especially for our employees who have no homes and are not protected by the laws on rent control.

The following amortisation payments and provisions for writing off bad and doubtful debts took place:

a) Amortisation of upkeep expenses and of a percentage of the book value of the Bank's premises and property	Drs.	3,915,755,593
b) Amortisation of installation	"	4,542,927,840
c) Provision for writing off bad and doubtful debts	"	2,000,000,000
<i>Total</i>	Drs.	<u>10,458,683,433</u>

The amortisation of the book value of premises and property and of installation items which took place is in conformity with the percentages specified by the provisions of the law. The provision made for bad and doubtful debts is considered to be adequate, in view of our previous provisions and of the safety of our investments.

Thus, against a gross profit for the year 1949, amounting to	Drs.	162,037,072,185
we have a total of expenses, interest paid and amortisation payments for the same year of	"	149,305,660,201
or, a surplus difference of receipts over expenses of	Drs.	12,731,411,984
After deducting from this amount the loss up to December 31, 1948 which amounts to	"	5,933,128,075
we have a net profit of	Drs.	<u>6,798,283,909</u>

We propose using this amount to distribute a dividend of 200,000 drs. per share. The payment of this dividend, plus the tax for detailed net revenue and war tax contribution, will require an amount of 6,660,997,251 drachmae, and thus a sum of 137,286,658 drachmae will be carried forward.

During the first three years after the liberation of Greece, the Bank suffered losses of not more than 6 milliards of drachmae. In 1948 the Bank covered its expenses. Thus now, in spite of the continually increasing charges for general expenses, which the Bank had to meet, it has not only succeeded in wiping off all its losses up to now, but in having also a net profit, which enables us to distribute a small dividend.

The Management of the Bank feels happy that after seven years, when the ebb of the country's economy had deprived the Bank's shareholders of any income, it now launches again on a period of gratification to its shareholders, if only on a limited scale.

We do not think, however, that these favourable results should prevent us from expressing, once again, the very deep bitterness, which we feel for the indifference shown by the Government to our efforts to make our Institution worthy of its mission.

People have forgotten that the existence of the National Bank is closely connected with the contemporary history of this country. People have forgotten that the organization and development of real estate and agricultural credit, the development of trade and the very existence of industry in Greece, are due to this Bank. People have forgotten that the Bank of Greece, the Mortgage Bank and the Agricultural Bank have grown out of the National Bank, mostly with its share capital. People have forgotten that the financing of Greece's wars of liberation was largely due to capital from the National Bank. The services offered by the National Bank, even after the privilege of issuing money was withdrawn from it, have been forgotten; how often has the Government turned to the National Bank when it could no longer turn to the Bank of Greece? People have forgotten that the National Bank is not a private undertaking, since most of its share capital belongs to legacies, insurance funds and charities. All these have been forgotten and the Government has not only shown no interest in the Bank, as it should have done, but has left the Bank's established rights be trodden upon.

It is often said that the National Bank makes use of the privilege of deposits belonging to Legal Persons at Public Law at their expense. Yet this is not a privilege, but a task entrusted to the National Bank until December 31, 1950, against substantial obligations on the Bank's side. According to these arrangements, the Financial Commission of the League of Nations decided in 1927 that funds saved for social purposes should be concentrated in one credit institution, which would undertake the obligation to use them on favourable conditions, to help the country's productive effort and to construct works of public utility. The National Bank was chosen as being such an Institution. The National Bank was then obliged to pay the Government 25% on all dividends in excess of the average dividend distributed during the previous ten years, plus 25% of the reserve funds built up since that time.

This reciprocal obligation still exists. Realizing the financial difficulties which Legal Persons at Public Law are up against, the National Bank has agreed to pay them 5% interest, instead of the much smaller interest paid before the war. This rate was fixed by the Currency Committee and by the Bank of Greece. In spite of this and in spite of the laws we have been deprived, with the tacit consent of the supervising Authority, of about 150 milliards of drachmae of deposits, which we could have used under favourable terms for forwarding production.

Nevertheless, when the National Bank is asked to offer its services or to contribute to any scheme, it is always reminded of its very heavy moral obligations.

Thus the Management of our Institution, instead of being left free in its effort to create new productive business in the interests of the country's economy and of the Bank, loses its time in warding off risks and in denying offensive accusations made against the Institution. The feeling that has been created among the general public, namely that the present development of the country's trade and industry is largely due to the beneficial intervention of our Institution, as well as the hope that the Government will ultimately share this feeling, however belatedly, to some extent mitigates our justified bitterness, which we know you share.

GENTLEMEN,

If you think the results which we put before you are satisfactory, we believe we should voice complete satisfaction with our staff. Being fully conscious of the sacrifices which you make for its members, our staff has worked with diligence, zeal and devotion, side by side with the management, for attaining these results.

Announcements.

During the past year, we opened an agency on the island of Kos (Dodecanese). Owing to increased business, we promoted the agencies at Kerameikos and at 3rd September Street in the Athens area, as well as the agencies at Kalymnos Island and Xylocastro, to branch Offices. We closed

our agency at Eleutheroupolis, which had ceased operating since the enemy occupation, when it was transferred to Kavalla.

Owing to long absence from the meetings of the General Board, imposed by his high office, the Most Reverend Archbishop of Athens and of All Greece, Mr. Spyridion Vlachos, ceased to be a member of the Board last year, according to the Statutes. The General Board, however, has considered it its duty to request His Holiness to continue taking part on it, and the General Board has re-elected him a Director, according to the Statutes, until the end of 1952. The Meeting is requested to make this election definite.

The Board is also requested to elect five Directors for three years to replace Messrs. Aristoteles Valaoritis, Petros Exarchakis, George Paulogeorges, Nicholas Trikoupis and Panayotis Chondrodimos, who have to leave office according to the Statutes, and who are eligible for re-election.

We shall now ask for your approval on the following subject:

The Bank's Statutes (Article 8) specify that twenty per cent of the Bank's net annual profits shall be used first to build up a reserve fund, until a sum equal to one half of the Bank's share capital is reached. In application of this provision, an ordinary reserve fund of ten million drachmae or a corresponding sum equal to one half of the Bank's share capital of twenty million drachmae has been built up and exists. According to Decree-Law No 2021 of December 20, 1942, the Bank's share capital was increased in 1943 by 10 per cent. through the issue of 2,000 shares, which were delivered to the Government. Thus, the Bank's share capital reached twenty two million drachmae, whereas its ordinary reserve fund was left at the sum of ten million drachmae. According to currency adjustments made in 1945, 1947 and 1948, while our share capital rose to eighty eight milliards of drachmae (80 milliards in paid-up share capital, plus 8 milliards increase of Decree-Law 2021/1942), our ordinary reserve fund rose to forty milliards of drachmae. This fund is thus four milliards of drachmae less than half of our share capital.

The Bank has an extra reserve fund amounting to 74,752 million drachmae, and this matter can be arranged immediately and in total. We mean to adjust the ratio between share capital and ordinary reserve fund, by transferring the necessary sum of four milliards of drachmae from our extra reserve to our ordinary one.

Your Meeting is required to approve this transfer, and we would ask you to give us this approval.

BALANCE SHEET

BALANCE

December

ASSETS

Funds disposable:

1) Cash in hand and with the Bank of Greece	Drs. 193,573,954,240.—	
2) Gold, foreign banknotes, and foreign exchange	17,418,031,164.—	210,991,985,404.—
Bonds of Greek National Loans and Treasury Bills		3,737,941,712.—
Loan to the Greek State		17,330,921,109.—
Bills Discounted and Current Accounts against Personal Security Loans and Current Accounts on pledge of Securities		434,246,689,893.— ¹
» » » » » Merchandise		4,635,185,419.— ¹
» to, and Bonds of, Corporate Bodies		614,205,559,562.— ¹
Reconstruction Loans for a/c of the Greek State		278,354,291.—
Investments		372,425,050.—
Bank Premises and Real Estate		76,271,641,098.—
Office Furniture, etc.		97,753,459,483.—
		11,840,155,670.—
	Drs.	1,471,664,318,691.—

¹⁾ Of which Drs. 27,448,679,927.— (Egyptian pounds 1,338,111.43 at Drs. 20,513) with our Branches in Egypt.

DR.

PROFIT AND

Balance from year 1948		5,933,128,075.—
Expenses:		
To General Expenses	Drs. 84,110,655,130.—	
» Taxes (income tax, turnover tax, etc.) »	6,559,818,711.—	
» Staff Pension, Mutual Assistance and Self - Insurance Funds	18,268,475,777.—	108,938,949,618.—
Interest Paid:		
On Sight Deposits, Savings Bank Deposits, Permanent and Term Deposits	Drs. 18,017,830,893.—	
On Creditor Accounts Current.	11,890,196,257.—	29,908,027,150.—
Amounts Written off:		
To Bank's Premises and Real Estate	Drs. 3,915,755,593.—	
» Office Furniture, etc.	4,542,927,840.—	
» Provision	2,000,000,000.—	10,458,683,433.—
<i>Net profits</i>		6,798,283,909.—
	Drs.	162,037,072,185.—

DISTRIBUTION OF NET PROFITS

<i>Net Profits</i>	
To Dividend	
» Balance carried forward	

Dividend for

Dividend.	
Less Income Tax.	
Dividend, free of Income Tax, at Drs. 200,000.—	

ON BEHALF OF THE BOARD

C. D. TRIANTAPHYLLOPOULOS

DIRECTOR

Athens, February 23rd, 1950

G. J. PESMAZOGLU

GOVERNOR

SHEET

31st, 1949

LIABILITIES

Capital:

1) Share Capital	Drs. 80,000,000,000.—	
10% increase, Leg. Decree N° 2021/1942 . . . »	8,000,000,000.—	Drs. 88,000,000,000.—
2) Reserve Capital:		
a) Ordinary	Drs. 44,000,000,000.—	
b) Extraordinary »	70,752,094,698.—	» 114,752,094,698.—
		202,752,094,698.—

Deposits:

1) Sight Deposits	Drs. 540,246,401,151.—	
2) Savings Bank Deposits	» 17,407,662,603.—	
3) Permanent and Term Deposits	» 82,939,108,988.—	640,593,262,742.— ²
Greek State Long Term Reconstruction Loans		374,543,850.—
Creditor Accounts Current		412,333,158,916.—
Suspense Accounts		211,073,971,827.—
Dividend for 1949, free of Income Tax		4,400,000,000.—
Profit and Loss Account, Balance carried forward		137,286,658.—
	Drs.	<u>1,471,664,318,691.—</u>

²) Of which Drs. 29,885,272,844.— (Egyptian pounds 1,456,894.30 at Drs. 20,513) with our Branches in Egypt.

LOSS ACCOUNT

CR.

By Interest Received, Dividends, Difference on Foreign Exchange, Commissions, Safe Custody Fees, Income from Real Estate and Sundry Profits	162,037,072,185.—
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Drs. 162,037,072,185.—

OF DRACHMAS 6,798,283,909.—

.	Drs. 6,798,283,909.—
.	Drs. 6,660,997,251.—
.	» 137,286,658.—

the year 1949

.	Drs. 6,660,997,251.—
.	» 2,260,997,251.—
per share.	Drs. 4,400,000,000.—

G. D. DIMAKOPOULOS
MANAGER, CHIEF ACCOUNTANT

ERRATA: Figures in the last column of the table on p. 28
should read: 4.04 mrds. instead of 40.4 mrds.

4.00 » » » 40.0 »

3.88 » » » 38.8 »

a. s. o.

