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BANK OF GREECE

REPORT  
FOR THE YEAR 1975



ATHENS 1976

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FOR THE YEAR 1975



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# **REPORT**

**By Governor Xenophon Zolotas**

**to the**

**Forty-third Annual Meeting  
of Shareholders  
held on 29th April, 1976**







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## I. PROBLEMS AND PROSPECTS OF THE GREEK ECONOMY

### 1. ECONOMIC RECOVERY AND CONTROL OF INFLATION

Taken as a whole, economic developments in 1975 may be considered satisfactory. Since the autumn of 1974, it has been possible to halt economic recession and slow down the rate of inflation. In 1975 there was a slow but steady recovery in economic activity, which is reflected in the growth of GDP at factor cost by 3.7 per cent. Economic recovery is continuing this year, in which the forecast is for a 4 to 5 per cent increase in GDP.

Of course, the growth rate of GDP is not impressive. It is satisfactory, however, if one considers the need to restrain inflation and reduce the balance-of-payments deficit or compares it with corresponding rates in other countries. For the OECD's European members as a whole, it is estimated that GDP declined by 2.5 per cent in 1975. It should not be overlooked that, owing to the great dependence of Greece on foreign trade, the world recession exerts an adverse influence on the Greek economy, mainly through the balance of payments, and therefore reduces the possibilities of sustaining a high rate of economic growth. Any attempt to accelerate economic development would necessarily lead to a larger balance-of-payments deficit since it would require higher foreign exchange outlays for imports at a time when the increase in earnings from exports of goods and services comes up against the decline in international demand.

A further positive development was the reduction of the deficit on current account by \$209 million, i.e. from \$1,218 million in 1974 to \$1,009 million in 1975. At the same time, there was a significant increase in the ordinary inflow of capital and an improvement in its composition. As a consequence, requirements for accommodating borrowing were about 50 per cent less than in 1974.

Finally, the consumer price index in 1975 rose by 15.2 per cent against 13.5 per cent in 1974. The latest increase lies within the limits of initial forecasts and is due to higher indirect taxes (for at least a quarter of it) and the continuing rise in the prices of many imported goods. However, regardless of specific causes, the acceleration of inflationary trends in 1975—even though slight—was an adverse development, especially since the rate of inflation in most other countries is slowing down. The average rate of inflation in 1975 was 10.6 per cent for the OECD and 13.5 per cent for its European members. It should be noted that a higher rate of inflation than that recorded in Greece's major trading partners may undermine the competitive position of the Greek economy, exert an adverse influence on the balance of payments and eventually reduce the possibilities of sustaining a high level of economic activity and employment. But there are other ways as well in which inflation inhibits economic recovery. It erodes the real incomes and purchasing power, particularly of the lower income groups, and thus makes it difficult to support an adequate level of demand in the economy, which is necessary to increase production. In addition, it aggravates income disparities and undermines social cohesion, which is essential for grappling with the difficult problems facing the economy during the present period of transition. Furthermore, inflation strengthens



speculative tendencies, discourages productive investment and generally leads to the irrational allocation and use of available economic resources. This is why the fight against inflation is a top priority and a prerequisite for the attainment of other economic policy objectives. The government is right, therefore, in having made it a central objective of its economic policy for 1976 to hold the rate of inflation below 10 per cent. This rate is close to the average forecast for the European members of the OECD and is consistent with the aim of accelerating economic growth and bringing about a further improvement in the balance of payments.

The success of the effort to bring inflation under control depends primarily on (i) the implementation of prudent monetary and credit policies, (ii) a sound fiscal policy, and (iii) equally important, keeping the increase in incomes within the limits of the economy's capabilities. The first two factors are the responsibility of the government and a prerequisite for preventing an excessive expansion of currency circulation. The third one presupposes co-operation between the government and the social groups concerned, but, in the main, it requires self-restraint in the pursuit of income claims.

First of all, the authorities must take effective steps to prevent an excessive increase in profits, especially through the abuse of monopoly power. Special care must be taken to prevent the increase of profit margins during the forthcoming phase of economic recovery. This is a serious risk, considering the present structure of many markets for goods and services. To avert this risk, it is imperative that the proposals concerning the exercise of effective control over monopoly and oligopoly situations be implemented the soonest possible. Similarly, careful government interventions through the price mechanism and the timely introduction of suitable measures to supply the market with staple foodstuffs can avert maladjustments in the operation of the market and prevent or neutralise speculative price increases which do not originate in the increased cost of production and are economically unjustified.

Effective measures must also be taken to reduce the high cost of marketing and the high profits realised from the sale of agricultural products, especially perishables. The prices paid by consumers are often substantially higher than those received by producers. The solution might be found partly in stricter market inspection. Primarily, however, it should be sought to encourage new forms of trade organisation, with the ultimate objective of reducing the number of middlemen, the cost of product handling, and profit margins. This problem is basically structural. In this context, increased activity by farmer co-operatives could safeguard the interests of farmers and at the same time help to restrain consumer prices. It should be stressed that the maintenance of prices at high levels, owing to the uneconomic organisation of product marketing or the unjustifiably high profits of middlemen, restricts the demand for agricultural products and often bars a good part of agricultural output from reaching the market. Consequently, the conditions prevailing in the marketing of farm produce turn out to be harmful to the country's agricultural economy.

At the same time, support prices for agricultural products cannot be set higher than international prices, since the result would be to impair the competitiveness of Greek agriculture or lay an excessive burden on the government budget for subsidies. Nor is it advisable for government intervention to lead to a price structure unfavourable to the changes which are necessary for restructuring agricultural production. Although



price supports are needed to improve agricultural incomes, beyond a certain point they impede agricultural development, which is the only way to bring about a real improvement of living conditions in the agricultural sector. Therefore, it is expedient that the improvement of farmers' incomes should be sought primarily by means other than price supports. The emphasis should shift towards organisational and institutional measures, which will help to increase agricultural productivity.

Equally important for reducing the rate of inflation below 10 per cent during the current year is to slow down the increase in wages and salaries. Since the summer of 1974, government policy has been aimed at restoring the purchasing power of wage-earners, which had been eroded by inflation during the preceding period. Indeed, since the autumn of 1974, the increase in labour remuneration has been faster than the rise in prices. According to data available for the manufacturing sector, between the third quarter of 1974 and the last quarter of 1975, average hourly wage rates increased by 36.4 per cent while, in real terms, it is estimated that they went up by 13.9 per cent. The high growth rate of money wages pushed up the cost of labour per unit of output by 23.6 per cent and was the principal factor underlying the rise in prices. Nevertheless, the incomes policy pursued by the government was justified on both social and economic grounds. Initially, it helped stimulate consumer demand and bring recession to a halt, while later on it promoted economic recovery.

The increase in money wages, however, must not exceed a certain limit, beyond which it would create serious risks concerning the future course of the economy. The results achieved so far in controlling inflation might be reversed. To a significant extent, the faster price increases observed since the second half of 1975 are the result of pressures due to rising costs. Furthermore, certain conditions might emerge, which could make it difficult for economic development to continue. First of all, the rise in prices, which is the inevitable consequence of increasing production cost, might eventually halt the growth of real incomes, especially of the lower income groups. Therefore, pressure to increase money wages beyond the limits of the economy's capabilities may not only fail to ensure an improvement in living standards, but is quite likely to hold back economic recovery and increase unemployment. Moreover, profit expectations, which have a marked effect on private investment decisions, are basically dependent on business forecasts regarding developments in demand and in price to cost ratios. This means that, under conditions of rapidly increasing wages and of a growing divergence between the increase in real wages and the improvement in productivity, a recovery in private productive investment could hardly be expected. Needless to say, the adverse effects of stagnation in the field of investment are not limited to current economic activity; they also affect the attainment of long-term development goals.

The preceding remarks point to the pressing need for an effective prices and incomes policy, which must be the principal element in the country's anti-inflationary strategy. Without a suitable incomes policy, strict and effective control of speculative price increases, and self-restraint in the pursuit of the income claims of various social groups, it will be difficult to bring inflation under control. It should perhaps be added that the increase in oil prices and the deterioration in the external terms of trade, in conjunction with increased foreign exchange outlays to support the country's defence capability, make it necessary not merely to maintain but to strengthen the competitiveness



of the Greek economy during the next few years. It should be noted in this connection that, in some foreign countries, employers' organisations have agreed with the respective trade unions to increase real wages at a lower rate than the improvement in productivity, so as to offset the deterioration in the terms of trade.

Obviously, if the ratio of productivity to real cost worsens, it will become unavoidable for the authorities to resort to restrictive fiscal, monetary and credit policies in order to control inflation and preserve external equilibrium. The economic and social cost of such policies would be extremely high. They would lead to a lower level of economic activity and employment and to a slower pace of development. As a consequence, the improvement in the standards of living during the next few years would also be slower.

## 2. THE ROLE OF MONETARY POLICY : TARGETS AND MEANS

As already mentioned, the successful control of inflation depends also on the implementation of a prudent monetary policy. The authorities are faced with the extremely difficult problem of permitting the expansion of currency circulation to the extent needed to help economic recovery, without exceeding the limit beyond which it would undermine the efforts to control inflation. The rate of increase in currency circulation started slowing down in the second half of 1975. Although borrowing requirements in both the private and the public sector were and still are large, currency circulation grew at a slow rate in the first quarter of 1976. During this quarter, the average level of banknote circulation was 5 per cent higher than in the same quarter of 1975.

According to existing indications, the large increase in currency circulation during the preceding period, especially since the summer of 1974, was initially due to withdrawals of private deposits and then to the expansionary monetary policy followed by the authorities. Currency circulation gradually started decreasing after the restoration of a climate of confidence. This is an encouraging development.

As for 1976, the monetary authorities are determined to keep the rate of increase in currency circulation around 12 per cent. This is consistent with the other objectives of economic policy, namely to ensure an increase of 4 to 5 per cent in real GDP, to hold the rate of inflation below 10 per cent, and to bring about a further improvement in the balance of payments. The attainment of this objective presupposes that total borrowing requirements in the public and the private sector will remain within the limits of the increase in financial resources mobilised through the credit system (including the desired increase in currency circulation).

In 1975, credit expansion was very high, both to the private and to the public sector. It approached a total of Dr. 113 billion, of which 57.9 per cent went to the private sector and 42.1 per cent to the public sector of the economy. The substantial credit expansion that took place in the second half of 1974 and continued for the best part of 1975 was aimed at helping the economy out of the recession. The Currency Committee and the Bank of Greece will continue to support economic recovery by ensuring a sufficient sup-



ply of funds to satisfy the demand for both long-term investment and short-term credit to meet current production requirements in working capital.

However, the monetary authorities are not prepared to permit an excessive expansion of currency circulation, which might be used for financing, even indirectly, less productive or socially undesirable activities and could have serious inflationary implications. To this effect, credit expansion and the liquidity of the banking system have been brought under stricter control. At the same time, steps are being taken to rationalise the distribution of available financial resources so as to reduce the dependence of certain credit institutions on Bank of Greece funds and thus prevent burdensome increases in currency circulation. Under this policy, the flow of funds from the Bank of Greece to institutions specialising in long-term credit financing will be cut off completely or to a very significant extent during the current year. In anticipation of these developments, a number of investment banks have recently started selling bonds (of one-year maturity with the option of being extended for two more years on the same terms) directly to the public. The issue of these bonds is expected to increase the amount of savings mobilised through these intermediaries and bring about a more rational allocation of available funds among the various financial institutions, thereby also enhancing the effectiveness of monetary policy.

For the same purpose, redepositing by the Postal Savings Bank with the commercial banks has in effect been stopped since the last months of 1975. Moreover, withdrawals may be decided in the course of the year if this is felt necessary for controlling the liquidity and credit expansion of commercial banks. New funds becoming available to the Postal Savings Bank are used to finance activities which, even in 1975, were directly or indirectly financed out of Bank of Greece funds, thereby having an expansionary effect on money supply. At the same time, the banks have been offered the option of placing funds intended for investment in interest-bearing treasury bills in an interest-bearing account with the Bank of Greece. In essence, this permits proper timing of government borrowing from domestic sources, in line with monetary policy objectives.

Nevertheless, the Agricultural Bank continues to depend on the Bank of Greece for most of its requirements. This is an anomaly since it reduces the possibilities of applying a more flexible and effective monetary policy. It is expected that recent legislation, which permits the subsidisation of interest rates on high-cost funds, in comparison to the rates charged on credit to farmers, will induce the Agricultural Bank to attract private deposits, thereby lessening its dependence on the Bank of Greece.

The objective of the monetary authorities is to apply a flexible policy that can be promptly and readily adjusted to changing conditions and requirements in the economy. The monetary policy just outlined and the target set with regard to this year's increase in currency circulation are constantly being reviewed and may be revised in the course of the year, according to actual developments and trends in economic activity, prices, the balance of payments, public-sector borrowing requirements, and private deposits. It should perhaps be recalled that the capabilities of monetary policy in this respect are not unlimited. A sound monetary policy can assist in economic recovery. It cannot suffice, however, to bring the economy back onto the path of development. To this end, it is necessary to ensure favourable conditions and, especially, the recovery of private



investment, on which depend both the expansion of productive capacity and the strengthening of the economy's export orientation and competitiveness.

One of the basic problems that will have to be dealt with over the next few years is to restore the savings to national income ratio to its pre-inflation level. Since 1973, under the influence of inflation and economic recession, this ratio has fallen by 7.2 percentage points, i.e. from 22.9 per cent of national income in 1972 to 15.7 per cent in 1975. The reduction in the savings ratio helped to support consumer demand and economic activity during the last two years and is expected to have similar effects on economic activity and employment this year. In the long run, however, to restore this ratio to the level attained prior to the inflationary phase and the recent economic slump is a fundamental requirement for supporting the large amount of investment needed to achieve the desired rate of economic development, under conditions of monetary stability. Otherwise, the inadequacy of savings may in the near future become a serious constraint on the country's economic development. To avert this risk, it is necessary to plan public-sector activity over the next few years and make a substantial cut in its borrowing requirements. At the same time, it is imperative to take appropriate steps to encourage investment by the private sector and allow for a more rational allocation and use of available savings in such a way as to help attain development targets.

### 3. CREDIT POLICY AND CONTROL OF THE BANKING SYSTEM

Since the autumn of 1974, the objective of credit policy has been to ensure a responsive supply of bank credit for financing productive investment, primarily in the industrial sector, and for promoting exports. For this purpose, long-term lending for industrial investment and short-term export financing by the commercial banks have been excluded from the ceiling on bank credit to the private sector since August 1974. At the same time, public and private special credit institutions have been supplied with sufficient funds to satisfy the demand for long-term capital to finance productive investment.

For the current year, the objective of the monetary authorities is to prevent the undertaking of new, economically sound investment projects, chiefly in manufacturing and tourism, from coming up against an insufficient supply of long-term bank credit. To encourage industrial investment, long-term lending rates are kept lower than those applicable to short-term loans by the commercial banks. This is done by continuing to differentiate the percentages of compulsory deposits with and corresponding withdrawals from the Bank of Greece, according to the category of commercial bank loans. In addition, the system of interest rate subsidisation by the government has been retained in the case of long-term loans intended to finance industrial investment outside the Greater Athens area. As a result, the cost of long-term bank credit for industrial projects can be, and often is, substantially less than the cost of the corresponding funds.

This policy ensures an elastic supply of low-cost long-term bank lending for financing industrial investment, and has helped to support investment activity in industry, mainly through the continuation of projects that had been planned before the economic recession. It could not, however, overcome the hesitation of businessmen in



undertaking new industrial investment, in so far as their reluctance was due to slack domestic and foreign demand or to the existence of idle productive capacity in certain industries.

Similarly, sufficient financial resources have been put at the disposal of the Agricultural Bank to satisfy the demand for medium and long-term loans for financing investment in the agricultural sector. But in this case also the demand for credit was slack, in spite of the low cost of bank credit.

Short-term lending by the commercial banks was kept under an overall ceiling last year, which was high enough, however, to satisfy working capital requirements arising from increased output and the growing cost of inputs. Moreover, it left considerable room for relieving the liquidity problems caused by stockbuilding in certain firms, owing to declining demand, and for expanding suppliers' credit to the clients of industrial enterprises. There are indications that the expansion of suppliers' credit contributed to an upturn, however limited, in industrial production. To a significant extent, the working capital requirements of industrial and commercial enterprises were met by credit leakages out of commercial bank lending not subject to a ceiling. This is evident from the fact that the growth rate of commercial bank lending in this category was very high (61 per cent) last year, without being justified either by developments in economic activity or by the increasing cost of inputs. Credit leakages grew especially after the elimination of credit ceilings for funds intended to finance industrial exports and handicrafts.

The monetary authorities permitted a large expansion of credit to the private sector for the best part of last year, mainly for the purpose of halting the recession and assisting in the recovery of the economy. In fact, credit policy played a significant role in putting an end to the decline in industrial production, both by relieving the liquidity problems of a large number of firms and by promoting their sales through increased amounts of suppliers' credit.

However, the usefulness of credit policy as a means of combating economic recession is limited. In the first place, easy credit strengthens the resistance of many firms and seems to affect their pricing policies and aggravate inflationary pressures. There are clear indications that this happens at the level of retail as well as wholesale trade. Easy credit resulting from the large expansion of suppliers' credit by industry leads to the maintenance of the high profit margins that were achieved under the conditions of high inflation and the psychological climate which prevailed up to mid-1974. In many cases, it seems that the enterprises in question seek to maintain their profits in the face of declining sales, by raising their profit margins. In addition, the large expansion of credit increases currency circulation and exerts further inflationary pressures. The conclusion is that excessive reliance on credit policy as a means of promoting economic recovery is incompatible with the aim of combating inflation.

Furthermore, beyond a certain point, the practice of handling the liquidity problems of business enterprises by ensuring an elastic supply of bank credit runs counter to long-term development objectives. It weakens or neutralises market pressure and encourages many firms to postpone the adoption of rationalised production processes, improved administrative and marketing techniques, advanced technology, cost-saving methods etc. To the extent that this happens, economic recession and the slackening of demand it entails do not contribute to the enhancement—in so far as it would otherwise be possible



—of productive and trade activity nor to the selection, through market pressure, of enterprises with a strong potential for growth.

For the purpose of lessening these adverse effects, the monetary authorities have started applying since the beginning of 1976 a stricter but at the same time more flexible credit policy. The aim of this policy is to ensure a sufficient supply of short-term bank credit to satisfy working capital requirements arising from increased output and the growing cost of inputs. However, the supply of short-term credit must not overstep the limit beyond which it would become possible for industrial firms to expand suppliers' credit excessively, nor leave room for other kinds of credit leakages that might be used for financing less productive or socially undesirable activities.

This means that the growth rate of short-term bank credit must be slowed down and kept in line with actual requirements in the production activity of enterprises. Such a slowdown is not going to have adverse effects on the course of the economy, since it has already entered a phase of recovery and, therefore, real incomes and private demand are increasing. Moreover, the liquidity of most business enterprises is at satisfactory levels, owing to the rapid expansion of short-term bank credit between September 1974 and the end of 1975.

As for long-term lending by the commercial banks, the Hellenic Industrial Development Bank (HIDB) and other institutions specialising in long-term credit, the aim of the monetary authorities is to ensure this year a wholly elastic supply of funds, so that the realisation of economically sound projects will not come up against an insufficient supply of credit. It is self-evident that the banks must make a careful appraisal of new investment projects and promote those which promise to become internationally competitive and contribute to the restructuring of the economy, in view of Greece's forthcoming accession to the European Economic Community.

Co-operation between the Currency Committee and the management or executive staff members of the banks is instrumental in ensuring a flexible credit policy that can be promptly adjusted to the course of economic activity and to developments in prices, the balance of payments, the resources available to the credit system and public sector requirements for borrowing. Such co-operation provides the opportunity for a proper evaluation of prevailing credit conditions, while at the same time credit institutions can be given general and/or specific directions regarding their portfolio policies in response to current conditions and requirements. It also provides credit institutions with the opportunity to contribute to an evaluation of credit conditions and requirements and thus influence credit policy decisions. It should be noted that there are considerable advantages to be gained by adjusting credit expansion and its structure through informal co-operation between the Currency Committee and representatives of the banks. Needless to say, credit expansion is kept in line with the overall monetary and credit policies laid down by the Currency Committee.

In an effort to control credit expansion and its structure so as to harmonise them with economic policy objectives, the Currency Committee is taking steps to reallocate the savings mobilised through the credit system and influence the liquidity of commercial banks. For the same reason, the system of credit inspection applied by the General Inspectorate of Banks is being reorganised to make it more effective and adjust it to the situation emerging from the restoration of more liberal operating conditions in the credit



market and the transfer of greater initiative to the banks in selecting their loans. The emphasis of credit inspection will be shifted from checking for formal violations of credit regulations to a broader evaluation of the banks' lending activities and to an investigation of whether, and to what extent, credit institutions select their assets according to principles and criteria consistent with the objectives of credit policy.

In this connection it should be noted that, although the banks operate more efficiently as profit-seeking private firms, their activities have wider economic effects. They handle huge amounts of funds entrusted to them by private savers and their portfolio policy affects the course of the economy. Hence, there are serious reasons that make it imperative to apply strict inspection of bank activities so as to safeguard savers' interests and ensure the greatest possible contribution of the banks to the stability and progress of the economy. At any rate, it is necessary to apply restrictions on bank lending and other transactions of the banks with enterprises in which the banks themselves and especially those controlling the banks have business interests. The regulations required in this respect are being studied by the Currency Committee. In addition, for the purpose of reducing credit risks and safeguarding the interests of savers, it is essential to apply the generally accepted principles of wide dispersion of bank portfolio investment, which were sometimes ignored during the dictatorship.

The foregoing remarks point to the imperative need to expand and improve bank inspection techniques and to apply specific regulations regarding certain activities of the banks. A related problem is that of improving the banks' capital ratios, which have deteriorated in recent years. The capital ratio is an important criterion in granting the banks the approval required for expanding their network of branches. It is also necessary to establish suitable conditions for improving the profitability of the banks, which has been adversely affected in recent years, largely for reasons lying beyond the banks' power to control. Through a series of decisions taken since September 1974, the monetary authorities have endeavoured to increase the profitability of the banks. However, profitability is a problem for the banks themselves, which must take appropriate steps to modernise their activities and improve their organisational set-up so as to raise their productivity and reduce operating costs. Although the commercial banking system is one of the most up-to-date sectors of the economy, there is still plenty of room for further improvement, which is the safest way for enhancing the profitability of the banks. The rational reorganisation and more economical operation of the banks is also necessary in view of the forthcoming accession of Greece to the EEC, which will increase foreign competition in the banking sector.

For the near future, the authorities are contemplating a reform of the present system of credit controls and regulations. This reform will be based on:

First, the abolition of a number of selective credit controls and the simplification of credit regulations. The aim is to give the banks greater responsibility and initiative in selecting their loans according to certain general principles and criteria that will be established by the Currency Committee. In addition, some general rules relating to the asset structure of commercial banks will be adopted so as to favour the financing of economic sectors and activities of higher priority, while at the same time safeguarding the stability of the banking system. As already mentioned, credit expansion will be controlled through measures affecting the allocation of savings among the



various sections of the credit system and the liquidity of the commercial banks.

Second, the consolidation of interest rates on bank loans. The interest rate structure must gradually come to reflect to a greater extent the customary banking criteria of safety, liquidity and profitability. Interest rate subsidisation through the banking system, i.e. by differentiating interest rates according to the category of bank credit, must eventually be abandoned. Instead of the present system, whenever subsidies on interest rates are considered necessary for development purposes, they must be paid out of a special account, according to the provisions of a law enacted in 1975.

It is expected that the foregoing measures, together with those designed to reorganise credit control and bring about a reallocation of savings among the various parts of the credit system, will enhance the effectiveness of monetary policy and help distribute bank credit in such a way as to serve development purposes. A further important advantage to be gained from this reform is that the banks will be allowed greater initiative.

#### 4. PUBLIC SECTOR BORROWING REQUIREMENTS AND ECONOMIC EQUILIBRIUM

The high borrowing requirements of the public sector over the last two years had a strong expansionary effect on currency circulation, which is continuing this year. For 1975, public sector borrowing from domestic and foreign sources is estimated at Dr. 46 billion and corresponds to 6.8 per cent of GDP. For the current year, the borrowing requirements of the public sector are put at Dr. 53 billion, representing about the same percentage of GDP as in 1975. In effect, however, the pressure to be exerted by the public sector on currency circulation this year will be substantially greater if the special levy on business enterprises, reckoned on the basis of the outstanding balance of their bank borrowing, is also taken into account. For the payment of this levy, enterprises will be financed by the banking system in excess of their usual requirements. This means that, from the monetary point of view, the financing of businesses for the payment of the levy is tantamount to indirect government borrowing from the banks.

The substantial deficits of the public sector had a significant stimulating effect on economic activity during the last two years, which is expected to continue this year. Accordingly, it is estimated that the public sector will contribute about one-third of the increase in national income forecast for 1976.

The financing of cash deficits in the public sector was economically advisable and did not cause monetary disturbances so long as the economy was in a recession. The fiscal deficits and the other borrowing requirements of the public sector were largely financed out of the private savings that flowed into the banking system in the form of deposits and were in excess of the borrowing requirements of private enterprises. Following the recovery of economic activity, however, it is essential that public-sector borrowing requirements be gradually restrained and eventually stabilised at a level which will be in line with normal rates of increase in currency circulation. Otherwise, it will either become necessary to restrict credit expansion to the private sector of the economy or the amount of public expenditure will give rise to serious monetary disturbances. In the former case, the pace of economic recovery and development would be slowed down, while in the latter



case, it would be impossible to bring inflation under control. Moreover, it should not be overlooked that if the public debt continues to expand, debt service payments will absorb a growing proportion of the budget, with a corresponding curtailment of the possibilities for financing essential government outlays.

The rapid growth of public expenditure in recent years is partly due to special reasons, such as the need to strengthen the country's defence capability and at the same time expand and improve public education and health facilities, as well as other social services. The allocation of increased resources to the sector of social services became necessary because basic parts of it had been neglected during the dictatorship. To a significant extent, the expansion of public expenditure is also due to the increase in the money incomes of those employed in the public sector. Although this increase has been necessary in order to compensate for the erosion of real incomes by inflation, it has been only slightly offset by improvements in productivity. This is true both of Central Government departments and of public organisations and enterprises. Inept interventions in important government agencies during the dictatorship and the absence of any effort to improve their organisational structure and methods of operation led to reduced productivity.

Similar conditions have been created in the case of public organisations and enterprises. The result has been a sharp increase in their operating cost and a reduction in the capability of financing their own investments. These conditions have led to a large increase in the dependence of public enterprises on borrowed funds. Moreover, the worsening of their financial position tends to become permanent. The sharp rise in the operating cost of public enterprises has brought the authorities face to face with a dilemma, since the curtailment of the enterprises' borrowing requirements by readjusting the prices of the goods and services they offer would burden the level of domestic prices, while the financing of high cash deficits has a strong expansionary effect on currency circulation. To avert this risk, it is imperative to implement a radical reorganisation scheme in order to improve the administrative and operating procedures of public enterprises and organisations. This is also essential for reducing the cost of operation and enhancing the quality of services rendered to the public.

The slowdown of inflation and the gradual recovery of economic activity will eventually reduce the severity of the problem of financing public expenditure, considering that the low level of economic activity and the slow improvement of incomes and consumer demand have affected tax revenue. However, unless the authorities take steps to eliminate the structural causes of deficits in Central Government and public enterprises, a substantial decrease in public-sector borrowing requirements does not seem likely, even if inflation is brought under control and economic activity returns to normal. The growth of Central Government expenditure will continue in the future if the increase in wages is not offset, at least to a considerable degree, by an increase in productivity. The deficits of public enterprises tend to grow because of low productivity and increasing outlays for debt servicing. For instance, the Public Power Corporation will have to spend around Dr. 4 billion this year for the repayment of principal on past loans, while the total servicing of its debts, including interest, will absorb about Dr. 9 billion.

Therefore, the reduction of financial deficits is not going to be ensured simply by expanding economic activity. It requires sound planning of public-sector expenditure



over the next few years and appropriate machinery for exercising effective control over public expenditure and the investment programmes of government agencies in the short run. The latter is necessary for the implementation of a flexible policy on public expenditure that will be geared to short-term developments in economic activity, available resources, the balance of payments and prices. Such a policy offers a wide choice of fiscal, monetary and credit policy instruments best suited to the attainment of overall economic policy objectives. This purpose is served by the provision of larger reserves this year in both the ordinary budget and the public investment programme. The Ministry of Finance is studying medium-term fiscal problems and drawing up a programme of fiscal action covering the next few years.

The same purpose is served by the establishment, within the framework of the Currency Committee, of a suitable mechanism for exercising constant and systematic control over the expenditures of public enterprises and for selecting the best possible means to finance their deficits, with a view to minimising the burden on currency circulation. In this respect, a basic aim since last year has been to transfer the financing of investment programmes of public enterprises from the Bank of Greece and the Postal Savings Bank to the commercial banks, which attract a large proportion of private savings. It should be noted that, during the dictatorship, there was an excessive increase in the dependence of public enterprises on Bank of Greece funds. Besides being unorthodox, this dependence contributed to the high inflation that broke out in the last months of 1972.

Furthermore, it is essential that the Central Government's investment programme, which seems to include projects of low productivity, be revised. In this connection, it is worth noting that, during the dictatorship, decisions to include new projects in this programme were not taken after a proper appraisal and ranking of projects on the basis of criteria relating to their socio-economic value. Another serious shortcoming is that the programme is financed almost exclusively out of borrowed funds. Similar remarks may be made about the investment programmes of public enterprises and organisations. For instance, in the case of social security funds, it seems that there is very wide scope for improving the quality of services by ensuring more rational operating conditions and increasing productivity.

Extensive reforms are also needed in tax policy. The structure of the tax system must be revised in order to increase the progressiveness and income elasticity of tax revenue, ensure a more equitable distribution of the tax burden, and serve development objectives. It is necessary to rationalise and simplify the tax system, partly through the consolidation of several taxes, and to introduce more effective tax assessment techniques. Tax evasion seems to have grown excessively and is not only socially unacceptable, but harmful to the economy. It reduces the effectiveness of financial incentives and causes severe dislocations in the distribution and use of available resources. Both personal and corporate income tax must acquire universal application by combating tax evasion and abolishing non-essential or sometimes economically detrimental tax exemptions, which often lead economic decisions and choices in the wrong direction. It should be noted that tax evasion is far greater for incomes deriving from speculative activities.

By ensuring the universal application of income tax, it would be possible to determine tax rates at levels better suited to the country's present stage of economic develop-



ment, without adverse effects on tax revenue. This solution would be more conducive to the attainment of development objectives, considering that many of the existing tax exemptions, while being of limited effectiveness, actually create inequalities, even between enterprises in the same line of production, and hamper the operation of the market mechanism or may have other side-effects on the economy.

The revision of the tax system on the basis of the above general principles and criteria is also necessary and urgent for the purpose of adjusting the Greek economy to the conditions prevailing in the EEC. It must not be overlooked that basic economic choices and decisions in the area of the Community rely primarily on the operation of an impersonal market and that our major problem is to create an appropriate economic environment and ensure more competitive conditions. The Ministry of Finance is already examining what tax reforms are needed in this respect.

## 5. RESTORATION OF BALANCE-OF-PAYMENTS EQUILIBRIUM

In spite of last year's improvement, the balance of payments is still a serious problem for the country, considering that for the third successive year the deficit on current account exceeded \$1 billion. To a significant extent, the improvement observed in 1975 is associated with a reduction in the volume of imports, largely owing to the slackness of economic activity or perhaps to the liquidation of stocks of imported goods, which had been accumulated for speculative reasons during the preceding period of high inflation. This implies that the maintenance of import payments at low levels should be regarded as a temporary phenomenon and that the acceleration of the growth rate of national income will lead once more to higher rates of increase in imports. Similarly, economic growth abroad will create favourable conditions for expanding the country's foreign exchange earnings from exports of goods and services.

It would be a mistake, however, to think that the current account deficit of the last two years is a cyclical phenomenon and that it will automatically cease to exist as soon as conditions of economic growth are restored abroad. In this connection, it should be noted that, while imports at constant prices declined for two consecutive years, exports of goods moved at fairly high levels throughout 1974 and the best part of 1975. The international recession mainly affected invisible earnings, although not uniformly as regards their three basic sources. Tourism, after its sharp decline in the summer of 1974 under the influence of non-economic factors, showed an impressive increase last year and helped to reduce the deficit on current account. Receipts from emigrants' remittances displayed relative stability and also showed an increase last year. Finally, foreign exchange earnings from shipping showed considerable gains for most of 1974 but were affected by the decline in the volume of international trade in 1975.

These considerations and the investigation of the nature of the balance-of-payments deficit lead to the conclusion that even if the cyclical effects of foreign exchange receipts and payments are eliminated, the current account deficit will not be substantially reduced. This means that the balance-of-payments problem is basically structural. It has its roots mainly in the considerable additional foreign exchange outlays entailed by the rise in oil



prices, the sharp increase in expenditure to service the foreign debt, and the need to support the country's defence capability. It is estimated that these three items together amount to over \$1 billion a year. This burden is so large that it is not easy to restore balance-of-payments equilibrium within a short period of time. Nor would it be advisable to do so, since it would entail large-scale economic recession and widespread unemployment.

The restoration of balance-of-payments equilibrium must needs be gradual and spread over a period of more than one year. During this transitional period, it would be expedient to concentrate efforts on improving productivity and strengthening the competitiveness of the economy. In this way, it would be possible gradually to offset the deterioration in the terms of trade entailed by the restoration of equilibrium and in the meantime avoid lowering the standard of living.

Nevertheless, it should be noted that the adjustment of the balance of payments has so far been hindered by the decline in foreign demand, a fact which necessarily leads to a protracted period of adjustment. This period already covers about three and a half years, seeing that the country's balance-of-payments position started to deteriorate in the last months of 1972. However, the gradual reduction of requirements for accommodating borrowing—particularly the fact that these requirements were reduced in 1975 to about half of the corresponding needs in 1974—shows that it will not be difficult to restore equilibrium in the balance of payments. It should be noted that the improvement in the international competitiveness of the Greek economy has been based, to a significant extent, on foreign exchange policy. The ratio of productivity to the cost of inputs, on which the strengthening of the economy's competitiveness could be based in a more permanent way, has not displayed any notable improvement. Economic recession and the ensuing slackening of economic activity did not leave room for increasing productivity. At the same time, however, pressures to readjust wages and salaries and other cost components, together with the effort of many businesses to maintain the high profit margins achieved under the conditions of high inflation that prevailed in 1973 and 1974, result in worsening the productivity ratio and have a crippling effect on efforts to bring about a lasting improvement in productivity.

It should be stressed that it is impossible to maintain a permanent balance in the country's external transactions through readjustments in the parity of the drachma, given that they increase the cost of imports and strengthen inflationary pressures. In addition, exchange rate readjustments do not provide a lasting solution, since other countries also proceed to competitive devaluations which easily neutralise the comparative advantage gained from readjustments in the parity of the drachma. For instance, this occurred at the beginning of 1976 following the devaluation of the currencies of two of Greece's major competitors in foreign markets, namely Italy and Spain, by 10 and 11 per cent respectively.

The policy regarding the parity of the drachma can only be used as a supplementary means of improving the balance of payments. In fact, it has been used successfully for this purpose. Between the beginning of September 1974 and the end of January 1975, by following the dollar in its depreciation, the competitive position of Greek products was strengthened, both in foreign markets and in the home market. Since March 1975, when the drachma was disengaged from the dollar, the parity of the drachma has been



linked to the weighted average rates of a basket of currencies of Greece's major trading partners. In this way, the weighted average exchange rate of the drachma remained almost unchanged up to the beginning of last July.

In July, following the renewed appreciation of the dollar, it was decided to link the drachma to the movements of the European currencies. This policy resulted in raising the price of the dollar. It was necessary, however, in order to maintain the competitive position of Greek exports. The same policy will be continued in the future, based mainly on the criteria of preserving the competitiveness of the Greek economy and avoiding any serious consequences on the level of domestic prices.

## 6. ACCESSION TO THE EEC AND ECONOMIC DEVELOPMENT

In the short run, the growth of national income and export expansion can come from the better utilisation of available productive capacity, which is underemployed in several industries owing to low domestic and foreign demand. The fuller utilisation of productive capacity can also help prevent any further increase in cost per unit of output by distributing fixed costs over a larger volume of output. However, since the recovery of domestic and foreign demand is expected to continue and accelerate in the near future, the increase in production will soon come up against inelasticity of supply.

This means that the achievement of a satisfactory pace of economic development over the next few years depends on the rapid expansion of investment activity, especially in the manufacturing sector. It should be noted that the stagnation or decline of industrial investment is an international phenomenon and has its roots in the worst economic recession since World War II. The result of the recession is the creation of idle productive capacity, the decline of profitability, and the worsening of the capital structure of many business enterprises, as well as the prevailing climate of uncertainty.

The recovery of industrial investment is imperative not merely in order to expand productive capacity and satisfy growing demand in the near future. It is equally important, especially in view of the country's forthcoming accession to the EEC, for ensuring the restructuring of the economy and enhancing its export orientation and competitiveness. It is only in this way that accession will enable Greece to benefit from the reallocation of industrial activity within the European area. Furthermore, it should be kept in mind that the process of tariff elimination will be speeded up during the next few years and that other forms of protection against foreign competition will be gradually abandoned.

According to existing indications, the stagnation of industrial investment is continuing this year, even though the Greek economy has entered a phase of recovery, uncertainty has receded and the business world is, in its majority, optimistic about the future progress of the economy. The latter is clearly evident from the monthly survey carried out by the Economic and Industrial Research Institute. A further encouraging sign is that, despite the severity of the international recession and the dislocations suffered by the Greek economy owing to the erroneous economic policy followed especially during the last years of the dictatorship, the divergence of industrial investment from its long-



term trend is less than in many other countries, even those which are economically far stronger than Greece. Moreover, during the last two years, Greek industrial exports moved at satisfactory levels, compared with the corresponding exports of other European countries with the same or a higher degree of development. This implies that Greek enterprises have exhibited greater resistance and ability to adjust to the adverse conditions brought about by international economic recession and high inflation. They are therefore in a position to benefit from economic recovery and at the same time take advantage of the new opportunities that will be provided by the country's accession to the EEC.

Accession to the EEC requires considerable changes in the structure of the economy, a higher degree of specialisation, increased export orientation, institutional reforms, and a change in working methods and habits. Similar adjustments are needed within business firms, which must improve their organisational, administrative and marketing techniques, acquire greater ability to identify and take advantage of new development opportunities, and attain optimum size.

Private businesses as well as government agencies must realise that accession to the EEC means that both foreign and domestic competition will become keener and that business choices and decisions will have to rely, to an increasing extent, on market information. This implies that the adjustment of the Greek economy to the conditions prevailing in the EEC, combined with a minimisation of social cost, presupposes (i) that competitive conditions will be established as soon as possible in the domestic market, and (ii) that private and public enterprises will be forced to establish suitable conditions and mechanisms for selecting, planning and implementing their investment projects and for improving their managerial methods and the quality testing and marketing of their products.

The first of these prerequisites means that the present system of government interventions and regulations must be reviewed for the purpose of eliminating existing obstacles in the operation of the market mechanism. It should be noted that many forms of such intervention and regulation, as well as the structure of financial incentives, often generate conditions of unequal competition between business firms, even within the same industry. In addition, they hinder the entry of new firms and foster oligopoly and monopoly situations, which discourage investment and enable business firms to maintain high profit margins. Finally, it seems that the whole system of incentives and government interventions often favours less efficient firms or those with no growth potential at the expense of other firms in the same field, which promise to grow and become internationally competitive.

It is therefore expedient for government interventions and regulations to be curtailed and rationalised so as not to distort economic choices and decisions, nor have an adverse effect on the allocation and use of available resources. Most of all, the state must cease trying to give solutions through administrative measures where the operation of the market mechanism would ensure more satisfactory results.

A related question is that of clarifying the government's industrial policy, its policy regarding the protection of the environment and the regional distribution of various economic activities, the policy on tax and other incentives, and the policy vis-à-vis foreign investment. The prolonged state of suspense regarding certain basic regulations and the lack of clarity characterising important sectors of government policy increase the element



of uncertainty and may lead to the discouragement of business firms from undertaking new investment projects, unless the expected profit margin is so high as to cover the cost entailed, in the investor's opinion, by uncertainty. In other cases, to compensate for uncertainty, prospective investors seek to secure increased protection, additional financial incentives or other competition-inhibiting regulations, which may reduce the indirect benefits from investment.

The clarification of government policy, the rationalisation of the system of government interventions and regulations, the simplification or elimination of superfluous bureaucratic procedures and the restoration of competitive conditions are essential for creating an appropriate industrial environment which is of basic importance for increasing private industrial investment and improving its composition. These questions can and must be dealt with successfully in the new five-year economic development plan which is being drawn up by the government. The plan must lay emphasis on the formulation of a suitable economic development strategy and include an appropriate development policy that will be in line with the present stage of development and the current capabilities and problems of the Greek economy, as well as the changes required to adjust it to the conditions prevailing in the EEC. This is the only way in which the plan can become a useful and effective tool for promoting economic development and taking advantage of the opportunities that will be offered by accession to the EEC. Quantitative assessments and development targets, their internal compatibility and consistency, as well as flexibility and adaptability in the implementation of the plan, are absolutely essential. Nevertheless, of greater significance is the identification of strategically important institutional or other changes, which can decisively affect the pace and structure of economic development in socially desirable directions.

As already stressed, a basic aim must be to increase private productive investment, especially in the manufacturing sector. Needless to say, this cannot be done merely by ensuring an elastic supply of long-term bank credit. The problem is much more complicated and difficult. The process of industrial investment necessarily begins within each firm with the identification of new development opportunities that guarantee a satisfactory return on investment. If a planned investment project is economically well founded, the question of securing the required financing is not going to come up against serious difficulties.

The realisation of sufficient profits is essential, first as an inducement for assuming the business risks involved in industrial investment and, second, as a source of finance for new investment. Economic recession and the decline of demand have reduced profits in certain industries and this seems to have brought industrial investment to a standstill. Similarly, the faster increase in real wages, compared with the improvement in productivity, has brought about an increase in labour cost per unit of output. The readjustment of other components leads to a similar result. Likewise, not passing the increase in cost onto prices may provide a wholly temporary solution if the result is to reduce profits below a tolerable level.

The problem of insufficient profitability in certain lines of industrial production seems to co-exist with the problem of unjustifiably high monopoly profits in other lines of industrial activity. While it is necessary to create favourable conditions and ensure possibilities for increasing profitability in industries of the first group, it is also im-



perative to take effective measures in order to neutralise monopoly power and reduce profit margins in industries of the second group. The control of monopoly profits and the establishment of competitive conditions will have favourable effects on the allocation and use of available financial resources and can help accelerate the pace of economic development. However, the view that industrial profits are generally high does not seem to correspond with reality while, at the same time, it produces an adverse business climate and hinders the recovery of industrial investment. It should not be overlooked that exorbitant profits are realised chiefly by tradesmen, middlemen, and the sector of services. The effective control and taxing of these profits are economically expedient, for they would help restrain rising price trends and ensure a more appropriate allocation and use of available resources.

It would be expedient to tackle the problem of formulating an appropriate industrial development strategy by inviting the various social groups to participate in the elaboration of the new five-year plan. It would be useful for the relevant talks to contribute to a better assessment of the role of private business initiative and to the improvement of the climate of confidence. Recognition of the importance of profit resulting from productive activity in a competitive environment, as opposed to profit realised under conditions of excessive protection or through the abuse of monopoly power, is essential for improving the business climate and confidence, increasing industrial investment and ensuring the desired pace of economic development along with the changes required in the institutions and structure of the economy.

Finally, it is essential to mobilise the state agencies established to supplement the task of private business initiative. The Hellenic Industrial Development Bank (HIDB) has made no significant effort in this direction, although private investment activity continues to be inadequate for the third consecutive year. The gap existing in the sphere of private industrial investment is expected to be filled in part by the Hellenic Industrial and Mining Investment Company (HIMIC), which was set up by a consortium of major Greek banks around the end of 1975 and will focus its attention on the exploitation and industrial processing of the country's mineral wealth. Similarly to the HIDB, the HIMIC has been established in order to supplement the task of private initiative in certain sectors, in which the latter takes no interest or is not active, either because the required capital is very large and the business risks too high or because it lacks the necessary experience and organisation. Since the activity of the HIMIC is going to be concentrated in a specific line of industrial production, the HIDB will have a very wide scope for developing its own investment activity.

Both the HIDB and the HIMIC have been set up for the purpose of contributing to the realisation of investment projects of strategic importance to the country's industrial development. It is necessary to activate both these organisations, particularly during the present period, in which private investment activity is inadequate for reasons partly related to international economic conditions and to the existence of idle productive capacity in certain industries. It should be underlined that the HIDB and the HIMIC do not intend to compete with private enterprise, nor to establish bureaucratic business firms that would remain permanently under the control of the state or the banks. The shares and control of the companies to be formed will be transferable to the public and it is advisable for the organisations in question to set up enterprises in co-operation with private venture capital wherever this is possible.



## II. ECONOMIC ACTIVITY AND NATIONAL INCOME

### 1. NATIONAL INCOME IN 1975

In 1975, economic activity rose to a higher level than in the year before. According to provisional estimates by the General Directorate of National Accounts of the Ministry of Co-ordination and Planning, real GNP at factor cost increased by 3.3 per cent, compared with a decrease of 1.2 per cent in 1974. Secondary production and services contributed to this increase by 39.6 and 45.2 per cent respectively, while the agricultural sector lagged behind with 15.2 per cent.

The growth of real GNP in 1975 should be considered satisfactory if compared with corresponding developments in the OECD and EEC member-countries, where GDP is estimated to have declined by 2 and 3 per cent respectively. The favourable developments in the Greek economy were largely due to the economic policy pursued, which aimed at bolstering economic recovery at the lowest possible cost in terms of price increases and improving the balance-of-payments situation.

In particular, real income from the agricultural sector rose by 3 per cent against 11.4 per cent in 1974. The relatively low rate in 1975 is due to the stagnation of live-stock breeding, the reduction of the area under annual crops—especially wheat—and the reduced crop of currants and raisins. On the contrary, the output of tobacco, sugar beet and olive oil was considerably higher.

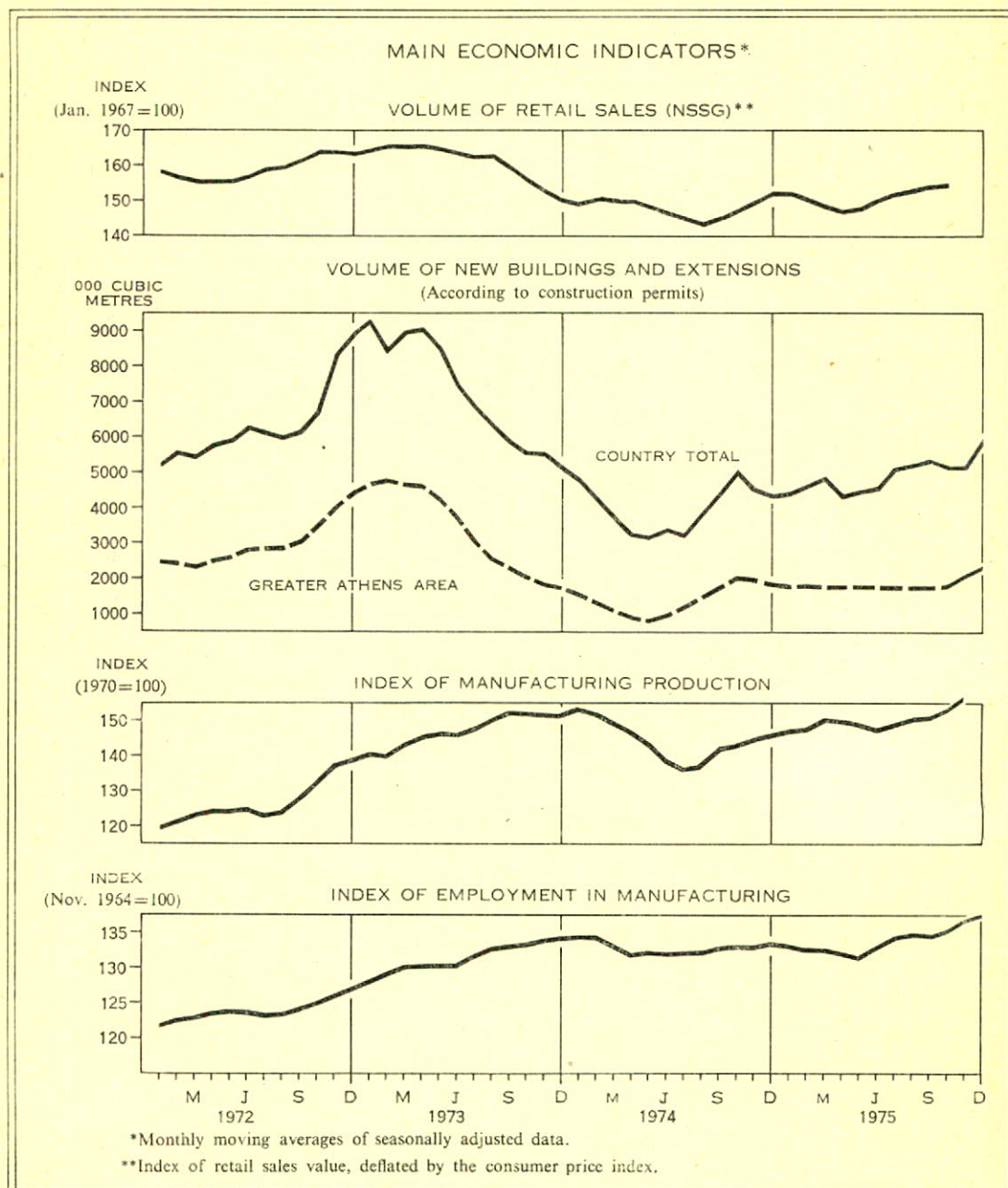
Developments in real income from secondary production, following its considerable decline in 1974, should be considered favourable. The increase in income originating in this sector is estimated at 4.3 per cent, compared with a decrease of 10.8 per cent in 1974, and is chiefly due to the 4.3 per cent increase in income from manufacturing. Increased activity in the manufacturing sector was stimulated by the domestic demand for manufactured consumer goods which picked up in the second half of 1975. The rising trend in domestic demand, combined with the anticipated recovery of foreign demand, as a result of the upturn of economic activity in European countries, paves the way for more favourable developments in manufacturing during the current year. Furthermore, income from mining recorded an increase of 2.5 per cent in 1975. In particular, there was an increase in the production of lignite, bauxite, chromite and manganese. Likewise, income from construction increased by 3.9 per cent while income from public utilities rose by 6.1 per cent. These two sectors had experienced a drop in income by 30.7 and 4.1 per cent respectively in 1974. The revival in construction stemmed exclusively from private building activity. The increase in income from public utilities was the result of the rise in electric energy output.

Income from services, excluding net income from abroad, grew by 3.6 per cent, against an increase of 2.1 per cent in 1974. This increase stemmed from all subsectors, though especially from transport-communications (5.1 per cent), housing (3.5 per cent), and various services (7.4 per cent). Income from transportation and various services



was favourably affected by the growth of tourism, which had declined in 1974.

Finally, net income from abroad is estimated to have fallen by 13 per cent,



following a 9.3 per cent drop in 1974. This decrease is due to the drop in revenue from shipowners' and seamen's remittances, as a result of the crisis in shipping.



## 2. GROSS EXPENDITURE OF THE ECONOMY

The gross expenditure of the economy at constant market prices increased by 5 per cent in 1975, against a decrease of 5.7 per cent in 1974, while GNP at market prices grew by 5 per cent. The disparity between the growth of national income at market prices (5 per cent) and that at factor cost (3.3 per cent) reflects the rise of indirect taxes registered in 1975.

In particular, aggregate consumption is estimated to have increased by 5.9 per cent, against an increase of 3.6 per cent in 1974. This relatively high rate reflects the considerable growth of public consumption for the second consecutive year (1975 : 12.3 per cent; 1974 : 12.8 per cent) due to increased defence, education and health expenditure. At the same time, private consumption increased by 4.7 per cent, against an increase of 2 per cent in 1974. The growth of consumer expenditure is also depicted in the changes in the retail sales index compiled by the National Statistical Service of Greece. The volume index of retail sales<sup>(1)</sup>, seasonally adjusted, displayed sharp fluctuations in 1975. Under the impact of its upward trend during the second half of the year, however, it finally reached an average level which was 4 per cent higher than in 1974. It seems that private consumption in 1975 was partially adjusted to private disposable income, while in 1974 private consumption continued to expand, and finally increased by 2 per cent above 1973, despite lower disposable income. The expansion of public consumption ended up in a decline in the average propensity to save in 1975. Aggregate consumption absorbed 82.5 per cent of GNP at market prices and 78.6 per cent of the gross expenditure of the economy, against 81.8 per cent and 77.9 per cent respectively in 1974.

Gross fixed capital formation at constant prices rose by 1.7 per cent in 1975, whereas in 1974 it had decreased by 25.9 per cent. A further decline of investment during 1975 was halted by a 5.6 per cent increase in private investment (following its sharp decline by 27.8 per cent in 1974) which, however, was offset by a drop of 7.5 per cent in public investment (following its decline by 21.1 per cent in 1974). The latter was chiefly the result of the considerable decline in the investment of public enterprises. As regards private investment, both its decrease in 1974 and its increase in 1975 stemmed chiefly from private investment in dwellings, whose sharp decline in 1974 had a marked restraining effect on economic activity. Investment in dwellings decreased by 46.6 per cent in 1974 but grew by 27.8 per cent in 1975. It should be noted that this increase, as estimated by the General Directorate of National Accounts, is larger than the increase in the volume of new buildings — which, on the basis of construction permits, amounts to 23.8 per cent — owing to the time lag between the issue of the permit and the execution of the project involved and the fact that the permits issued refer not only to dwellings but to other buildings as well. Investment in the latter category decreased by 19.8 per cent, mainly as a result of a slowdown in the implementation of large industrial and tourist development projects. Investment in "other construction works" increased by 2.1 per cent as a result of expanded investment activity in the public sector.

(1) Index of retail sales value deflated by the consumer price index (excluding the cost of services).



Investment in machinery and equipment fell by 5 per cent as a result of the aforementioned decline in the investment of public enterprises. Conversely, private investment in machinery and equipment is estimated to have increased in 1975, considering that the settlement of industrial machinery imports registered an increase of 6.1 per cent at constant prices. However, this development does not necessarily promise an upturn of industrial investment in the near future. The downward trend in approvals for machinery and equipment imports during 1975 is an indication in this respect. It is highly probable that the stagnation of industrial investment will continue in the coming months, considering that inadequate demand is still the main factor holding back investment. Moreover, the growth of demand in the first phase of economic recovery can be met by the utilisation of idle productive capacity.

### 3. AGRICULTURAL PRODUCTION

According to provisional estimates by the Ministry of Agriculture, the volume of agricultural output grew by 2.9 per cent in 1975. The corresponding increase was 9.2 per cent in 1974 and the average annual increase for the four-year period 1970-1973 was 3.6 per cent. The low rate of increase in agricultural output last year was chiefly due to the stagnation of livestock production (+1.1 per cent against +8.5 per cent in 1974) and, secondly, to the slower growth of crop output (+4.8 per cent against +11.2 per cent in 1974).

It should be noted that, of the basic branches of crop production, the greatest slowdown in the rate of growth was recorded in tree crops (+5.4 per cent against +15.9 per cent in 1974) and annual crops (+4.4 per cent against +8.8 per cent in 1974). In particular, the determinants of the lower rate of growth in annual crops were both the decrease in the area under crop — chiefly grains — and the smaller improvement of yields per unit of land. On the contrary, the effect from the restructuring of crops was both positive and pronounced in 1975, whereas it had been negative over a series of years, since the production of crops with a high gross value of output per unit of land had either declined or remained stagnant.

The 2.9 per cent increase in agricultural output is the result of large increases as well as of significant decreases in the output of a small number of crops accounting for less than 30 per cent of the total gross value originating in this sector. This means that the greater part of agricultural output either remained stagnant or recorded small fluctuations. In particular, considerable increases were noted in the output of sugar beet (+88 per cent), tobacco (+45 per cent), apples-pears-peaches (+26 per cent) and olive oil (+13 per cent), whereas decreases were noted in the output of currants and raisins (-21 per cent), wheat (-9 per cent) and barley (-6 per cent).

Considerable headway was made in the effort to step up sugar beet production, which increased from an average annual level of 1,350,000 tons in the five-year period 1970-1974 to 2,660,000 tons in 1975. As a result, sugar output rose to 282,000 tons, which is well in excess of the needs of the domestic market. Self-sufficiency in sugar



saves foreign exchange of nearly \$50 million annually and, at the same time, ensures a satisfactory growth of income for a large part of the agricultural population.

There was also a considerable increase in tobacco output, from 81,200 tons in 1974 to 116,900 tons in 1975. Exportable oriental and Burley tobacco accounts for 31,800 tons of these additional 35,700 tons. Increased output affords large supply margins for expanding exports during the next export season 1976/1977. These favourable developments in the tobacco crop should be attributed to the satisfactory prices quoted to producers during the last two years, as well as to the measures taken to promote tobacco varieties for which there is a growing demand.

A substantial increase in the crop of olive-oil for the second consecutive year raised its estimated level to 257,000 tons against 237,000 tons in 1974. Since during the last few years there has been an increase in olive-oil output all over the world, the international market for this product seems to be characterised by excess supply. This might lead to a considerable drop in its international price and result in difficulties in selling Greek olive oil in foreign markets on satisfactory terms. Such prospects would prove unfavourable for the olive-oil crop in Greece, for at an annual level of output of the order of 250,000 tons, the maintenance of olive-oil prices at a level satisfying producers presupposes a considerable increase in demand, both domestic and foreign.

Favourable developments were seen both in the production and in the sales of citrus fruit and fresh fruit. There was a particularly large increase in the output of fresh fruit—chiefly pears, apples and peaches—which increased the country's export potential. Exports of fresh fruit and vegetables grew considerably during the 1975/1976 season, at prices which were generally satisfactory.

The output of currants and raisins is estimated at 155,000 tons, against 196,000 tons in 1974. Almost the entire crop was bought by the Autonomous Currants Organisation and the Co-operative Sultana Associations at prices satisfying producers, despite low prices in the world market. Owing to the decrease in output, the marketable stock at the end of the current export season is estimated to be lower than at the end of the 1974/1975 season. In view of the existing chronic sales problem for this product, especially in years of high output, it is planned to reduce the area of vineyards. In this respect, a three-year programme has already been announced for subsidising voluntary uprooting of currant plantations covering an area of 6,000 hectares and replacing them with dynamic crops.

Cotton output was maintained at almost the same level as in 1974 (356,000 tons), despite the 12 per cent decrease in the area under crop. This is due to the efforts made by cotton growers for improving productivity and reducing production cost at a time of declining trends in prices. It also points to the efficacy of the policy for the protection of this product, which consisted in fixing a guaranteed price of Dr. 17.70 per kilo in 1974 and Dr. 19 in 1975. Favourable prospects for cotton growing and exports are anticipated since conditions in the international market in terms of demand and prices are already improving again.

The aforementioned trends in the production of basic crops are in line with the policy of improving the composition of agricultural output, by shifting producers' activity to crops satisfying the criterion of high income yield per unit of land coupled with favourable sales prospects in both the domestic and the world market. However, it should



be noted that, as regards other crops whose production is likewise desirable, such as meat and animal feed—especially maize and barley—the problem of promoting these crops remained unsolved or was even aggravated in 1975. In fact, meat output decreased slightly, while that of animal feed fell by 3 per cent. Furthermore, during the three-year period 1973-1975, around \$200 million was allocated for animal feed imports, over and above the annual outflow of foreign exchange to the tune of \$100 million for imports of meat and live animals. The policy pursued during the dictatorship for increasing livestock output, despite the allocation of considerable resources, failed to contribute to the development of a viable livestock industry. It seems that the solution to the problem lies chiefly in increasing the domestic production of suitable and cheap animal feed to meet the present supply deficit, at least to a considerable extent. Any other policy which, in order to satisfy domestic demand for meat and dairy products, would aim at increasing and improving the composition of livestock without previously ensuring adequate and cheap supplies of animal feed, would have a limited economic effect and would simply shift the burden of foreign exchange expenditure from imports of livestock products to imports of animal feed.

With particular regard to developments in livestock production, especially meat output, the following should be noted: Existing evidence supports the view that the stagnation recorded in meat output is due to the unfavourable development of breeding costs in relation to meat prices, following the large increase in the prices of animal feed in 1974. According to estimates of the National Statistical Service of Greece, the prices paid by producers for animal feed increased by 18 per cent in 1973 and nearly 32 per cent in 1974. Compared with these increases, the prices paid to meat producers increased by 25 and 15 per cent respectively. These changes in relative prices may have contributed both to the increase in meat production in 1974 and to the decrease in output in 1975. This view is also upheld by the fact that there was no change last year in the output of pork and poultry meat, which depends to a greater extent on cereals and was, consequently, affected more strongly by the large increase in their prices.

#### 4. DEVELOPMENTS IN INDUSTRY

As regards industrial production, the recovery commenced in August 1974 continued in 1975, although at a slower pace. On the basis of seasonally adjusted data, the index of manufacturing production for the period August 1974—April 1975 rose at an average monthly rate of 1 per cent. Since May 1975, however, the average monthly rate of increase has been limited to 0.6 per cent. Finally, the growth of industrial production during the year under review amounted to 4.5 per cent and should be considered satisfactory if compared with corresponding developments in the OECD countries, in most of which industrial production declined in 1975. The growth of manufacturing production stemmed from an 8.4 per cent increase in the production of consumer goods. Conversely, the production of capital goods recorded only a slight increase (1.5 per cent), while the production of consumer durables decreased further by 11.2 per cent, following a 13 per cent reduction in 1974.



Developments in the manufacturing sector over the last few years seem to have been influenced, to a considerable extent, by the movement of stocks. Under the impact of high demand, the ratio of stocks of finished manufactured goods to the volume of production started declining in the third quarter of 1972 and dropped to low levels at the end of 1973. Under conditions of severe credit restrictions in 1973, which lasted till August 1974, the liquidation of stocks of finished products permitted the financing of increased supplies of raw materials on the part of industrial firms, which expected a continued growth of prices and, at the same time, of the demand for finished manufactured goods.

However, these expectations were not realised. In the last months of 1973, sales of manufactured goods started to decline and in 1974 moved at a level which was substantially lower than in 1973. Nevertheless, manufacturing output during 1974 did not keep pace with declining demand. Hence, the ratio of stocks of finished manufactured goods to the volume of production started to return to a higher level. The financing of stock accumulation has since become possible, owing to the relaxation of credit restrictions in August 1974 and the large credit expansion that followed. Short-term credit to industry grew by 33.4 per cent in 1975, while manufacturing output increased by 4.5 per cent and the prices of manufactured goods — according to the special wholesale price index compiled by the National Statistical Service of Greece — by 7.8 per cent.

Developments in certain basic manufacturing branches and other sections of secondary production in 1975 may be summarised as follows :

a) Following the demand-determined stagnation in 1974, the rate of increase in the production of the textile industries accelerated (+18.4 per cent) during the year under review, compared with the average rate of growth (+13.6 per cent) of the period 1970-1973. Almost all categories of textiles registered an increase in output; particularly high growth rates were recorded in knitted fabrics (+35.6 per cent), the silk industry (+23.1 per cent), the cotton industry (+10.4 per cent), and the wool industry (+7 per cent). These developments were chiefly due to higher domestic demand for textiles, especially since the second quarter of 1975 and, secondly, to exports.

On the basis of foreign exchange statistics, the value of textile exports amounted in 1975 to \$232.1 million, having increased by 14.9 per cent above 1974. In particular, the value of exports of cotton goods is estimated — on the basis of data supplied by the cotton-growers' association — at \$98 million or a decrease of 11.2 per cent below 1974. This decrease was due both to a decline in the price of cotton yarns in foreign markets, especially in the EEC countries, as well as to the appreciation of the U.S. dollar during the year ended.

As regards investment in the cotton industry, it should be noted that in 1975, the number of installed spindles rose to 985,000 (of which 967,000 actually operated) against 909,000 in 1974, having increased by 8.4 per cent.

b) The decline in the production of the basic metals industry manifest since the third quarter of 1974 continued throughout 1975. The level of output dropped by 2.6 per cent and this was evident in all items produced. The largest decreases were recorded in output of steel products (-28 per cent) and aluminium (-5 per cent). Production of cast iron declined to a lesser extent (-1.7 per cent) as did that of ferronickel (-1.5 per cent). Apart from the decline in domestic demand, developments in this sector were adversely affected by the decline in exports. According to foreign exchange statistics, the value



of exports of this industry amounted to \$157.7 million in 1975, against \$193.7 million in 1974, having decreased by 18.6 per cent. Exports of all commodities declined: ferronickel by 16 per cent, aluminium by 18.8 per cent, and steel, iron and steel plates by 21.6 per cent.

c) The growth rate of output of the chemical industries accelerated in 1975. According to the relevant index compiled by the National Statistical Service of Greece, the production of this sector recorded an 8.5 per cent increase, against 1.1 per cent in 1974. This was mainly due to increased activity in the varnishes and paints industry (+19 per cent), pharmaceuticals (+10.5 per cent) and fertilisers (+8.6 per cent). Exports seem to have contributed to these developments. According to foreign exchange statistics, exports of "other chemicals and pharmaceuticals" totalled \$65.6 million against \$40.1 million in 1974, having increased by 63.7 per cent.

d) An acceleration in the rate of growth was also recorded in the production of nonmetallic minerals (1975 : +5.2 per cent; 1974 : +1.2 per cent). This was due to the increase in the output of cement (+12.5 per cent), which was made possible by an increase in exports which totalled 3 million tons in 1975, against 2 million tons in 1974. Conversely, domestic consumption of cement exhibited a further slight decrease (-2.2 per cent) in 1975, following an 18.8 per cent decrease in 1974.

e) Mining and quarrying output decreased by 2.4 per cent in 1975. This was chiefly due to the decline of domestic demand for raw materials by the basic metals industries, as well as slack building activity. The decline in the index of production of mines and quarries was affected by the reduced output of sulphur compounds and barytes (-27.1 per cent), iron ores (-1.4 per cent) and quarrying and building materials (-10.4 per cent). Conversely, lignite output rose by 18.5 per cent, owing to the greater substitution of lignite for imported liquid fuels in the production of electric power.

Exports of minerals and ores increased in 1975, although at a slower rate than in 1974. According to data released by the National Statistical Service of Greece, the growth of exports came from pumice-stone, chromite and bauxite. Conversely, exports of other minerals, such as clay, emery, marble, lead ore, zinc ore and barytes decreased — some of them at a high rate. In view, however, of the increase in average export prices, total earnings from mineral and ore exports rose by 13.5 per cent in 1975.

f) The output of electric energy rose in 1975 by 6.5 per cent, against an increase of 1.3 per cent in 1974. Moreover, according to available data of the Public Power Corporation, production in 1975 amounted to 14,627,708 kwh against 13,725,678 kwh in 1974. The increase stemmed chiefly from the thermoelectric plants, whose capacity was raised through the operation of the second thermoelectric unit at Kardias, of a generating capacity of 300 MW, and of the third thermoelectric unit at Megalopolis, of equal capacity. The third hydroelectric unit of 125 MW at Polyphyton has also been put into operation.

Total energy consumption rose by 5.7 per cent in 1975 and totalled 13,568,556 kwh. Of this, 57.4 per cent was absorbed by industry, against 59.1 per cent in 1974. This should be attributed to the fact that the growth of manufacturing output in 1975 stemmed from industries consuming less electric energy.



## 5. DEVELOPMENTS IN EMPLOYMENT

According to data compiled by the employment offices, total employment did not change substantially in 1975. The number of placements remained essentially at 1974 levels while dismissals showed only a slight increase. Moreover, available data show that there was an increase in the number of unemployed persons, owing to newcomers to the labour force and to the fact that the number of repatriated workers exceeded that of emigrants.

Employment in manufacturing showed similar developments. According to the employment index compiled by the National Statistical Service of Greece, the average level of this index in 1975 was slightly higher than in 1974 (+0.8 per cent). It should, however, be noted that, since the summer of 1975, industrial employment has started recording a slight upward trend. In particular, whereas during the first half of the year employment remained almost unchanged compared with the second half of 1974 — on the basis of seasonally adjusted data — in the second half of 1975 it increased by almost 2.5 per cent above the first half. At the same time, there was a reduction in manhours estimated at 2 per cent, compared with 1974. Total work-hours showed a decline of 1.2 per cent during the same period.

In 1975, emigration continued to decrease and, at the same time, the repatriation of workers accelerated; as a result, repatriated workers in 1975 exceeded emigrants by nearly 13,900 persons. This is basically due to the repatriation of workers from W. Germany and is connected with the recession which prevailed in that country. Net repatriation from W. Germany in 1975 exceeded 17,200 persons.

Labour remuneration in money terms recorded a substantial increase in 1975. This is evident from the readjustment of minimum wages and salaries, the pay rises awarded to various categories of workers and the data compiled by the NSSG concerning labour remuneration in manufacturing. In particular, minimum wages and salaries were increased by nearly 20 per cent in 1975. The largest portion of this increase (12 per cent) was granted on 1st March and the balance on 1st August 1975. At the same time, considerable increases were granted to all other categories of the working population: civil servants (10 per cent), employees of the Public Power Corporation (11 per cent), employees of the Hellenic Telecommunications Organisation and Hellenic Post S.A. (12.5 per cent) and bank employees (about 15 per cent). Moreover, increases in two instalments, totalling 40 per cent, were granted in 1975 to the employees of department stores, sociétés anonymes, and accountants. Likewise, considerable pay rises were granted to workers in basic industries, namely 24 per cent to textile workers, 45 per cent to workers and technicians in the steel industry and 43 per cent to workers and technicians in the chemical industry.

According to data compiled by the National Statistical Service of Greece in connection with firms employing more than 10 persons, average hourly wage rates were increased by 24 per cent above 1974, while average weekly earnings rose by 21.4 per cent and average monthly earnings by 20.4 per cent. The difference noted between the increase in hourly wage rates and that in weekly earnings is due to the reduction of man-hours in industry.

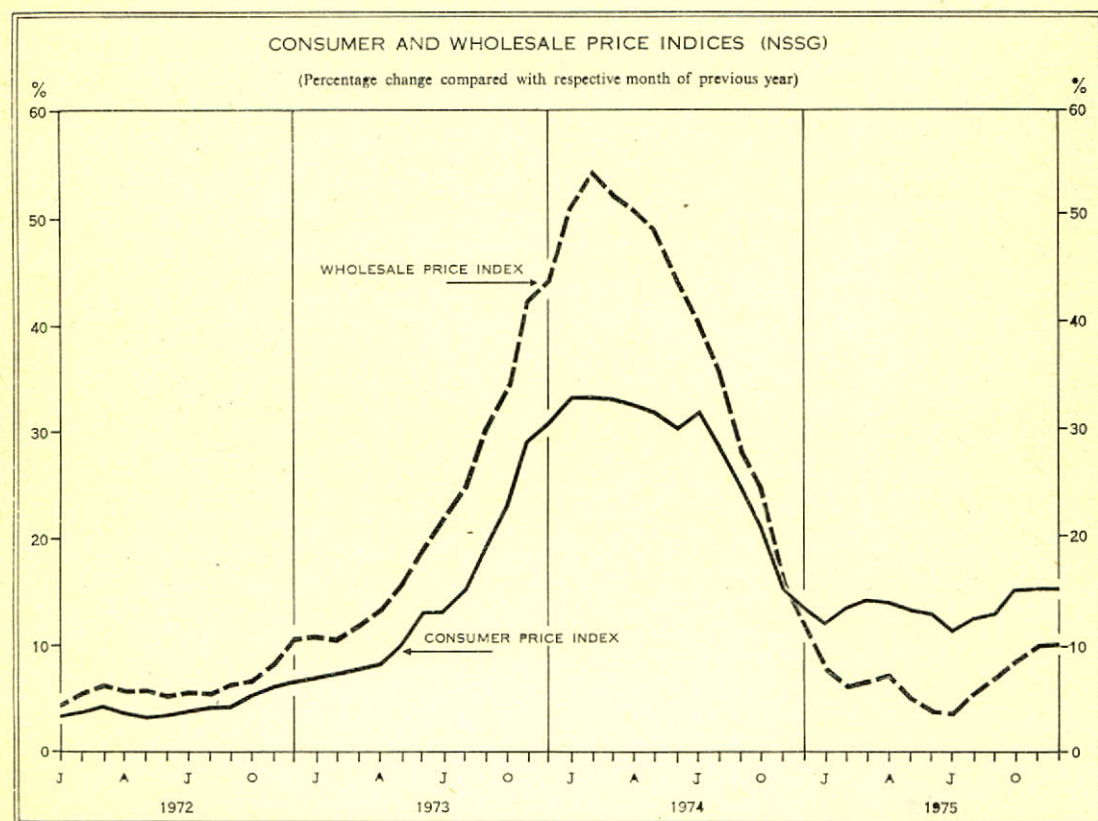


Since the rise in the average level of the consumer price index between 1974 and 1975 was 13.4 per cent, real hourly wage rates in industry are estimated to have increased by 9.3 per cent, against a decrease of 0.4 per cent in 1974. The corresponding increases in average weekly and monthly real earnings were 7.1 and 6.2 per cent respectively.



### III. PRICE DEVELOPMENTS

In 1975, prices continued their upward course, though with considerable fluctuations. In fact, during the first months of the year, the growth rate of consumer prices, which had slowed down since July 1974, picked up somewhat, owing to readjustments in the state-controlled prices of certain services and to increased taxes. From April to August, the rate slowed down again, but then started accelerating once more, mainly because of the steeper rise in the prices of services. Finally, the growth rate slackened again in Novem-



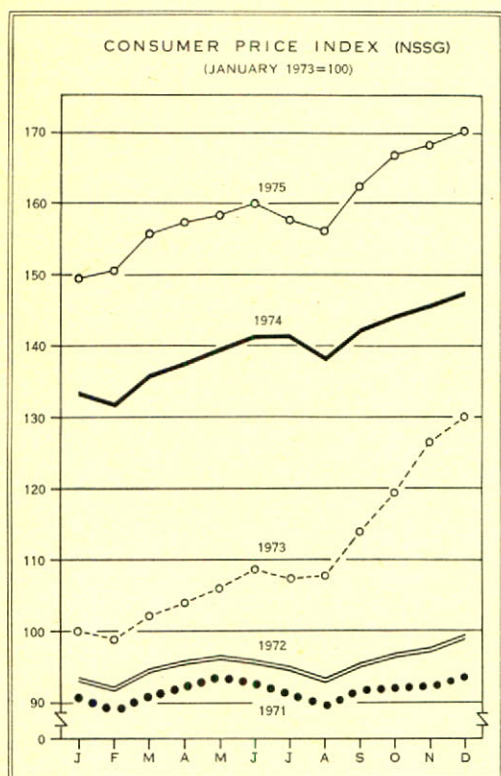
ber, a trend which continued into the first months of 1976. The total upshot of these fluctuations was that the consumer price index rose by 15.2 per cent in 1975, compared with 13.5 per cent in 1974.

A significantly smaller increase was recorded last year in wholesale prices. In fact, the wholesale price index compiled by the National Statistical Service of Greece (NSSG) rose by 10.1 per cent last year, against 12.4 per cent in the year before. Similar developments are evident from the wholesale price index compiled by the Bank of Greece for the Athens-Piraeus area, which went up by 12 per cent between December 1974 and December 1975, compared with a rise of 10.7 per cent in 1974.



The rise in prices was less pronounced in terms of average annual levels. In fact, the average annual level of the consumer price index rose by 13.7 per cent last year, against 26.9 per cent in 1974, while that of the NSSG's wholesale price index went up by 6.8 per cent in 1975, compared with 36.7 per cent in the year before.

The smaller increase in average annual levels is explained by the fact that rising price trends became stronger in the last four months of the year and therefore affected average annual levels to a less appreciable extent. Moreover, the substantial differences observed between the consumer price index and the wholesale price indices in terms of growth rates—differences which were also seen in previous years—are mainly due to the different composition and weighting of these indices. Specifically, while the wholesale price indices include goods only, the consumer price index includes both a larger number of final consumer goods and a variety of services, the prices of which rose in 1975 at an appreciably higher rate than those of goods. In addition, the slower rise in the wholesale price indices, as compared with the consumer price index, was also due to the slight increase in the prices of exported final products.



The increase in the prices of services accounted for around 36 per cent of last years' rise in the consumer price index. Specifically, out of the controlled prices of services, upward readjustments were made in the cost of telephone and postal services, medical care, urban and inter-city transport, water supply and electricity. Expansionary effects were also exerted by readjustments in the tuition fees and other expenses of independent schools, the cost of personal grooming (barber's, hairdresser's etc.), house rents, recreation expenses (cinema tickets), and household services (cleaner's).

To a significant extent, the rise in the consumer price index was also due to the higher prices of foodstuffs. The largest increases were noted in the prices of fresh and frozen meat, which stemmed mainly from increased production cost (owing to the higher prices of animal feed) and the higher cost of meat imported to supplement domestic output. A significant increase was also noted in the prices of dairy products, olive oil, seed-oil, eggs, pastries and beer, because of increased production cost and readjustments

in support prices.

These readjustments and the higher prices of services accounted for 70 per cent of the total increase in the consumer price index in 1975. The other 30 per cent was mainly due to the increased prices of cigarettes, clothing and footwear, fuels, certain consumer



PERCENTAGE CHANGES IN THE VARIOUS CATEGORIES  
OF THE CONSUMER PRICE INDEX AND THEIR CONTRIBUTION TO CHANGES IN THE GENERAL INDEX,  
1973 - 1975

Category	Percentage change between average annual levels						December against December of the previous year					
	1973		1974		1975		1973		1974		1975	
	Change	Contri- bution	Change	Contri- bution	Change	Contri- bution	Change	Contri- bution	Change	Contri- bution	Change	Contri- bution
1. Foodstuffs	21.37	7.98	27.64	10.80	12.07	4.74	38.59	14.44	11.83	4.71	13.01	5.08
2. Alcoholic drinks — Tobacco	4.02	0.21	13.91	0.65	16.03	0.66	13.23	0.66	6.64	0.29	15.27	0.61
3. Clothing — Footwear	14.11	1.81	21.96	2.78	10.97	1.33	29.20	3.79	10.29	1.33	10.88	1.35
4. Housing	6.69	0.74	27.38	2.78	12.61	1.28	18.20	1.94	17.00	1.65	14.10	1.39
5. Household goods	13.32	1.16	26.67	2.26	7.92	0.67	28.92	2.45	13.01	1.09	9.03	0.75
6. Health — Personal grooming	17.31	1.00	24.31	1.42	19.76	1.13	31.18	1.85	13.41	0.81	29.14	1.73
7. Education — Recreation	15.72	1.22	28.65	2.23	19.90	1.56	24.62	1.95	24.18	1.84	18.76	1.55
8. Transport — Communications	10.27	1.02	37.27	3.50	19.76	2.00	31.30	3.00	14.85	1.44	25.27	2.46
9. Miscellaneous	16.30	0.34	23.57	0.48	16.62	0.33	25.94	0.54	14.53	0.29	16.17	0.32
General Index	15.48	15.48	26.90	26.90	13.70	13.70	30.62	30.62	13.45	13.45	15.24	15.24

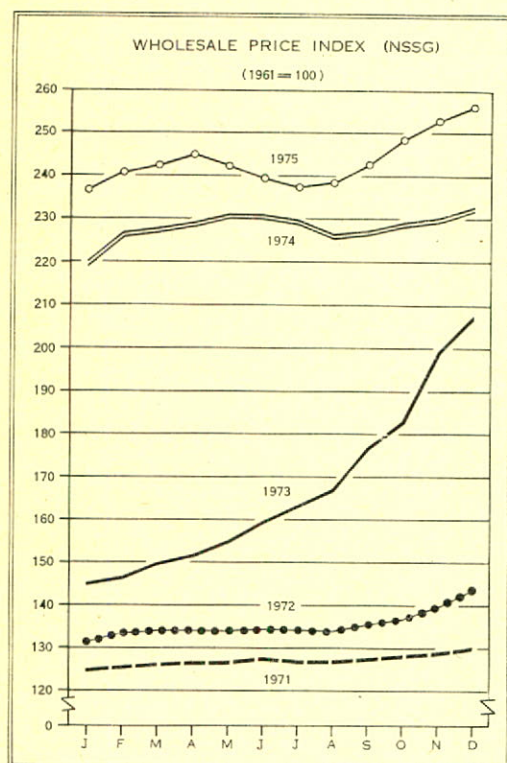
Source : NSSG.



durables (carpets, household appliances etc.) and some other articles for direct consumption.

The rise observed in 1975 in the NSSG's wholesale price index stemmed mainly from the increase in the special index for "final products of domestic primary production for home consumption" by 14.6 per cent, against 2.7 per cent in 1974, and from the increase in the special index for "final products of domestic industrial production for home

consumption" by 8.6 per cent, against 23.6 per cent in 1974. These increases accounted for 83 per cent of the overall rise in this index. Specifically, the special index for "final products of domestic primary production for home consumption" accounted for 47.8 per cent of the overall rise, while the index for domestic industrial products accounted for 35.1 per cent. The increased prices of final products of domestic production mostly reflect their higher production cost. The considerable rise in the prices of these products stemmed primarily from the higher prices of livestock products and, secondly, of farm produce. Notable increases were also recorded in the prices of products from mines, quarries, salterns and fishing, but their effects on the index were not significant. Among domestic industrial products, price increases were observed in petroleum products, textiles, beverages, tobacco, foodstuffs, non metallic minerals, chemicals etc., whereas the prices of paper and metals fell.



The share of the price index for "final products of foreign origin" in raising the general index of wholesale prices in 1975 was not so significant as in 1974 and 1973. This index rose by 7.9 per cent during the year under review, compared with increases of 16.2 per cent in 1974 and 45.6 per cent in 1973, while its direct effect on the general index was 14 per cent. However, it should be noted that, apart from their direct effects, increases in the prices of imported goods have secondary effects by burdening domestic production cost. Among imported goods, considerable increases, with corresponding effects on the general index, were noted in the prices of petroleum products, machinery and electrical appliances, transport means, livestock products and rubber articles. On the other hand, the prices of processed foodstuffs, metal manufactures and agricultural products decreased.

The special index for "exported products of domestic primary and industrial production" rose by 3.8 per cent in 1975, against a fall of 2.4 per cent in 1974. The small rise in this index last year stemmed from the better prices fetched in foreign markets by mine, quarry and livestock products. It is worth noting that the fall observed in this index



in 1974 was wholly due to the decline in the prices of certain agricultural, livestock and textile products.

The above-mentioned rises in the price indices reflect pressures exerted mainly by growing costs. In particular, the rise observed in both wholesale and consumer prices was largely the outcome of increased production cost, chiefly owing to the wage and salary readjustments that were made in 1975. An indication of the extent of wage readjustments in 1975 is provided by relevant developments in industry. According to NSSG data, the average hourly wage rate paid in manufacturing during the third quarter of 1975 was 23.7 per cent higher than in the same quarter of 1974. The corresponding increase between 1973 and 1974 was 26.2 per cent. This rise in labour remuneration was much higher than the improvement in productivity achieved during the same period, with the result that labour cost was greatly increased.

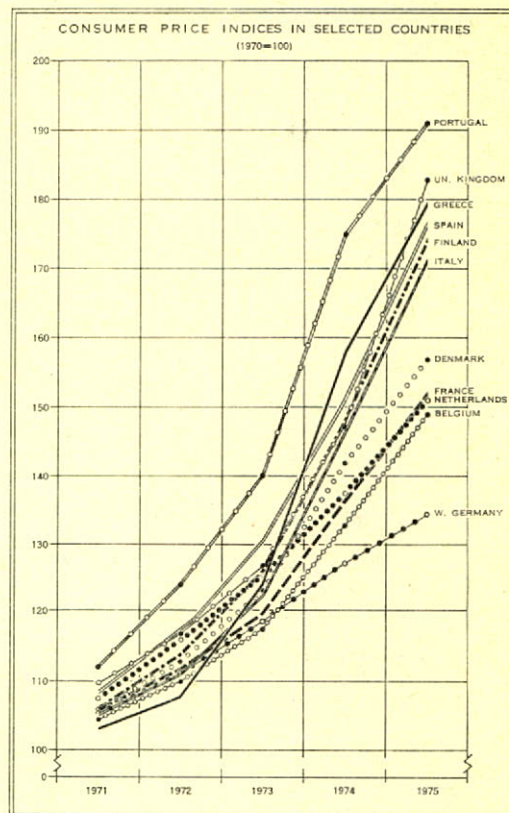
Although wage readjustments were the principal factor underlying the increase in production cost, the domestic price level was also affected by last year's further rise in the cost of imported goods, as a consequence of higher international prices and changes in the parity of the drachma. It should be noted, however, that the effect of this factor on domestic prices, though considerable, was appreciably milder than in 1974.

As already mentioned, the higher support prices granted by the state for agricultural products played a significant part in raising domestic prices.

Rising price trends due to increasing production cost were further aggravated by the tax burdens introduced at the beginning of 1975 (increase in turnover tax, stamp tax etc.). The increase in taxation had an adverse effect on price developments on the supply side. On the demand side, however, it seems that prices were not affected to any significant extent, in spite of the recovery in economic activity that took place last year. The explanation could be sought for in the considerable amount of idle capacity still existing in most lines of production.

A comparison between price developments in Greece and other OECD countries shows that, although the rise in Greek consumer prices did not overstep the limits of corresponding increases in several European countries, it was among the highest.

According to the preceding analysis, the rapid rise in domestic prices during 1975 was due to both internal and external factors. Some of these factors are still exerting a significant effect on price developments this year. It is therefore necessary to carry on a systematic investigation of price determinants. This is imperative as it is reasonable to





expect further pressures during the current phase of economic recovery. Nevertheless, the forecast is for a slower upward movement of prices in 1976, provided that the government continues to apply prudent monetary, credit and fiscal policies and that the various social groups exercise self-restraint in the pursuit of legitimate income claims so as to keep them within the limits of the economy's capabilities.



## IV. MONETARY DEVELOPMENTS

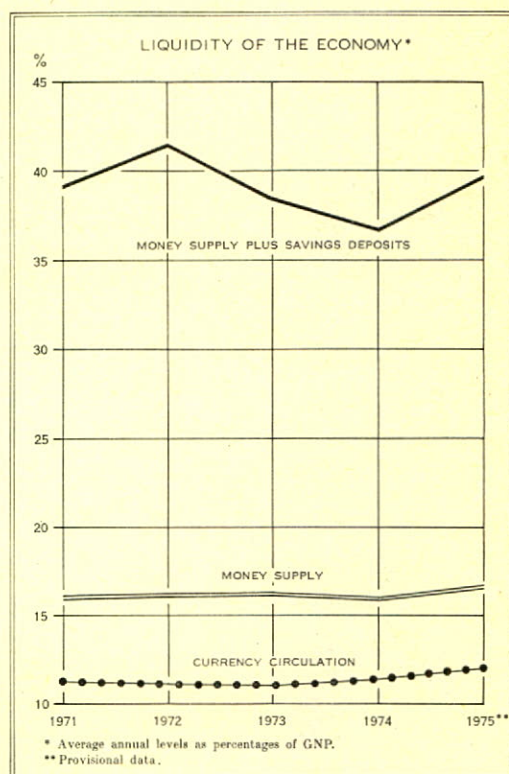
### 1. CHANGES IN THE LIQUIDITY OF THE ECONOMY

#### *a. General*

The growth rate of money supply (currency in circulation plus sight deposits) slowed down in 1975. This was the result of developments in the private sector, especially of the high growth rate of time and savings deposits. Conversely, the liquid assets of the private sector, i.e. the sum of currency in circulation plus private sight, savings and time deposits in drachmas, showed an increase which exceeded the increase in GNP at current prices, resulting in the growth of the overall liquidity of the economy in 1975.

Money supply increased by 15.6 per cent in 1975, against 19.7 per cent in 1974. Of its components, currency in circulation rose at a substantially slower rate while sight deposits rose at a much higher rate than in the year before. The larger increase of sight deposits stemmed from both private deposits and deposits of public entities. The increase in private sight deposits reflects to a considerable extent the restoration of conditions of easier bank credit to enterprises.

Despite the larger growth of private sight deposits, their transaction velocity—as measured by the ratio of the aggregate value of cheques presented for clearing to the average annual level of sight deposits—showed a slight increase during the year under review. According to present indications, this development is linked to the policy pursued by private enterprises for economising cash, and is due to the facility with which enterprises provisionally invest their liquid assets in savings deposits, which they can withdraw without advance notice or any other restrictions. This view is supported by the fact that the velocity of circulation of savings deposits with commercial banks increased, whereas the velocity of circulation of deposits with the Postal Savings Bank decreased. The explanation should be sought in the fact that the share of time and savings deposits made by entrepreneurs is higher in commercial banks than in the Postal Savings Bank.





## CHANGES IN MONEY SUPPLY

	Balances outstanding on 31 Dec. 1975	Annual changes					
		Million drachmas			Percentage		
		1973	1974	1975	1973	1974	1975
Currency in circulation	91,699	14,303	15,353	11,487	28.3	23.7	14.3
Sight deposits	37,170	2,780	2,984	5,907	10.9	10.6	18.9
Private	(23,983)	(2,365)	(972)	(3,991)	(14.2)	(5.1)	(20.0)
Public entities	(11,004)	(458)	(853)	(2,169)	(6.1)	(10.7)	(24.5)
Public enterprises	(2,183)	(-43)	(1,159)	(-253)	(-3.3)	(90.5)	(-10.4)
Money supply	128,869	17,083	18,337	17,394	22.5	19.7	15.6

*b. Short-term Developments in Monetary Magnitudes*

During the year under review, short-term developments in monetary magnitudes were of particular interest. Specifically, the quarterly rates of change both in currency circulation and private deposits — after a seasonal adjustment of the initial figures — showed large fluctuations during the year which, however, partially offset one another. This is evidenced by the quarterly rates of change in the sum of these two magnitudes, i.e. the total of liquid assets. These changes are shown in the following table :

 SHORT-TERM DEVELOPMENTS IN MONETARY MAGNITUDES  
 (Quarterly rates of change, seasonally adjusted)

	1975			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	%	%	%	%
Liquid assets <sup>(1)</sup>	+5.1	+7.3	+6.6	+6.3
Currency in circulation	+8.5	+2.4	-2.4	+5.6
Private deposits	+3.0	+9.2	+9.8	+6.9

(<sup>1</sup>) Including currency in circulation plus private sight, savings and time deposits in drachmas.

The different developments in currency in circulation compared with those in private deposits during the first and second quarter of 1975 mainly reflect the psychological reactions of depositors to non-economic factors. In fact, at the beginning of 1975, under the impact of the Cyprus crisis, there were considerable withdrawals of deposits which were provisionally held in cash. Soon after the crisis subsided, these deposits started flowing back into the banking system and, by the end of the year, the ratio of cash to other liquid assets had returned to more normal levels. The fluctuation in opposite directions of the rates of change in currency circulation and in private deposits reflects the



high degree of substitutability between these two forms of liquid assets. The explanation for this high degree of substitutability should be sought in the facility of converting savings deposits into cash without incurring any capital loss.

### *c. Income Velocity of Currency Circulation*

After 1972, the income velocity of currency in circulation was affected by exceptional economic and non economic factors. In particular, during the last months of 1972 and especially in 1973 and the first months of 1974, under the influence of the rapid increase in prices, which led to a climate of unfavourable price expectations, the public tried to reduce their cash holdings, chiefly through increased purchases and stocking of commodities. This resulted in a decline in the demand for money. In the two-month period July-August 1974, following the Cyprus crisis, there was a partial conversion of deposits into cash. Thus, the demand for money showed a sharp increase in July and August 1974. In September of the same year, part of the deposits withdrawn started flowing back into the banking system. However, the amount held in the form of money remained at rather high levels until the end of the year. The maintenance of currency in circulation at high levels during the second half of 1974 had an expansionary effect on its average annual level, resulting in the containment of income velocity at a level lower than that justified by economic reasons.

Years	Income velocity of: <sup>(1)</sup>	
	Currency circulation	Money supply
1968	7.60	5.67
1969	8.22	5.94
1970	8.46	6.08
1971	8.54	6.01
1972	8.73	6.04
1973	8.82	6.04
1974	8.86	6.32
1975	8.39	6.05

(1) Ratio of gross national product at current market prices to the average annual level of currency circulation or money supply.

The aggravation of the Cyprus crisis during the two-month period January-February 1975 revived the tendency to hold money for precautionary reasons almost throughout the first half of the year. From the table of short-term developments in monetary magnitudes—on the basis of seasonally adjusted figures—currency in circulation rose by about 11 per cent in the first half of 1975 and about 3 per cent in the second half. Since the summer of 1975, and after the effects of exceptional events had subsided, demand for money has started regaining normal levels. The decrease in the demand for money has been coupled with a higher rate of growth in deposits since mid-1975. However, the average level of currency in circulation in 1975 was high once more, as a result of developments during the second half of 1974 and the first half of 1975. As a consequence, the income velocity of currency circulation showed a decrease in 1975.



It should be stressed, however, that developments in the average level of currency circulation conceal its tendency to return to more normal levels, particularly since the middle of 1975. This tendency is corroborated by developments in the first months of the current year, during which there was a further deceleration in the growth rate of currency in circulation.

#### *d. Total Liquidity of the Economy*

During the year under review, developments in the total of liquid assets were of particular interest from a monetary point of view. Specifically, since the beginning of the second quarter of 1975 there has been an acceleration in the growth rate of liquid assets, especially of time and savings deposits. This acceleration is chiefly linked to favourable prospects regarding the development of prices and the slackening of investment activity financed out of own funds in the private sector.

As a result of these developments, the overall liquidity of the economy increased during 1975, but still remains at lower levels than in 1972.

#### LIQUIDITY OF THE ECONOMY : RATIOS OF LIQUID ASSETS IN THE PRIVATE SECTOR TO GROSS NATIONAL PRODUCT

	1970	1971	1972	1973	1974	1975
1.(a) Money supply ( $M_1$ ) as a percentage of GNP	0.141	0.141	0.143	0.145	0.143	0.147
(b) Percentage change compared with previous year	-2.8%	—	+1.4%	+1.4%	-1.4%	+2.8%
2.(a) Money supply plus private time and savings deposits in drachmas ( $M_3$ ) as a percentage of GNP	0.406	0.442	0.471	0.432	0.410	0.439
(b) Percentage change compared with previous year	+5.2%	+0.9%	+6.4%	-8.1%	-5.1%	+7.1%

Note : In assessing liquidity ratios, monetary magnitudes are taken at average annual levels. Furthermore, money supply is here taken to include private deposits only.

## 2. FACTORS AFFECTING MONEY SUPPLY

The analysis of the factors affecting money supply shows that the public sector of the economy exerted an expansionary effect on money supply in 1975. Conversely, the private and the foreign sector of the economy had a contractionary effect.

The public sector, which includes the Central Government, public entities and public enterprises, had an expansionary effect of Dr. 38,198 million on money supply against a similar effect of Dr. 24,626 million in 1974. Most of this effect came primarily from Central Government and, secondly, from public enterprises, whereas public entities once more recorded a surplus.

Central Government accounts, *viz.* the ordinary budget, the public investment budget, the consumer goods account and the accounts for government purchases of agri-



# FACTORS AFFECTING MONEY SUPPLY

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

(Million drachmas)

Sectors	1974	1975 <sup>4</sup>
<b>A. PUBLIC SECTOR</b>	<b>+24,626</b>	<b>+38,198</b>
<i>I. Central Government (excluding foreign borrowing) (*)</i>	<i>+25,954</i>	<i>+36,130</i>
1. Loans and advances	+ 8,839	+ 8,400
2. Treasury bills	+14,470	+12,244
3. Bonds	— 155	— 134
4. Deposits	— 5,345	— 1,222
5. Other accounts <sup>1</sup>	— 756	— 4,394
6. Foreign borrowing	+ 8,901	+21,236
<i>II. Public entities</i>	<i>— 7,009</i>	<i>— 3,772<sup>3</sup></i>
1. Local authorities	— 884	— 723
2. Social security	— 5,020	— 2,330
3. Other	— 1,105	— 719
<i>III. Public enterprises</i>	<i>+ 5,681</i>	<i>+ 5,840</i>
1. Loans and advances	+ 5,649	+ 5,597
2. Bonds	+ 32	+ 243
<b>B. PRIVATE SECTOR</b>	<b>+10,202</b>	<b>— 4,407</b>
<i>I. Loans and advances</i>	<i>+40,629</i>	<i>+59,450</i>
1. Agriculture	+10,805	+12,152
2. Manufacturing	+19,844	+30,761
3. Other	+ 9,980	+16,537
<i>II. Securities</i>	<i>+ 3,549</i>	<i>+ 1,893</i>
<i>III. Deposits</i>	<i>—33,976</i>	<i>—65,750</i>
1. Savings	—25,037	—47,480
2. Time	— 7,061	—12,880
3. Restricted	— 1,878	— 5,390
<b>C. FOREIGN SECTOR</b>	<b>—16,450</b>	<b>—26,714</b>
1. Change in foreign exchange reserves	— 1,141	+ 7,639
2. » » clearing accounts	+ 1,775	+ 1,024
3. » » foreign exchange liabilities <sup>2</sup>	—17,084	—35,377
<b>D. OTHER ITEMS</b>	<b>— 41</b>	<b>+10,317</b>
<b>CHANGE IN MONEY SUPPLY</b>	<b>+18,337</b>	<b>+17,394</b>
1. <i>Currency in circulation</i>	<i>+15,353</i>	<i>+11,487</i>
a) Bank notes	+15,062	+11,170
b) Coin	+ 291	+ 317
2. <i>Sight deposits</i>	<i>+ 2,984</i>	<i>+ 5,907</i>
a) Private	+ 972	+ 3,991
b) Public entities	+ 853	+ 2,169
c) Public enterprises	+ 1,159	— 253
<b>(*) Analysis of Central Government</b>		
1. Current expenditures	— 2,072	+ 3,920
2. Investment expenditures	+23,073	+29,938
3. Consumer goods account	+ 6,275	+ 6,595
4. National Tobacco Org.-Autonomous Currants Org.-Cooperative Sultana Associations	+ 2,342	+ 1,300
5. Other	— 3,664	— 5,623

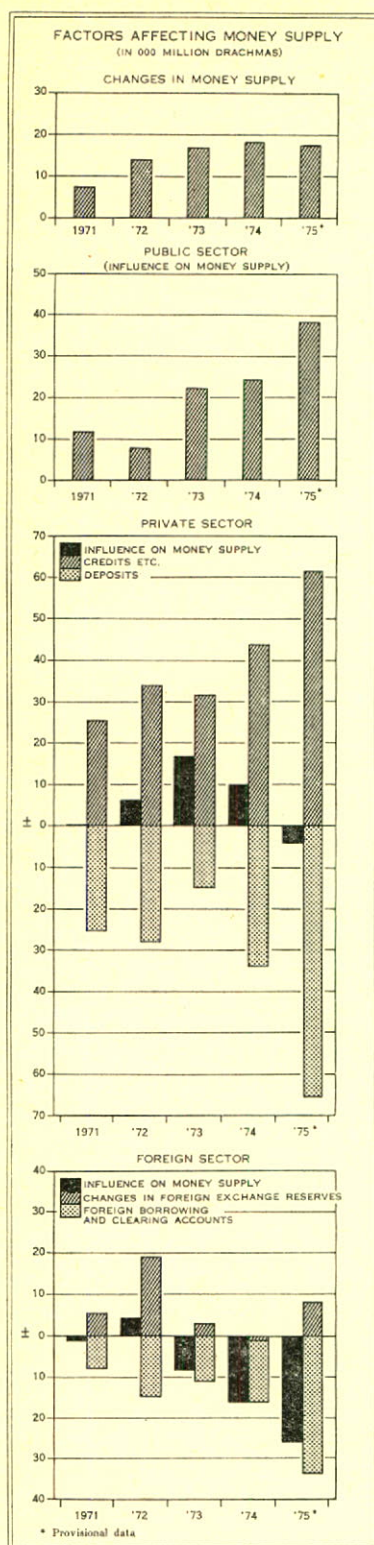
(<sup>1</sup>) Coin in circulation and other government credit accounts.

(<sup>2</sup>) Liabilities deriving mainly from government borrowing from abroad and from deposits in foreign exchange.

(<sup>3</sup>) Not including investment in treasury bills totalling Dr. 3,982 million shown as a receipts item under Central Government-Other.

(<sup>4</sup>) Provisional data.





cultural products, had an expansionary effect on money supply, in the amount of Dr. 36,130 million, against Dr. 25,954 million in 1974. It should be noted that the increase in the Government's borrowing from the monetary system in 1975 was more than Dr. 36,130 million, considering that borrowings of about Dr. 4,000 million took the form of treasury bills sold to public entities. The considerably larger needs for borrowing in the year ended were mainly due to increased payments for the investment programme and, secondly, to the deficit — on a cash basis — in the ordinary budget.

According to the Central Government accounts kept at the Bank of Greece, the ordinary budget had an expansionary effect on money supply last year, in the amount of Dr. 3,920 million, whereas it had exerted a contractionary effect of Dr. 2,072 million in 1974. It should be noted that the ordinary budget for 1975 was balanced on a fiscal basis. The expansionary effect on money supply is chiefly due to the fact that the extension of the fiscal year 1974 into the first months of 1975 caused a larger deficit compared with the same extension of the fiscal year 1975 into the first months of 1976.

The deficit in the public investment budget for 1975 totalled Dr. 29,938 million, against Dr. 23,073 million in 1974<sup>1</sup>. The increase in investment outlays in 1975 is due to the expansionary fiscal policy pursued with a view to reflation of the economy. The deficit in the investment budget was financed by government borrowing from the banking system, public entities and foreign sources.

The consumer goods account had an expansionary effect on money supply to the extent of Dr. 6,595 million in 1975, against Dr. 6,275 million in 1974. Not counting transfers to and from the ordinary budget, the expansionary effect of this account amounted to Dr. 6,790 million in 1975, against Dr. 7,363 million in 1974. The large increase of payments in drachmas, chiefly for the purchase of domestically produced sugar, was more

(<sup>1</sup>) To assess the volume of payments for public investment projects, to the above deficits should be added returns on investment and contributions from the respective agencies. The amounts involved in this respect were Dr. 1,836 million in 1975 and Dr. 1,324 million in 1974. Consequently, public investment outlays totalled Dr. 31,774 million in 1975 and Dr. 24,397 million in 1974.



than offset by the larger increase in receipts, chiefly from the oil refinery, resulting in the slight containment of the expansionary effect on money supply in 1975.

In 1975, the accounts for government purchases of tobacco, currants and sultana raisins through the National Tobacco Organisation, the Autonomous Currants Organisation and the Co-operative Sultana Associations had an expansionary effect on money supply to the extent of Dr. 1,300 million, against Dr. 2,342 million in 1974. Last year's smaller expansionary effect was chiefly due to increased receipts from the liquidation of stocks.

Public entities, *viz.* local authorities, social insurance agencies etc., had a contractionary effect on money supply in the amount of Dr. 3,772 million in 1975, against a contractionary effect of Dr. 7,009 million in 1974. It should, however, be noted that the smaller contractionary effect in the year ended does not imply a reduction in the surplus of public entities. If investment in treasury bills to the extent of Dr. 3,982 million is included, the surplus left in the accounts of public entities remained at approximately the same level during the last two years.

Public enterprises had an expansionary effect on money supply in the amount of Dr. 5,840 million in 1975, against Dr. 5,681 million in 1974. Investment outlays by public enterprises, particularly the PPC, were considerably less in 1975 than in the year before. In spite of this, borrowing from the banking system was slightly larger in 1975 owing to the limited recourse to foreign borrowing, compared with that in 1974, when direct borrowing from foreign sources on the part of public enterprises reached high levels.

The private sector of the economy had a contractionary effect on money supply in the amount of Dr. 4,407 million. Conversely, this sector had an expansionary effect of Dr. 10,202 million in 1974. The substantially larger increase in private deposits (excluding sight deposits which form a part of money supply) more than offset the much higher credit expansion in 1975 and led to the above contractionary effect on money supply.

The foreign sector of the economy—not counting the proceeds of government borrowing from foreign sources and the changes in the outstanding balances of deposits in foreign exchange—exerted a contractionary effect on money supply in the amount of Dr. 26,714 million last year, against a contractionary effect of Dr. 16,450 million in 1974. Last year's larger contractionary effect, despite the decrease in the deficit on current account, is basically due to two reasons: (i) the readjustment of both assets and liabilities in foreign exchange of the banking system vis-a-vis foreign countries following the appreciation of the U.S. dollar within the year under review, and (ii) the entry under the "other items" of the consolidated balance sheet of the monetary system of transactions in foreign exchange which were not settled at the end of last year.

It should, moreover, be clarified that the final outcome in the balance of payments does not agree with the monetary influence of the foreign sector on money supply, referred to in the above analysis. This is because the conversion into drachmas of foreign currency accruing from Government borrowing and deposits in foreign exchange, although raising foreign exchange reserves, is not reckoned as an effect of the foreign sector on money supply but is included in the effect of Central Government and the private sector of the economy respectively. Moreover, the analysis of the factors affecting money supply includes the changes in foreign exchange reserves held by commercial banks.



## V. CREDIT DEVELOPMENTS

### 1. MONETARY AND CREDIT POLICY MEASURES

The monetary and credit policies pursued in 1975 were designed to serve the aims of overall economic policy. Specifically, it was mainly sought to support a recovery in economic activity, and at the same time to restrain price increases and improve the balance-of-payments position. In the context of this policy, credit for productive investment and to export trade was excluded from ceilings as from September 1974. Furthermore, ample financing was made available to current production and product handling and marketing. The limits of credit expansion were determined by the possibility of financing such expansion out of sound sources, while the public sector's requirements for increased borrowing were taken into consideration. For this purpose, measures were taken to reduce commercial bank liquidity. The credit policy implemented was also aimed at reducing the cost of bank credit and improving the profitability of the commercial banks. The main monetary and credit policy measures taken last year can be summarised as follows :

a) Commercial bank credit subject to the general ceiling could not increase by more than 17 per cent up to 30th June 1975 on the basis of the respective balance outstanding on 30th June 1974. For the second half of the year, the credit ceiling was set at 8 per cent on the basis of the balance outstanding on 30th June 1975. Consequently, after making allowance for the increase in the second half of 1974, the rate of credit growth for the whole of 1975 comes out at about 17 per cent. Furthermore, commercial bank credit not subject to a ceiling, which up to the end of 1974 included long-term financing of investment in manufacturing, credit to export and tobacco trade and certain other categories of credit, was further expanded in 1975 so as to include advance financing of industrial and handicraft exports, and special short-term credit to handicraft.

b) The approved programme concerning new credit to the private sector by special credit institutions after revision during the year was finally fixed at about Dr. 64 billion, or 41 per cent higher than in 1974. Under this programme, particularly large increases were approved in new credit to agriculture (Dr. 5,000 million or 39 per cent) and housing (Dr. 6,800 million). By contrast, lower rates of increase were approved for new long-term credit to industry, tourism and shipping, owing to the fact that investment activity in these sectors remained unchanged.

c) The granting of housing loans, which had been suspended since 1972, was resumed in 1975 and at the same time the ceilings on each category of loans were raised. Specifically, the ceiling on housing loans to farmers was raised from Dr. 100,000 to Dr. 200,000, to holders of deposits under the Housing Loan Deposits Scheme from Dr. 400,000 to Dr. 500,000 if deposits are in drachmas and from Dr. 750,000 to Dr. 1,000,000 if they are in foreign exchange, while the ceiling on ordinary housing loans granted by the National Mortgage Bank was raised from Dr. 200,000 to Dr. 350,000.

d) Measures were taken to simplify the regulations governing bank credit to shipping and tourism, and it was decided that bank credit to these sectors shall in future



be granted on the basis of banking criteria and at the banks' own risk. Moreover, banks were permitted to make arrangements—within general rules laid down by the Currency Committee—in connection with the repayment of overdue loans by hotel enterprises and domestic passenger shipping companies. It was also decided to make special arrangements concerning credit for the completion of half-finished hotels.

e) Supplementary credit measures in favour of border districts were taken. Specifically, all categories of commercial bank credit to enterprises established in these districts were excluded from ceilings for the whole of 1975. In addition, special housing programmes were approved, providing for bank financing on more favourable terms.

f) In mid-1975, the percentage of interest-bearing compulsory deposits with the Bank of Greece reckoned on savings deposits (excluding deposits on notice) was raised from 0.5 to 7 per cent, while the percentage of non-interest-bearing compulsory deposits reckoned on private restricted and sight deposits was raised from 5 to 7 per cent. This resulted in reducing bank liquidity by about Dr. 8 billion by the end of 1975. It should be noted that bank liquidity has been rising sharply as from the second quarter of 1975. Therefore, in order to contain credit expansion it was decided to increase reserve requirements and make it more difficult (see item g below) for the commercial banks to resort to Bank of Greece funds.

g) The interest rate on overdrafts by the commercial banks through their sight deposit accounts with the Bank of Greece was raised from 9 per cent to 11-13.5 per cent, depending on the length of time the credit facility is used. Similarly, the Bank of Greece rediscount rate was raised from 8 to 10 per cent on 27th September 1975. It should be noted that in August 1974 it had been lowered from 11 to 8 per cent in the framework of the policy aiming at enhancing commercial bank liquidity, which had been reduced owing to withdrawals of amounts out of private deposits during the Cyprus crisis. The 8 per cent rediscount rate fixed in 1974 corresponded to the average cost of bank deposits and made it profitable for the commercial banks to borrow from the Bank of Greece in order to continue the normal financing of the economy. The discount rate currently applicable is in line with the new levels and structure of interest rates on deposits and bank loans in force as from October 1975.

h) The commercial banks were permitted to deposit with the Bank of Greece—in a special time deposit account bearing interest at the rate of 9.25 per cent—funds intended for the purchase of treasury bills and until the issue of such bills. In the same account they were also permitted to deposit other surplus funds. This arrangement has facilitated the absorption of the excess liquidity of commercial banks.

i) Interest rates on deposits with banks were lowered twice in 1975. In July, interest rates on time and savings deposits were lowered by half a percentage point, and in October interest rates on savings deposits were lowered by another percentage point, while those on time deposits, savings deposits on notice and checking accounts held by individuals were lowered by half a percentage point. These reductions have resulted in the following interest rates: savings deposits 7.5 per cent with the commercial banks and 8 per cent with the Postal Savings Bank; time deposits 9-10 per cent, and checking accounts held by individuals 7 per cent. Furthermore, the interest rate on sight deposits—fixed at 0.75 per cent in 1966 and unchanged since—was abolished in October 1975. Lastly, the in-



interest rate on restricted deposits held by persons permanently residing abroad was raised from 0.75 to 7 per cent.

j) In October 1975, the interest rates charged on bank loans were lowered by half a percentage point, excluding credits to the agricultural sector since the interest rates on this category of credit are subsidised and, therefore, maintained at levels substantially lower than those of interest rates on commercial bank credits.

By lowering interest rates on deposits more than interest rates on bank credits it was sought to improve commercial bank profitability, which had been adversely affected by the fact that in 1973 and 1974 increases in lending rates were smaller than increases in deposit rates. The increase in the interest rates on treasury bills as from June 1975 was aimed at the same target.

## 2. BANK CREDIT

### *a. Credit by Basic Economic Sector*

In August 1974, the credit restrictions imposed late in 1972 were eased. As a result, credit to the private sector increased at a rapid rate, which continued throughout 1975. Specifically, it increased by 11.5 per cent in the second half of 1974, and by 11.2 and 11.9

BANK CREDIT TO THE ECONOMY BY SECTOR

Sectors financed	Balance outstanding on 31 Dec. 1975 (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1973	1974	1975	1973	1974	1975
PRIVATE SECTOR	302,679	+30,943	+40,630	+59,449	+18.0	+20.1	+24.4
Long-term credit	135,322	+18,787	+14,449	+18,627	+22.5	+14.1	+16.0
Short-term credit	167,357	+12,156	+26,181	+40,822	+13.8	+26.1	+32.3
PUBLIC SECTOR	50,952	+ 7,633	+ 7,930	+ 7,897	+27.8	+22.6	+18.3
Public enterprises	30,600	+ 5,464	+ 5,649	+ 5,597	+39.3	+29.2	+22.4
Public entities	12,708	+2,130	— 99	+ 1,000	+22.0	— 0.8	+ 8.5
Government agencies purchasing agricultural products	7,644	+ 39	+ 2,380	+ 1,300	+ 1.0	+60.0	+20.5
Total	353,631	+38,576	+48,560	+67,346	+19.4	+20.4	+23.5

per cent in the first and second half of 1975 respectively. For 1975 as a whole, credit expansion to the private sector amounted to 24.4 per cent, against 20.1 per cent in 1974 and 18 per cent in 1973. The accelerated growth rate recorded in 1975 stemmed mainly from short-term credit, which grew by about 32 per cent. By contrast, long-term credit



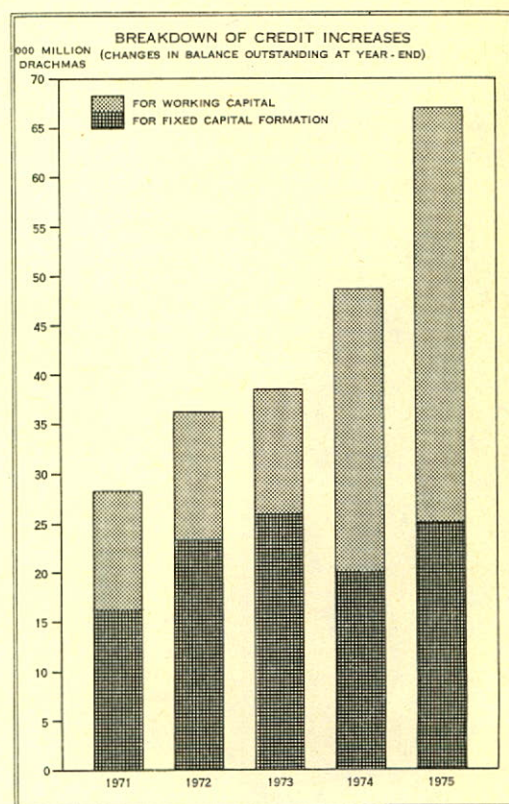
recorded a lower growth rate for the second consecutive year, owing to limited investment activity.

The faster growth of bank credit from the second half of 1974 contributed first to halting the recession of the economy and then to the recovery of economic activity. The elastic supply of credit made it possible to relieve the liquidity problems that several enterprises were facing and contributed towards maintaining production at levels that were often higher than would be justified by developments in demand. In certain cases, bank credit led to an expansion of sales on credit and thus supported a higher level of expenditure. In other cases, production was supported through the financing of stock-building.

It is clearly evident, however, that several enterprises took advantage of the elastic supply of credit and proceeded to a substitution of borrowed for own funds; or, as a precautionary step, they increased their cash assets. Bank credit can be expected to be allowed to increase at rates substantially higher than those of production and of prices of inputs only for short periods of time, within which the enterprises concerned have to make the necessary adjustments. If credit to enterprises should continue to grow for a long time—at a rate substantially higher than the rate of increase in their investment and the value of their output—it might result in gradually weakening their financial position and creating conditions which would impair their competitiveness.

Bank credit to public enterprises and public entities increased by Dr. 6,597 million in 1975, compared with Dr. 5,550 million in 1974. The increase recorded in 1975 is mainly related to the financing of the Public Power Corporation's investment programme, which, though smaller than in 1974, relied on domestic borrowing to a larger extent. Credit to public entities increased by Dr. 1,000 million in 1975, against a slight decrease in 1974.

Lastly, the balance outstanding from bank credit to government agencies purchasing agricultural products rose less in 1975 than in 1974. This was mainly due to the larger receipts from destocking during 1975. New credit to the National Tobacco Organisation was at about the same level as in 1974, whereas credit to the Autonomous Currants Organisation and the Co-operative Sultana Associations recorded limited growth, since in 1975 there was a drop in the output of currants and sultanas.

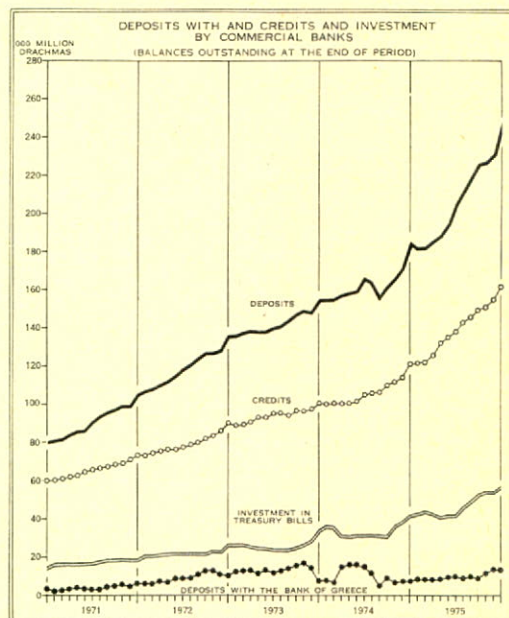
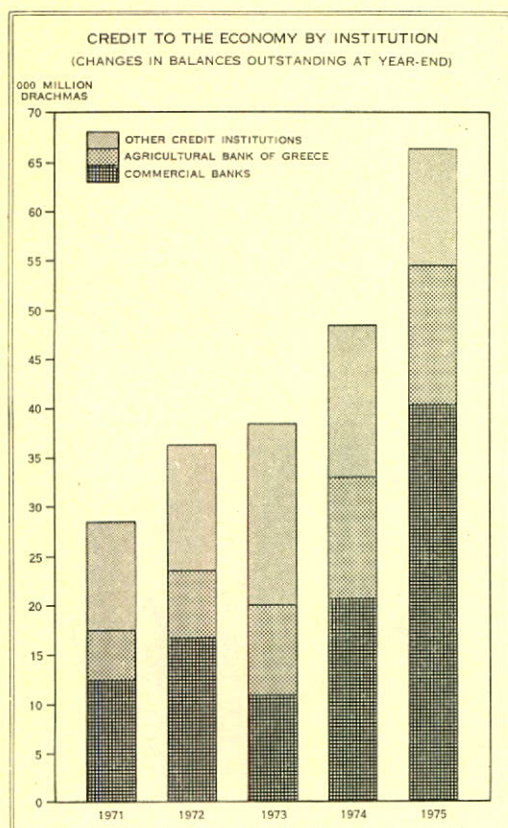




*b. Credit by Institution*

During the year under review, the highest growth rate was noted in commercial bank credit, which accounted for about 60 per cent of overall credit expansion to the private sector of the economy. Short-term credit extended by the commercial banks to the private sector recorded particularly high rates of increase (+32.7 per cent, against +22.0 per cent in 1974), whereas the balance outstanding from long-term credit increased by 22.7 per cent, against 19.1 per cent in 1974. Investments by commercial banks in treasury

bills and government bonds rose by Dr. 7,743 million in 1974 and Dr. 14,823 million in 1975, which was 40.7 per cent of the increase in commercial bank credit to the private sector. Furthermore, commercial bank credit to public enterprises increased by Dr. 3,868 million in 1975, against a Dr. 136 million decrease in 1974. It should be noted that the



monetary authorities specify the credit institutions from which public enterprises may borrow, as well as the maximum amount they can borrow, depending on the aims and targets of monetary and credit policies. In the framework of the policy aiming at curbing credit expansion to the private sector, in 1975 it was decided to transfer most of the Postal Savings Bank's financing of public enterprises to the commercial banks.

As far as commercial bank credit subject to a ceiling is concerned, regulations and limits were observed, with minor exceptions. Nevertheless, the increase in credit not subject to a ceiling was particularly large and exceeded by far requirements for borrowed



funds. Particularly rapid rates of increase were recorded in the balance outstanding from credit to export trade (+64.3 per cent), long-term loans to industry (+33.4 per cent) and special credit to handicraft (+53.4 per cent).

Similarly, the balance outstanding from credit granted by the Agricultural Bank

## CREDIT TO THE ECONOMY BY INSTITUTION

Credit institution	Balance outstanding on 31 Dec. 1975 (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1973	1974	1975	1973	1974	1975
<i>Bank of Greece</i>	12,334	+ 4,669	+ 1,384	+ 1,901	+106.6	+15.3	+18.2
<i>Commercial banks</i>	161,393	+10,802	+20,626	+40,398	+ 12.1	+20.6	+33.4
<i>Specialised credit institutions</i>	179,904	+23,105	+26,550	+25,047	+ 22.0	+20.7	+16.2
Agricultural Bank	74,894	+ 8,993	+12,280	+14,062	+ 22.7	+25.3	+23.1
National Mortgage Bank	27,375	+ 3,926	+ 2,861	+ 4,691	+ 24.7	+14.4	+20.7
Hellenic Industrial Development Bank	20,891	+ 2,574	+ 2,172	+ 2,035	+ 18.2	+13.0	+10.8
Postal Savings Bank	36,310	+ 4,422	+ 7,044	+ 2,471	+ 19.8	+26.3	+ 7.3
Consignations & Loans Fund	9,992	+ 1,395	+ 32	+ 209	+ 16.7	+ 0.3	+ 2.1
Private investment banks							
(National Investment Bank for Industrial Development and Investment Bank S.A.)	9,440	+ 1,496	+ 1,915	+ 1,351	+ 32.0	+31.0	+16.7
Mortgage Bank S.A.	1,002	+ 299	+ 246	+ 228	+130.6	+46.6	+29.5
<b>Total</b>	<b>353,631</b>	<b>+38,576</b>	<b>+48,560</b>	<b>+67,346</b>	<b>+ 19.4</b>	<b>+20.4</b>	<b>+23.5</b>

increased at a high rate in 1975 (+23.1 per cent), which, however, was slightly lower than the respective figure for 1974. The increase in credit granted by this bank accounted for about 21 per cent of the overall increase in bank credit.

Significantly lower growth rates were recorded in the balances outstanding from credit granted by the Postal Savings Bank, the private investment banks and the Hellenic Industrial Development Bank. As mentioned earlier, the slowdown in the growth rate of credit granted by the Postal Savings Bank (1974 : 26.3 per cent; 1975 : 7.3 per cent) was mainly the result of the decision taken by the monetary authorities to transfer to the commercial banks the financing of the borrowing requirements of public enterprises. The decline in the growth rate of credit granted by the investment banks was the result of the slowdown in industrial investment. Lastly, following the decision to revoke the suspension of housing loans, credit granted by the National Mortgage Bank in 1975 grew at a rate significantly higher than in 1974.

### c. Credit by Sector

Almost half of the overall increase in bank credit to the private sector went to manufacturing and mining. Specifically, the balance outstanding from long-term and short-term credit to these sectors increased by 22.3 per cent and 33.5 per cent respectively. The in-



crease in short-term credit was much larger than the increase in output value. The liabilities of enterprises from borrowing recorded an even larger increase if it is taken into consideration that in 1975 suppliers' credit for imports of raw materials grew by \$ 40 million, against \$ 12 million in 1974.

In 1975, the balance outstanding from long-term credit to industry increased at a rate higher than both the corresponding rate in 1974 and the estimated growth rate of industrial investment at current prices. Foreign suppliers' credit for imports of capital equipment rose by \$ 72 million, against \$ 32 million in 1974. It should be noted that the efforts of the industrial countries to help their economies out of the recession by expanding their exports made suppliers' credit more readily available. This and the easing of credit restrictions at home lead to the conclusion that in 1975 neither output growth nor business initiative faced financing problems. On the contrary, credit to industry out of both domestic and foreign sources exceeded the requirements of production and investment activity.

The balance outstanding from credit to agriculture continued to increase at a very high rate (1975 : 27.3 per cent; 1974 :

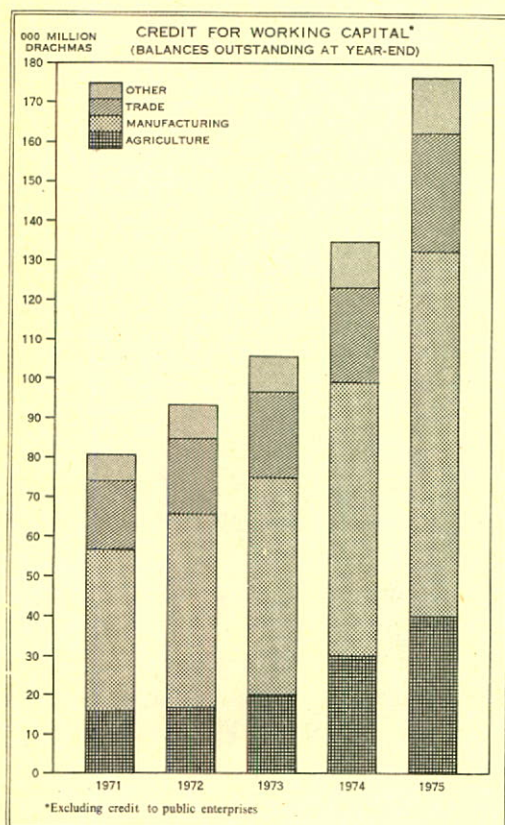
32 per cent). The growth rate of new credit granted by the Agricultural Bank was substantially higher (1975 : 33.5 per cent; 1974 : 20.5 per cent). The difference between the growth rate of new credit and of the balance outstanding is explained by the increase in Agricultural Bank receipts in 1975, mainly from short-term loans. Of the new short-term credit, particularly high growth rates were recorded in credit against collateral of tobacco, in credit to farmers' organisations and enterprises (mainly for the industrial processing of agricultural products) and in special credit. Long-term credit moved at the levels of 1974 and was sufficient to meet the demand for investment funds.

In 1975, credit to domestic trade was more than twice the figure for 1974. Large increases were recorded in credit to tradesmen and businessmen, without supporting documents, following the raising of the ceiling from Dr. 80,000 to Dr. 150,000 for the Greater Athens area, and from Dr. 100,000 to Dr. 200,000 for the other areas.

The increase in credit to tobacco trade was

due to the fact that the prices paid for exportable tobacco from the 1974 crop were about 50 per cent higher than those paid for the 1973 crop.

Credit to handicraft recorded a very significant rate of increase in 1975. Two factors facilitated this increase : the exclusion of special credit to handicraft from the ceiling im-



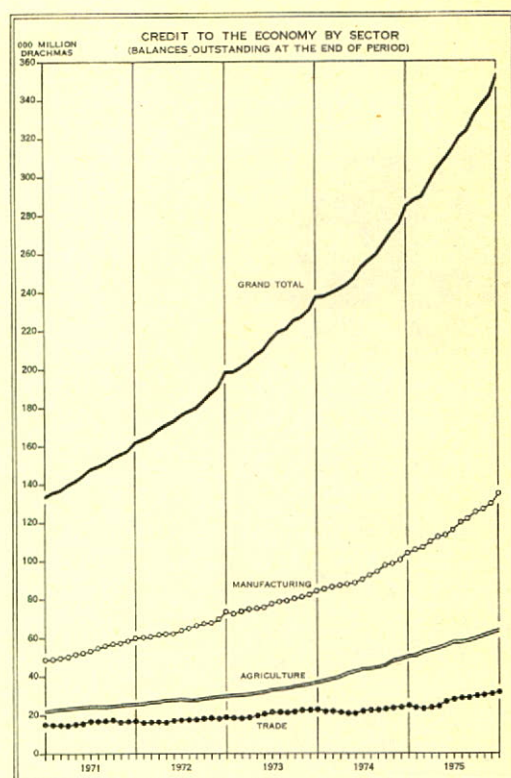


posed throughout 1975 on commercial bank credit, and the fact that banks were afforded the opportunity to achieve a higher average interest rate on their restricted deposits with the Bank of Greece by increasing their loans to handicraft. At the same time, the criteria for approving special low-interest-bearing loans to handicraft were made less strict. Loans in this category grew by Dr. 1,385 million or 53.4 per cent in 1975, whereas they had decreased by Dr. 62 million in 1974.

Of the remaining categories of long-term bank loans, the highest growth rates were recorded in loans for housing purposes (+11.8 per cent) and loans for investment in tourist facilities (+13.5 per cent). With specific regard to loans for housing purposes, particularly high levels were reached in the financing of workers' and farmers' housing programmes. These loans are granted on very favourable terms as to maturity and interest rate. As regards the other categories of housing loans, although the margins for new approvals were exhausted very fast, disbursement of the amounts approved by the Currency Committee was slow. This was particularly true of loans to civil servants and employees of public entities.

Long-term loans to the tourist industry increased at a slower rate than in the past few years, and this reflects both developments in new investment and the industry's structural problems. In spite of the arrangements made, it did not become possible in 1975 to set in motion the mechanism for granting additional loans for the completion of half-finished hotels. Difficulties arose on both the lending and the borrowing side, because enterprises were unable to meet the terms and conditions laid down in connection with these loans. Therefore, it was found necessary to make additional arrangements, late in 1975, by which to facilitate the granting of additional loans for the completion of half-finished hotels. At the same time, it was decided to make improvements in the terms on which loans to tourist firms are granted, and this, combined with the optimistic prospects for tourist traffic, is expected to contribute towards the creation of healthier operating conditions for hotels.

The Greek shipping industry was harassed by similar problems, which affected developments in loans to this industry in 1975. Measures were taken during the year to permit banks to make arrangements for the repayment of overdue loans they had granted to passenger shipping companies, while further measures were aimed at liberalising bank lending or simplifying the terms on which credit can be granted to shipping. Furthermore, it was sought to bring the terms on which ship repairs and construction are financed in line with those applying in Greece's major competitors.





## CHANGES IN TOTAL BANK CREDIT BY SECTOR

	Balances outstanding on 31 Dec. 1975 (million drachmas)	Changes in outstanding balances within the year					
		Million drachmas			Percentage		
		1973	1974	1975	1973	1974	1975
I. PRIVATE SECTOR	302,679	+30,943	+40,630	+59,449	+18.0	+20.1	+24.4
Long-term loans	135,322	+18,787	+14,449	+18,627	+22.5	+14.1	+16.0
Short-term loans	167,357	+12,156	+26,181	+40,822	+13.8	+26.1	+32.3
1. Agriculture	56,675	+ 7,333	+10,806	+12,152	+27.8	+32.0	+27.3
Long-term loans	24,568	+ 4,179	+ 3,066	+ 3,747	+30.8	+17.3	+18.0
Short-term loans	25,162	+ 3,331	+ 5,511	+ 4,781	+28.9	+37.1	+23.5
Agricultural supplies	6,945	— 177	+ 2,229	+ 3,624	—13.9	+204.1	+109.1
2. Manufacturing and Mining	121,321	+10,974	+19,142	+27,542	+17.2	+25.6	+29.4
Long-term loans	41,982	+ 5,678	+ 5,806	+ 7,645	+24.8	+20.3	+22.3
Short-term loans	79,339	+ 5,296	+13,336	+19,897	+13.0	+28.9	+33.5
3. Handicraft	13,960	+ 895	+ 701	+ 3,219	+ 9.8	+ 7.0	+30.0
4. Trade	31,181	+ 3,733	+ 2,102	+ 6,647	+20.0	+ 9.4	+27.1
Domestic	21,310	+ 648	+ 2,179	+ 4,857	+ 4.8	+15.3	+29.5
Import	1,572	+ 1,212	— 558	— 311	+98.6	—22.9	—16.5
Export	3,055	+ 414	+ 193	+ 329	+19.5	+ 7.6	+12.1
Tobacco	5,244	+ 1,459	+ 288	+ 1,772	+84.6	+ 9.0	+51.0
5. Other	79,542	+ 8,008	+ 7,879	+ 9,889	+14.9	+12.8	+14.2
Long-term loans	67,068	+ 8,525	+ 5,349	+ 6,766	+18.4	+ 9.7	+11.2
—Housing	37,008	+ 4,377	+ 1,281	+ 3,896	+15.9	+ 4.0	+11.8
—Tourism	19,690	+ 3,159	+ 2,928	+ 2,339	+28.0	+20.3	+13.5
—Shipping	6,389	+ 132	— 79	+ 346	+ 2.2	— 1.3	+ 5.7
—Other	3,981	+ 857	+ 1,219	+ 185	+49.8	+47.3	+ 4.9
Short-term loans	12,474	— 517	+ 2,530	+ 3,123	— 7.0	+37.1	+33.4
II. PUBLIC SECTOR	50,952	+ 7,633	+ 7,930	+ 7,897	+27.8	+22.6	+18.3
Public enterprises	30,600	+ 5,464	+ 5,649	+ 5,597	+39.3	+29.2	+22.4
Public entities	12,708	+ 2,130	— 99	+ 1,000	+22.0	— 0.8	+ 8.5
Government agencies purchasing agricultural products	7,644	+ 39	+ 2,380	+ 1,300	+ 1.0	+60.0	+20.5
T o t a l	353,631	+38,576	+48,560	+67,346	+19.4	+20.4	+23.5



### 3. DEPOSITS

#### *a. Private Deposits*

In 1975, private deposits with banks and specialised credit institutions rose significantly by Dr. 66,737 million or 32 per cent, against Dr. 32,648 million or 18.5 per cent in 1974 and Dr. 16,913 million or 10.6 per cent in 1973.

Private deposits recorded high rates of increase throughout 1975, except for the period January-February, when they were adversely affected by non economic factors. Specifically, in January they decreased by Dr. 3,934 million and in February they increased by only Dr. 1,449 million. However, in March their growth rate accelerated and, despite small fluctuations, remained at high levels until the end of 1975.

The rapid growth of deposits is related to the slowdown of price increases as from the second half of 1974 and to the emergence of more favourable prospects as regards price developments. Furthermore, the establishment of political stability contributed to the creation of a more favourable psychological climate. Similarly, it appears that in 1975 the growth rate of deposits was also affected by other factors, such as the slackness of private investment activity and, possibly, the substitution of borrowed for own funds by business firms.

PRIVATE DEPOSITS<sup>1</sup>

Category	Outstanding deposits on 31 Dec. 1975 (million drachmas)	Changes in balances outstanding					
		Million drachmas			Percentage		
		1973	1974	1975	1973	1974	1975
Sight	23,582	+ 2,334	+ 648	+ 4,077	+14.1	+ 3.4	+20.9
Savings	188,998	+ 9,787	+25,036	+47,480	+ 9.2	+21.5	+33.6
Time	51,550	+ 3,643	+ 7,061	+12,880	+13.0	+22.3	+33.3
Restricted	11,285	+ 1,149	— 97	+ 2,300	+14.5	— 1.0	+25.6
Total	275,415	+16,913	+32,648	+66,737	+10.6	+18.5	+32.0

(<sup>1</sup>) With banks and specialised credit institutions, excluding the Bank of Greece.

During 1973 and the first half of 1974, rapidly rising prices and the unfavourable prospects concerning future price trends reduced the propensity to deposit and shifted part of the savings in the private sector towards the purchase of real estate, consumer durables and stocks of raw materials or finished products, either for speculative purposes or in order to safeguard savings. Next, and as a result of the Cyprus crisis in July and August 1974, substantial amounts were withdrawn from deposits and held in cash. Even after these amounts had flowed back into the banking system in the last quarter of 1974, the propensity to deposit did not regain its pre-inflation levels within 1974. The return of cash holdings to more normal levels was completed in 1975, and this explains the acceleration of the flow of deposits into the banking system.

Lastly, it should be noted that the two reductions in interest rates made during the year under review did not have a negative effect on the propensity to deposit. However,

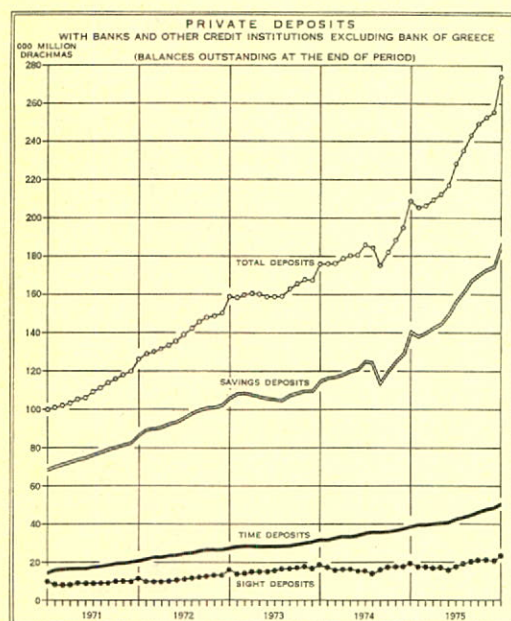


they may have contributed towards a redistribution of deposits in favour of the high-interest categories.

As regards individual categories, time and savings deposits increased by Dr. 60,360 million or 33.5 per cent (which is higher than the average rate), against 21.7 per cent in 1974. Similarly, sight deposits grew by Dr. 4,077 million or 20.9 per cent, against Dr. 648 million or 3.4 per cent in 1974. The accelerated growth rate of sight deposits in 1975 is mainly related to the large credit expansion, which led to improvements in the liquidity of enterprises. Lastly, restricted deposits (the bulk of which consists of deposits with the Consignations and Loans Fund for the payment of compensations on expropriated property) rose by Dr. 2,300 million or 25.6 per cent in 1975.

In 1975, as in previous years, commercial banks attracted the largest part of the total growth of private deposits (72.3 per cent), while the share of the Postal Savings Bank was 18.7 per cent and that of other credit institutions 9.0 per cent. Furthermore, in 1975 commercial banks improved slightly their share of the increase in savings deposits

at the expense of the other credit institutions, while the share of the Postal Savings Bank remained virtually unchanged.



#### BREAKDOWN OF ANNUAL CHANGES IN PRIVATE DEPOSITS BY CREDIT INSTITUTION

Credit institution	Total private deposits		Savings deposits	
	1974	1975	1974	1975
Commercial banks	73.4	72.3	65.7	67.9
Postal Savings Bank	20.5	18.7	26.7	26.3
Other	6.1	9.0	7.6	5.8
Total	100.0	100.0	100.0	100.0

#### b. Deposits in Foreign Exchange

During the year under review, a rapid rate of increase was also recorded in private deposits in foreign exchange, which amounted to the equivalent of Dr. 39,982 million at the end of 1975, having increased by Dr. 13,598 million or 51.5 per cent, compared with increases of Dr. 5,588 million or 26.9 per cent in 1974 and Dr. 5,225 million or 33.6 per cent in 1973.



As in previous years, among individual categories of deposits in foreign exchange, the largest increase was recorded in deposits by Greek seamen and emigrant workers (1975 : Dr. 8,559 million or 66.5 per cent; 1974 : Dr. 3,397 million or 35.8 per cent). Deposits under the National Mortgage Bank's Housing Loan Deposits Scheme also grew at a faster rate (1975 : 21.9 per cent; 1974 : 13.8 per cent).

The accelerated growth of deposits in foreign exchange is related to the establishment of a climate of political and economic stability and to the interest rates applicable to deposits, which are significantly higher than corresponding rates abroad. Furthermore, it is believed that the maintenance of political and economic stability at home, together with the prospects of sustained economic recovery abroad, will ensure a high growth rate of foreign exchange deposits in 1976. It should be noted in this respect that developments in the first quarter of 1976 were highly encouraging.

#### *c. Deposits by Public Entities*

Deposits by social insurance funds and other public entities amounted to Dr. 52,842 million at the end of 1975, having increased by Dr. 7,429 million or 16.4 per cent, against increases of Dr. 7,764 million or 20.6 per cent in 1974 and Dr. 5,908 million or 18.6 per cent in 1973. If investments by public entities in securities — mainly treasury bills — are also taken into consideration, the surpluses of public entities in 1975 were substantially larger. These investments increased by Dr. 4,225 million in 1975 (1974 : Dr. 161 million), of which Dr. 4,086 million was invested in treasury bills and Dr. 139 million in shares and bonds. Therefore, total assets of public entities increased by Dr. 11,654 million in 1975, against Dr. 7,925 million in 1974. It should be noted that in 1975 public entities were permitted for the first time to invest in treasury bills.

#### 4. CAPITAL MARKET

In 1975, capital market activity continued to remain slack. This is evident from the limited issues of shares and bonds and the small volume of stock exchange dealings. The value of new share and bond issues in 1975 totalled Dr. 1,697 million, of which Dr. 800 million referred to the issue of shares by the newly established commercial bank, the Ergobank. The aggregate value of dealings on the Athens Stock Exchange amounted to Dr. 5,758 million in 1975, compared with Dr. 7,602 million in 1974 and Dr. 8,543 million in 1973. Last year, the slackness of investment activity in the private sector had an adverse effect on capital market development. Nevertheless, the improvement in economic conditions and in the psychological climate during 1975, together with the steps taken to invigorate the capital market, helped to stimulate the demand for sound new securities.

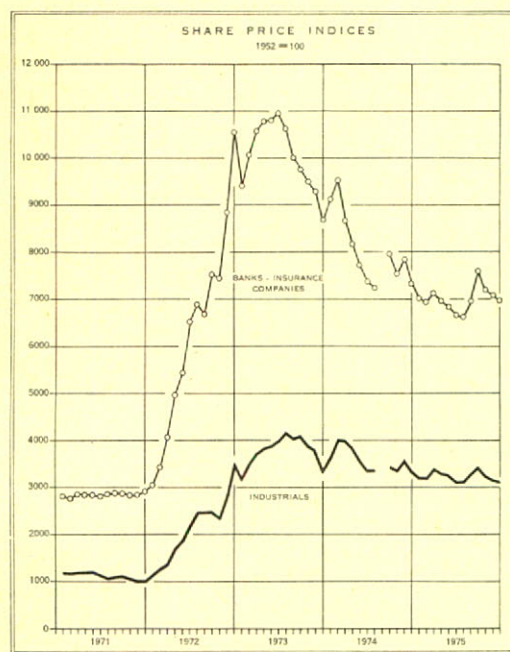
In order to revive the stock market and increase the demand for securities, the following measures were taken in 1975 : (i) It was permitted to extend the term of loans granted against collateral of securities, while the ceiling on such loans was raised from Dr. 2 million to Dr. 4 million per borrower; (ii) As from 1st September 1975,



the prohibition on short dealings and carry-over transactions was lifted; (iii) The tax-exempt amount of dividends deriving from more than one company was raised from Dr. 30,000 to Dr. 60,000; (iv) Arrangements were made in connection with the Public Power Corporation's bond issue of 1973, on favourable terms for the holders of these bonds.

A new type of short-term bond was issued by banking institutions towards the end of 1975. The purpose of issuing these new bonds is to make up for the fact that favourable conditions for long term bond issues have not yet been established. The bank bonds are available continuously ("on tap"), are made out to the bearer, are for a term of one year and can be renewed for two more years at the original interest rate. Because these bonds combine a high degree of liquidity with a better yield than similar forms of investment they have proved very attractive. The first two issues of Dr. 500 million each have been made by HIDB and have already been taken up by the public. In 1976, the first series of bank bonds issued by the National Mortgage Bank and the National Investment Bank for Industrial Development have been made available to the public.

A positive element of capital market developments is the interest shown by a large number of savers for investment in shares of sound industrial firms. Characteristically, the share capital of the newly founded Ergobank was oversubscribed and widely dispersed.



It should be noted that of the 100 largest—on the basis of capital employed—industrial firms, the shares of only 35 of them are listed on the Athens Stock Exchange, while in many cases only a small part of the shares of these firms becomes the object of stock market transactions. Obviously, therefore, the central problem of the Greek capital market is the insufficient supply of attractive shares, mainly because of the family character of the majority of Greek firms. This fact was ignored during the dictatorship. Therefore, the measures then taken complicated the problem instead of helping to develop the capital market. It should be noted, however, that the portfolio policies of credit institutions do not help business firms to achieve a sound capital structure. The ease with which they can borrow from the banking system often dis-

suares businessmen from resorting to the capital market. It is worth mentioning that the value of new share and bond issues by industrial firms in the four years 1972-1975 was only 14 per cent of the increase in their long-term bank borrowing. Therefore, in order to draw from the capital market the funds required for improving the capital structure of a large number of firms, credit institutions, especially commercial and investment banks, must change their portfolio policies. The banks themselves should



encourage their clients to resort to the capital market whenever possible, mainly for the purpose of improving the capital structure of their firms, as this improvement is a prerequisite for the further and sound development of many companies, chiefly in the manufacturing sector.

In 1975, share prices showed a declining trend, although during the year there were repeated, but short-lived, outbursts of rising prices. The price index compiled by the Bank of Greece for bank and insurance company shares fell by 4.9 per cent, while the price index for industrials recorded a somewhat larger drop (7.1 per cent).

On the contrary, bond prices exhibited a rising trend in 1975 and their average level was about 20 per cent higher than in 1974. The favourable developments in bond prices stemmed from the reduction made during 1975 in the interest rates on deposits, the favourable arrangements in connection with the PPC's bond issue of 1973, the foreign exchange clause included in most bond issues and, lastly, the additional interest of 1 per cent per annum granted to holders of economic development bonds issued by the Government, the PPC and the HTO, on which coupons matured between 16th February 1975 and 16th February 1976.

The value of dealings in post-war bonds totalled Dr. 843 million in 1975, which means an increase of 44 per cent in comparison with the respective figure in 1974. This rise mainly stemmed from the public's increased interest in bonds issued by the PPC, the HTO and the Aluminium Company. By contrast, the value of dealings in shares recorded a decrease (1975 : Dr. 4,878 million; 1974 : Dr. 6,954 million). It should be noted that, although dealings in shares account for the largest part (about 85 per cent) of the aggregate value of dealings on the Athens Stock Exchange, they represent a very small part (3.6 per cent) of the total current value of the shares listed on the Athens Stock Exchange. This small percentage suggests that those controlling sociétés anonymes are reluctant to permit a wider dispersion of shares.



## VI. PUBLIC FINANCE

### 1. FISCAL RESULTS

According to available preliminary data, total revenue from domestic sources under the overall government budget (ordinary and public investment budgets) totalled Dr. 138,304 million in 1975, against Dr. 105,411 million in 1974. On the other hand, corresponding expenditure totalled Dr. 169,780 million against Dr. 127,673 million in 1974. There was, thus, a deficit of Dr. 31,476 million against Dr. 22,262 million in 1974. The enlargement of the deficit under the overall government budget during the year ended was exclusively due to the increase in public investment expenditure whereas the ordinary budget was balanced. This deficit was financed to the extent of Dr. 16,057 million from domestic borrowing (by the issue of treasury bills) and to the extent of Dr. 15,419 million from foreign borrowing. The larger part (nearly 3/4) of treasury bills issued was absorbed by the commercial banks and the Postal Savings Bank, and the balance by social security organisations.

However, in order to have a more complete picture of the results of fiscal management and to assess its influence correctly, to the deficit in the overall government budget should be added the deficits in the consumer goods account and the accounts of the organisations trading agricultural products on behalf of the Government, in so far as they are not financed out of the budget. These deficits represent, on the one hand, losses from the sale of commodities at prices lower than the cost of supply and management and, on the other hand, expenditure for subsidies or, in exceptional cases, for the purchase of goods to meet the needs of public services, which could directly burden the government budget. The deficits in these accounts are the result of the policy pursued for supporting agricultural prices and agricultural income or for subsidising the consumption of basic foodstuffs. As a consequence, they form an integral part of fiscal management.

The total management deficits in the above accounts are estimated at Dr. 9,700 million in 1975, against Dr. 10,000 million in 1974. They are entirely financed from Bank of Greece credits and will finally be covered by the government budget.

Consequently, if these deficits are added, the total deficit for the fiscal year 1975 amounted to Dr. 41,176 million against Dr. 32,262 million for 1974.

### 2. ORDINARY BUDGET

Ordinary budget revenue for the fiscal year 1975 totalled Dr. 137,230 million, having recorded an increase of Dr. 32,843 million or 31.5 per cent over corresponding revenue for 1974.

In particular, tax revenue amounted to Dr. 120,729 million, having increased by Dr. 23,845 million or 24.6 per cent over 1974. The relatively high rate of growth in tax



revenue stemmed entirely from indirect taxes, which yielded Dr. 91,125 million in 1975, against Dr. 68,453 million in 1974. In percentage terms, the increase was 33.1 per cent, compared with a 10.8 per cent increase in 1974. On the contrary, there was a deceleration in the growth of revenue from direct taxes, which amounted to Dr. 29,604 million, against Dr. 28,431 million in 1974, which means an increase of 4.1 per cent only, against 51.1 per cent in 1974.

This development in tax revenue was to a considerable extent the result of tax measures taken during the year ended. Thus, revenue from personal income tax rose by 2.1 per cent, despite the substantially higher rate of growth of money incomes in 1974. This was mainly the result of the decrease in the tax burden on wage-earners and other taxpayers in lower and middle income brackets. At the same time, revenue from corporate income tax decreased by 5.1 per cent, despite an increase of 5 percentage points in the tax rates on undistributed profits of sociétés anonymes. This decrease was due to: (i) the deduction from the 1975 taxable income of sociétés anonymes of the amount of the special one-time levy introduced in 1974 on higher private and corporate incomes, as well as of the value of capital equipment imported under Law 331/1974 during the period from 5th March to 31st December 1974; (ii) the lower rate of growth of corporate incomes in 1974, as compared with 1973, when unusually high profits had been realised; and (iii) the abolition of the ceiling on profits distributed during 1974.

The contractionary effect of these factors on the yield of direct taxes was partly offset by the reforms in the tax rates on shipping, which yielded Dr. 989 million in 1975 against Dr. 43 million in 1974, as well as by the new tax on real estate, which yielded Dr. 359 million. It should be noted that the yield of the tax on real estate showed a considerable shortfall against the initial forecast of Dr. 1,000 million. This shortfall, however, may be due to the difficulties encountered during the first period of implementation of this institutional measure and is finally expected to be covered after the checking of returns submitted by taxpayers.

As regards indirect taxation, the largest increases in revenue came from consumption tax on fuels, taxes and duties on private vehicles, stamp duties, turnover tax and other special consumption taxes. The yield of these taxes was affected by the increase in the tax rates and other relevant tax reforms introduced at the beginning of 1975. A particularly high rate of growth was also noted in revenue from the tax on sugar consumption, owing to the large increase in domestic production and stocks of sugar. However, most of the other indirect taxes also showed a considerable increase, chiefly due to the rise of prices as well as the expansion of economic activity, consumption and transactions. The only exception was import duties, whose yield increased by 1 per cent only, owing to the slow growth of imports and the further reduction of duties, in accordance with the Association Agreement of Greece with the European Economic Community.

Apart from tax revenue, a very rapid increase was registered in other recurring and non-recurring revenue under the government budget for 1975. This revenue includes Dr. 5,378 million as the state's share in the profits of the Bank of Greece, against Dr. 470 million in 1974.

Expenditure under the ordinary budget is estimated at Dr. 137,230 million for the year ended, against Dr. 104,387 million in 1974. There will be, therefore, an increase of Dr. 32,843 million or 31.5 per cent. The most significant increase, for the second con-



secutive year, was recorded in expenditure for national defence, owing to the priority given to the maintenance and strengthening of the country's defence capability. High rates of growth were also noted in the outlays for public health, education and other social services, as well as the servicing of the public debt. On the expenditure side, the ordinary budget includes the refunds of import duties, stamp duties and interest for subsidising exports, as well as refunds of income taxes. Refunds to exporters showed a very rapid increase during the year ended, owing to the increase in the value of exports. Moreover, refunds of taxes doubled in 1975, as a result of the reduction of the tax burden on taxpayers in the lower and middle income brackets. Lastly, the increase in expenditure was also due to the rise in salaries and pensions of civil servants.

### 3. PUBLIC INVESTMENT

Expenditure under the public investment programme for 1975 totalled Dr. 32,550 million, against Dr. 23,286 million in 1974. There was, thus, an increase of Dr. 9,264 million or 39.8 per cent between 1974 and 1975. This expenditure was financed to the extent of Dr. 1,074 million out of special revenue from investment, while the balance came from government borrowing, as mentioned above.

The increase of expenditure under the public investment programme was one of the main expansionary factors of the economy in 1975. The largest part of the increase noted in expenditure was absorbed by projects in the sectors of education, water supply, sewerage and transport, regional development projects and housing.

Expenditure for investment realised by the Public Power Corporation and the Hellenic Telecommunications Organisation declined by 32.6 per cent in 1975 as compared with the year before. This decrease was exclusively due to PPC investment which fell to Dr. 7,500 million in 1975, against Dr. 13,297 million in 1974. On the contrary, HTO investment remained at the 1974 level, i.e. nearly Dr. 4,500 million. The decrease in investment expenditure realised by the PPC during the year ended was chiefly due to lower expenditure on projects, as it has been determined that the PPC has sufficient productive capacity for satisfying the anticipated increase in the consumption of electric energy over the next few years. It should be noted, in this respect, that there is a problem of re-orienting the entire investment programme of the PPC, so as to adapt it to the new conditions created by the quadrupling of crude oil prices. Specifically, the planning of new PPC investment should aim at the substitution of imported fuels by utilising local sources of energy to the greatest possible extent.

### 4. GOVERNMENT PURCHASES OF AGRICULTURAL PRODUCTS AND CONSUMER GOODS

The overall debit balance in the accounts held with the Bank of Greece in respect of government purchases of agricultural products and consumer goods amounted to Dr. 45,395 million at the end of 1975, against Dr. 35,400 million at the end of 1974, i.e. it recorded an increase of Dr. 9,995 million during the year ended. On the other hand, the cumulative



deficit outstanding from the management of these accounts is estimated at Dr. 27,200 million. This deficit will finally be financed from the government budget. It should be noted that the difference between the debit balance and the actual management deficit is offset by the value of stocks and the claims from the sale of supplies on credit.

Specifically, the debit balance in the consumer goods account increased by Dr. 6,595 million in 1975. The main characteristic of the movement of this account in 1975 was the increase of payments in drachmas from Dr. 9,223 million in 1974 to Dr. 14,636 million in 1975. This was the result of increased expenditure for purchases of grain and olive-oil, for the purchase of increased quantities of domestic sugar and for the payment of the relevant consumption tax. Conversely, payments in foreign exchange decreased in 1975, having totalled Dr. 14,543 million against Dr. 16,869 million in 1974. Moreover, receipts under this account totalled Dr. 22,583 million, against Dr. 19,818 million in 1974. Lastly, the deficit outstanding from the management of this account is estimated to have totalled Dr. 5,400 million in 1975.

The debit balance in the accounts for financing government purchases of currants and sultana raisins showed an increase amounting to Dr. 1,862 million, against an increase of Dr. 2,370 million in 1974. The increase for the second consecutive year in this debit balance stemmed from the adverse conditions that prevailed in the international market for currants and sultana raisins during the last two years, which resulted, on the one hand, in the increase of unsold stocks and, on the other hand, in the creation of considerable management deficits.

On the contrary, the debit balance in the account for government purchases of tobacco was reduced by Dr. 562 million, whereas it had remained almost the same in 1974. This was the result of reduced payments for tobacco purchases and increased receipts from the liquidation of stocks.

Finally, the debit balance in the account for the management of fertilisers increased by Dr. 2,100 million in 1975. It should be noted that the cumulative deficit outstanding in this account is estimated to have totalled nearly Dr. 5,000 million at the end of 1975 and stemmed from the sale of fertilisers at prices substantially below cost.

## 5. THE BUDGET FOR 1976

The overall government budget approved by Parliament for the fiscal year 1976 provides for total revenue of Dr. 172,500 million and total appropriations of Dr. 212,500 million, including reserves of Dr. 15,500 million. The resulting deficit of Dr. 40,000 million is expected to be financed to the extent of Dr. 25,000 million from domestic borrowing and to the extent of Dr. 15,000 million from foreign borrowing.

In particular, revenue under the ordinary budget is expected to total Dr. 171,500 million, against Dr. 137,230 million in 1975, and will accrue to the extent of Dr. 46,000 million from direct taxes, Dr. 112,300 million from indirect taxes and the balance of Dr. 13,200 million from other recurring and non-recurring revenue.

Of the forecast increase by Dr. 37,600 million in tax revenue under the ordinary budget, an amount of Dr. 26,100 million is estimated to accrue from the normal rise of



tax revenue owing to the expected growth of money incomes, economic activity and transactions, while the balance of Dr. 11,500 million is expected to accrue from the yield of the new special levy and other tax reforms of limited importance.

The share of revenue from direct taxes in total tax revenue is estimated at 29 per cent, against 24.5 per cent in the year ended. The improvement in this share will come basically from the special levy and does not, therefore, constitute a permanent improvement in the ratio of direct to indirect taxes.

The ordinary budget provides for appropriations of Dr. 171,500 million, including a reserve of Dr. 10,000 million for contingencies, compared with actual expenditure of Dr. 137,230 million in 1975.

The public investment budget anticipates total payments of the order of Dr. 41,000 million, including a reserve of Dr. 5,500 million. Special revenue under this budget is estimated at Dr. 1,000 million.

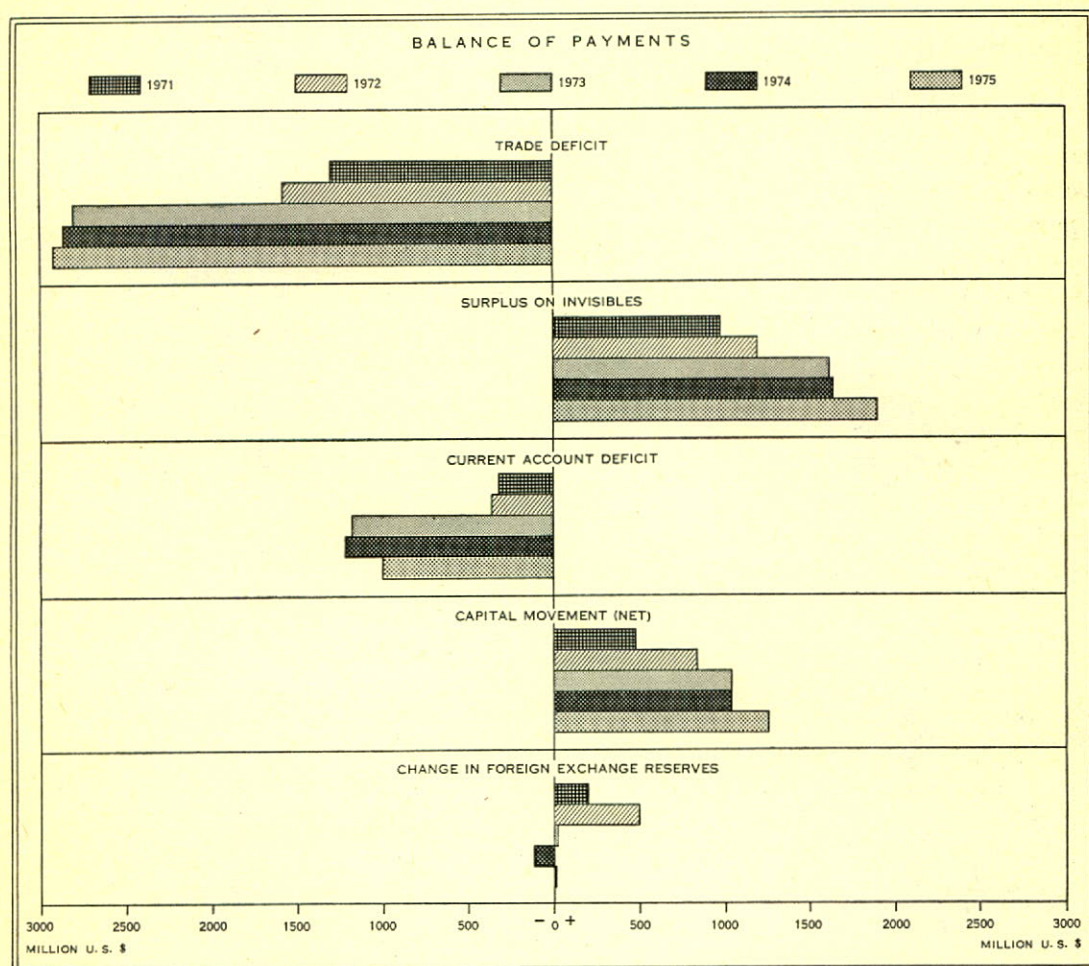
Of special importance is the provision of increased reserve funds both in the ordinary and in the investment budgets. These reserve funds will help finance unforeseen expenditure and will, at the same time, ensure the flexibility needed for adjusting fiscal policy to the requirements of overall economic policy, according to short-term developments in other basic economic magnitudes. It should, however, be noted that the borrowing requirements of the public sector are still extremely high and are increasing even though the economy entered a phase of recovery last year. The financing of the deficit in the public sector did not create any serious problems so long as the economy was in recession and the borrowing requirements of the private sector were low, compared with savings deposited in the credit system. One should also add that fiscal deficit management was expedient in order to support economic activity and assist the economy out of the recession. However, the acceleration of the upswing of the economy must be combined with appropriate measures for the gradual reduction of public sector borrowing requirements. Otherwise, there is a danger that the public sector may turn into a serious source of inflationary pressures.



## VII. BALANCE OF PAYMENTS

### 1. INTRODUCTION

In 1975, one of the basic aims of short-term economic policy was to reduce the deficit in the country's balance of payments and assist in the recovery of the Greek economy. The attainment of this aim was difficult *per se*, considering that these objectives compete with each other. These difficulties, however, were considerably greater since the im-



provement in the balance of payments had to be achieved under conditions of international economic recession, which became more pronounced last year and caused a decrease in foreign demand for goods and services.

Despite adverse international conditions, an improvement in the balance of pay-



## BALANCE OF PAYMENTS

(Million U.S. dollars)

Items	1972	1973	1974	1975
IMPORTS (plus suppliers' credit)	2,407.0	4,030.8	4,635.2	4,875.7
Private	2,019.4	3,189.0	3,464.5	3,710.7
Government	387.6	841.8	1,170.7	1,165.0
EXPORTS	835.4	1,230.5	1,774.1	1,959.6
<b>Balance of Trade</b>	<b>-1,571.6</b>	<b>-2,800.3</b>	<b>-2,861.1</b>	<b>-2,916.1</b>
INVISIBLE RECEIPTS	1,605.9	2,195.4	2,363.0	2,651.9
Tourism	(392.7)	(514.9)	(436.0)	(621.3)
Shipping	(435.6)	(600.1)	(874.4)	(853.8)
Emigrants'-Workers' remittances	(575.3)	(735.4)	(645.3)	(733.6)
Interest-Dividends-Profits	(26.4)	(52.4)	(85.7)	(93.7)
NATO infrastructure	(4.9)	(30.2)	(51.6)	(0.3)
Other	(171.0)	(262.4)	(270.0)	(349.2)
INVISIBLE PAYMENTS	402.1	570.3	720.4	745.0
Tourism <sup>1</sup>	(95.8)	(113.3)	(130.1)	(155.2)
Transportation	(77.7)	(142.0)	(154.1)	(172.3)
Interest-Dividends-Profits	(82.7)	(104.3)	(180.8)	(182.9)
Government	(47.2)	(60.8)	(88.1)	(64.8)
Other	(98.7)	(149.9)	(167.3)	(169.8)
<b>Balance on Invisibles</b>	<b>1,203.8</b>	<b>1,625.1</b>	<b>1,642.6</b>	<b>1,906.9</b>
<b>Balance on Current Account</b>	<b>-367.8</b>	<b>-1,175.2</b>	<b>-1,218.5</b>	<b>-1,009.2</b>
<b>Capital movement (net)</b>	<b>841.2</b>	<b>1,035.0</b>	<b>1,046.6</b>	<b>1,266.7</b>
Private venture capital	90.2	145.1	187.2	194.7
Other private capital	190.2	270.6	245.3	312.4
Capital belonging to credit institutions	204.0	211.6	177.3	233.1
Central Bank	174.9	79.7	305.4	517.1
Government loans	17.8	94.0	114.0	89.6
Public entity and public enterprise loans	122.5	244.3	67.2	13.7
Foreign suppliers' credit	198.2	161.4	125.4	229.5
Other	0.7	0.5	1.0	13.6
Amortisation	-157.3	-172.2	-176.2	-337.0
Errors and omissions	-13.2	143.5	87.3	-219.8
Non-monetary gold	23.6	—	—	—
Special Drawing Rights (Use)	-7.1	-1.5	—	—
<b>Change in Clearing a/c and Private Barter</b>	<b>-24.4</b>	<b>-10.6</b>	<b>28.0</b>	<b>30.8</b>
<b>Change in Official Reserves</b>	<b>501.1</b>	<b>12.4</b>	<b>-112.6</b>	<b>6.9</b>
Official reserves (end of period) <sup>2</sup>	(1,003.9)	(1,016.3)	(903.7)	(910.6)

<sup>(1)</sup> Including expenditure for studies and hospitalisation.<sup>(2)</sup> Including Greece's gold tranche with the IMF.

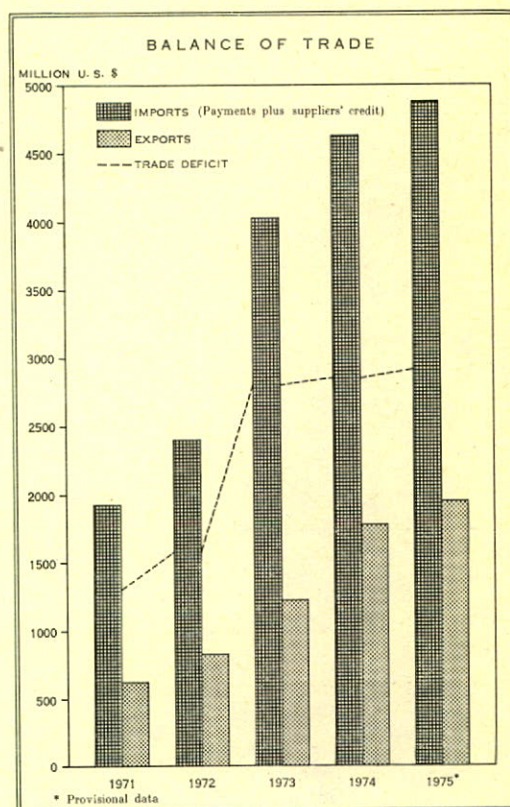


ments was achieved during the year ended with a parallel increase of 3.7 per cent in GDP, in a period of decline in the volume of international trade. In fact, the current account deficit decreased from \$1,218 million in 1974 to \$1,009 million in 1975. At the same time, there was a considerable increase in the autonomous inflow of private capital and an improvement in its qualitative structure. These developments finally resulted in reducing the needs in foreign borrowing during 1975 to nearly half of the corresponding needs in 1974.

The improvement in the balance of payments was due to a considerable extent to the economic policy pursued. First of all, foreign exchange policy played a decisive role in maintaining the competitiveness of Greek products in both the foreign and the domestic market. Favourable effects on competitiveness were also exerted by the renewed policy of stimulating exports of industrial and handicraft products. There was thus an improvement in the relative position of Greek products in foreign markets. Furthermore, the slight decline in the volume of private imports during the year ended was due to the foreign exchange policy pursued and the substitution of locally produced goods for imports.

It should be stressed, however, that the improvement of the balance of payments was combined with a significant deterioration of the external terms of trade<sup>1</sup> by 7.8 per cent in 1975, following a deterioration of 10.3 per cent in 1974. This means that the maintenance of the competitiveness of Greek exports was made possible, to a great extent, by the foreign exchange policy pursued and the considerable support given to exports.

Furthermore, it should be noted that the improvement of the balance on current account during the year ended was partly due to favourable factors of a temporary nature, such as the reduction over two consecutive years of the volume of imports owing to slack economic activity. Moreover, foreign exchange policy is not a suitable means for coping with balance-of-payments deficits on a more permanent basis. This means that the balance-of-payments problem is basically structural. It is linked with the structure and the structural weaknesses of the Greek economy, particularly of its industrial sector whose export activity depends on high government subsidies.



(<sup>1</sup>) Changes in the terms of trade are calculated on the basis of the average value of imports and exports expressed in domestic currency.



## 2. CURRENT TRANSACTIONS

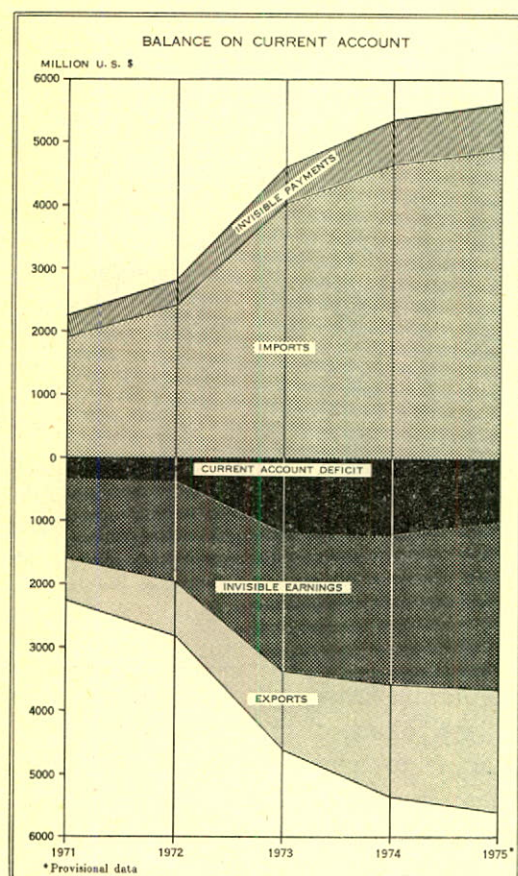
As a result of the adverse conditions that prevailed in 1974, the country's foreign transactions developed in a favourable climate during the year ended. The slower growth of international prices, the disengagement of the drachma from the dollar and the slack productive and investment activity make up the framework within which current transactions moved in 1975.

Commodity imports increased by 5.2 per cent in 1975, against an increase of 15 per cent in 1974. On the basis of seasonally adjusted data, imports during the first two quarters of 1975 were kept at the level of the last quarter of 1974 but declined during the second half of the year. Moreover, the quarterly movement of exports showed considerable fluctuations within the year. Thus, whereas during the first quarter of 1975 receipts showed an increase over the last quarter of 1974, during the second quarter they recorded a decline. They then showed an increase in the third quarter of

the year over the second one, chiefly because of the large growth of fruit exports. This upward trend, however, was reversed during the last quarter of the year. Finally, exports increased by 10 per cent for the year, against an increase of 44 per cent in 1974.

These developments resulted in the containment of the trade deficit in 1975 to a level only slightly higher (by nearly 2 per cent) than the corresponding level in 1974. In absolute figures, the trade deficit amounted to \$2,917 million in 1975, against \$2,861 million in 1974. Furthermore, the portion of imports financed out of foreign exchange earnings from exports increased from 30.5 per cent in 1973 to 38.3 per cent in 1974 and 40.2 per cent in 1975.

There was a significant improvement in the balance on invisibles, which left a surplus showing an increase of \$264 million, i.e. it rose from \$1,643 million in 1974 to \$1,907 million in 1975. In percentage terms, the increase amounted to 16.3 per cent and was chiefly due to earnings from tourism which exceeded by 42.6 per cent the corresponding earnings in 1974. Moreover, emigrants' remittances, which had declined



considerably in 1974, resumed their upward trend (+13.7 per cent) during the year under review. Revenue from this source is still at a lower level than in 1973. Conversely, earnings from shipping, after a significant rise (+45.7 per cent) in 1974, partly due to the



extraordinary contribution on the part of shipowners, recorded a slight decline in 1975. Finally, the increase in the surplus of invisibles was also due to the limited growth (3.4 per cent) in invisible payments during the year ended. The share of the surplus in invisibles in financing the trade deficit and imports totalled 65.4 and 39.7 per cent respectively in 1975, against 57.4 per cent and 35.4 per cent in 1974.

The geographical distribution of foreign transactions did not show any considerable change in 1975 compared with 1974. The nine EEC countries accounted for 40.3 per cent of current transactions, against 39.9 per cent in 1974, while the U.S. accounted for 20.4 per cent, against 20 per cent in 1974. A slight decline was seen in the share of other European countries (7.4 per cent in 1975 against 8 per cent in the year before) and of Middle and Near East countries (4.9 per cent in 1975 against 5.3 per cent in 1974). Conversely, a significant increase was seen in the share of East European countries, which rose from 5.6 per cent in 1974 to 6.6 per cent in 1975.

#### *a. Imports*

Besides the aforementioned general factors, imports were also favourably affected by: (i) the smaller increase in international prices in 1975 compared with the year before; (ii) the liquidation of stocks of imported raw materials accumulated during the previous period; (iii) the policy of containing foreign exchange expenditure by the public sector, except expenditure for national defence purposes; and (iv) the control of the overpricing of imports.

Under the impact of the above factors, total foreign exchange expenditure for imports (payments plus suppliers' credits) amounted to \$ 4,876 million in 1975 against \$ 4,635 million in 1974. There was, thus, an increase of 5.2 per cent in the value of imports during the year ended. In volume terms, imports recorded a decrease for the second consecutive year. The following developments should be noted with regard to individual categories of imports in 1975 :

Imports of foodstuffs decreased by 9.4 per cent in 1975. This development was chiefly due to the meeting of the country's needs in wheat from domestic output and to the reduced imports of other cereals (mainly maize). A slight decline was also seen in imports of meat, dairy products and animal feeds. It should be noted that meat imports continued to be at a low level for the second consecutive year following their sharp decline between 1973 and 1974. Conversely, imports of sugar showed an increase which was more than double the increase in 1974, in value terms; an increase was also recorded in imports of vegetable oils. The increase in payments for sugar imports was chiefly due to the high international prices.

A decrease was also observed in imports of raw materials (-9.1 per cent). This decrease was due to a decline of nearly 24 per cent in the value of imports of construction materials, particularly iron and steel. This decline, despite higher construction activity in 1975, should be attributed to the drop in international steel prices and the use of part of the stock of iron and steel accumulated over the previous two years. Conversely, imports of raw materials for meeting industrial needs rose by 7.1 per cent in 1975.

A slight decrease of 2.7 per cent was recorded in imports of fuels and lubricants.



# I M P O R T S

(Payments and changes in the outstanding balance of suppliers' credit)

Category		(Million U. S. dollars)			Changes in %		
		1973	1974	1975	1973/1972	1974/1973	1975/1974
I.	FOOD	756.8	585.4	530.2	158.5	-22.6	-9.4
	1. Basic	685.9	520.7	464.6	170.9	-24.1	-10.7
	Meat and live animals	244.0	84.4	79.7	105.4	-65.4	-5.6
	Dairy products	52.2	59.8	54.4	68.4	14.6	-9.0
	Wheat	51.9	55.5	—	...	6.9	...
	Other cereals	154.7	151.6	119.6	...	-2.0	-21.1
	Sugar	36.3	33.4	67.3	90.1	-8.0	101.5
	Vegetable oils	41.1	42.0	51.9	156.3	2.2	23.6
	Animal feed	42.2	52.3	38.7	70.2	23.9	-26.0
	Other	63.5	41.7	53.0	97.8	-34.3	27.1
	2. Non basic	70.9	64.7	65.6	79.0	-8.7	1.4
II.	RAW MATERIALS	724.4	951.8	865.5	58.7	31.4	-9.1
	1. Industrial	360.7	504.3	524.3	59.2	39.8	4.0
	2. Construction materials	363.7	447.5	341.2	58.3	23.0	-23.7
	Iron and steel	224.5	345.9	244.5	45.1	54.1	-29.3
	Timber	87.2	65.8	65.5	74.4	-24.5	-0.5
	Other	52.0	35.8	31.2	107.2	-31.1	-12.8
III.	FUELS - LUBRICANTS	413.5	863.5	840.5	90.6	108.8	-2.7
	1. Coal	26.8	42.5	59.0	44.9	58.6	38.8
	2. Petroleum products	386.7	821.0	781.5	94.9	112.3	-4.8
IV.	CAPITAL GOODS	1,164.0	1,257.8	1,462.5	48.2	8.1	16.3
	1. Machinery	885.3	874.9	912.9	47.8	-1.2	4.3
	2. Transport equipment	140.9	274.6	451.8	42.6	94.9	64.5
	3. Electrical equipment	137.8	108.3	97.8	57.5	-21.4	-9.7
V.	MANUFACTURED CONSUMER GOODS	948.2	941.3	1,144.0	48.1	-0.7	21.5
	1. Intermediate	122.1	127.0	152.8	58.4	4.0	20.3
	2. Basic	348.6	407.7	435.5	40.2	17.0	6.8
	3. Non basic	477.5	406.6	555.7	51.8	-14.8	36.7
	Leather articles and furs	21.4	23.8	19.0	46.6	11.2	-20.2
	Textile products	72.4	66.9	79.6	53.1	-7.6	19.0
	Electrical appliances	67.2	38.3	55.8	61.9	-43.0	45.7
	Private cars	73.4	49.1	101.7	36.9	-33.1	107.1
	Other	243.1	228.5	299.6	54.3	-6.0	31.1
VI.	FREIGHT	23.9	35.4	33.0	57.2	48.5	-7.0
	T o t a l	4,030.8	4,635.2	4,875.7	67.5	15.0	5.2



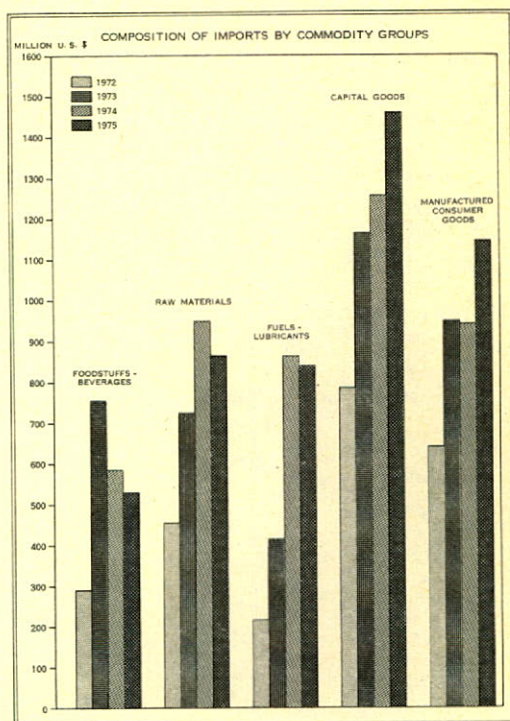
Among individual categories, an increase was registered in imports of solid fuels, whereas there was a decline of 4.8 per cent in imports of petroleum products, despite the increase in their prices as from October 1975. If the price increase is taken into consideration, there was a significant reduction in the volume of imports of petroleum products. This reduction can only partly be attributed to the decline in exports of refined oil products. It was chiefly due to the decline in demand, as a result of the government policy of shifting the increased cost of fuels onto consumers, as well as of the additional tax burden on liquid fuels. Lastly, a substitution of domestically produced lignite for liquid fuels was achieved in the production of electric energy.

The value of imports of capital goods showed an increase of 16.3 per cent in 1975 against an increase of 8.1 per cent in 1974. However, if exceptional government imports are excluded, the rate of growth drops to 2.9 per cent. Among individual categories, the largest increase appeared in imports of transport equipment (+64.5 per cent), chiefly as a result of exceptional government imports. A much smaller increase (+4.3 per cent) was seen in imports of machinery, which constitute the bulk of capital goods imports. Finally, imports of electrical equipment fell by 9.7 per cent below their 1974 level.

Besides the category of capital goods, a significant increase was registered in imports of manufactured consumer goods. The increase in the value of imports in this category amounted to 21.5 per cent in 1975 compared with virtually no change in 1974. Among individual categories, the highest rate of growth was noted in the value of imports of non-basic manufactured goods (+36.7 per cent), followed by imports of intermediate goods (+20.3 per cent), whereas the increase in imports of basic manufactured goods was slight (+6.8 per cent). The increase in imports of non-basic consumer goods stemmed from all individual categories, except leather articles, furs and articles of plastics materials. A particularly high rate of growth was observed in imports of private vehicles and electrical appliances.

### *b. Exports*

The general conditions governing export activity in 1975 are characterised on the one hand by increased supply (partly because of limited domestic demand) and on the other by a decline in foreign demand, as a result of the international economic





E X P O R T S  
(Million U.S. dollars)

Category	1973	1974	1975	Changes in %	
				1974/1973	1975/1974
1. Foods and beverages	346.9	374.3	493.4	10.0	22.4
Currants	37.1	36.6	31.2	-1.3	-15.0
Sultana raisins	42.7	46.8	47.0	9.6	0.5
Olives	24.5	23.5	33.9	-3.7	44.2
Olive-oil	7.5	10.4	19.8	38.7	89.8
Citrus fruit	31.5	38.5	58.6	22.5	52.2
Other fresh fruit	37.7	38.9	78.0	3.2	100.8
Fruit and vegetable preserves	61.4	77.3	72.2	25.9	-6.6
Fruit juices	16.2	17.4	23.5	7.4	35.1
Other	88.3	84.9	129.2	-3.8	52.2
2. Tobacco	88.3	158.4	160.4	79.4	1.3
3. Raw materials and semi-manufactured goods	136.6	121.1	110.2	-11.3	-9.0
Cotton	76.2	44.9	30.9	41.1	31.5
Hides and skins	34.6	38.0	44.5	9.5	17.2
Kernel oils	8.4	13.5	9.0	60.7	-33.6
Other	17.4	24.7	25.8	42.0	4.4
4. Minerals and ores	73.0	103.1	134.2	60.7	30.2
Bauxite	11.5	14.6	21.8	27.0	48.9
Magnesite, dead-burnt	30.1	45.5	58.0	51.2	27.4
Other	31.4	43.0	54.4	36.5	26.5
5. Petroleum products	46.4	123.5	87.0	166.2	-30.0
6. Industrial and handicraft products	496.8	851.5	944.6	72.3	14.8
Textiles	155.5	202.0	232.1	29.9	14.9
Cement	13.1	79.9	131.6	509.9	64.7
Other chemicals and pharmaceuticals	33.3	40.1	65.6	20.4	63.7
Aluminium-Alumina	55.7	71.2	57.8	27.6	-18.8
Nickel-Ferronickel	22.5	68.8	57.8	205.8	-16.0
Iron sheet	27.0	36.0	28.5	33.3	-20.7
Other metals and metal manufactures	35.2	142.0	137.6	303.4	-3.1
Machinery and transport equipment	5.0	16.6	24.7	232.0	48.4
Footwear and leather articles	19.8	28.0	35.3	41.4	26.1
Other	129.7	166.9	173.6	28.7	4.0
7. Other	42.5	42.2	29.7	-0.5	-29.5
Grand total	1,230.5	1,774.1	1,959.5	44.2	10.5



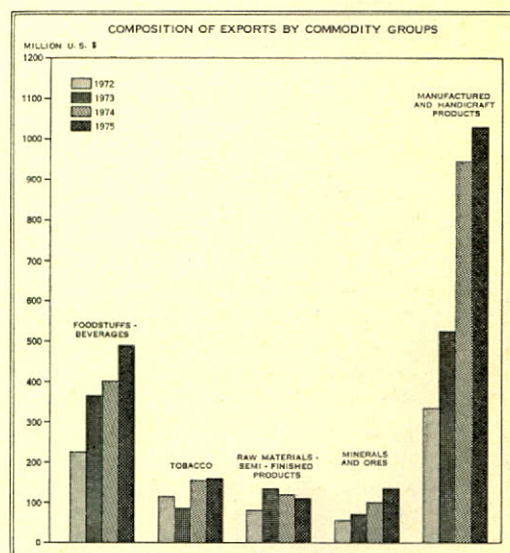
recession. As already mentioned, the foreign exchange policy pursued by the government, as well as the government policy of subsidising exports in general, helped to cope with the adverse competitive conditions prevailing in foreign markets. Export earnings amounted to \$1,960 million in 1975, against \$1,774 million in 1974, having increased by 10.5 per cent.

The composition of export earnings changed slightly in 1975. The share of foodstuffs rose from 21 per cent in 1974 to 25.2 per cent in 1975, while that of minerals and ores rose from 5.8 per cent to 6.8 per cent. On the contrary, there was a decrease in the share of tobacco, raw materials and semi-manufactured goods and petroleum products. Finally, the share of the most important category, i.e. industrial and handicraft products, remained at the same level (48.2 per cent) during the last two years.

The largest increase, both in absolute figures and growth rate, was recorded in exports of foodstuffs, which rose by 31.8 per cent. This increase stemmed from almost all individual categories (except currants and raisins). The largest increases in both absolute figures and percentages were observed in exports of fresh fruit and citrus fruit. It should, however, be noted that the increase in fruit exports was also favoured during the 1975 export season by exceptional factors, such as losses caused by frost in the European fruit crops (chiefly peaches).

Exports of raw materials and semi-manufactured products showed a further drop of 9 per cent in 1975, following an 11.3 per cent decline in 1974. This was due to reduced exports of cotton and kernel oil, which were only partly offset by increased exports of leather and other raw materials. Reduced foreign exchange receipts from cotton exports were basically the result of a decline in the international prices of cotton. Earnings from tobacco exports remained almost at the 1974 level. This was chiefly due to the expectations of foreign buyers that lower prices would prevail during 1976, under the pressure of supply and demand conditions. On the contrary, a high rate of growth (30.2 per cent) was recorded by foreign exchange receipts from exports of minerals and ores. This increase largely stemmed from exports of dead-burnt magnesite and bauxite.

Exports of industrial and handicraft products grew by 10.8 per cent. High rates of growth, particularly in the light of the conditions prevailing in the international market, were registered in earnings from exports of cement (+65 per cent), chemicals and pharmaceuticals (+64 per cent), machinery and transport equipment (+48 per cent), footwear and leather articles (+26 per cent) and textiles (+15 per cent). These increases, however, were offset to a large extent by a decline in exports of metals and metal manufactures (aluminium, nickel, iron sheet, etc.). The large increase in earnings from cement exports stemmed chiefly from the increase in the volume of exports, particularly in the markets





of the Middle East and North Africa and, secondly, from the improvement of prices. The increase in earnings from textiles was due to the growth of export volume since international prices remained unchanged or, in certain cases, fell during the year. Finally, the drop in earnings from exports of metals and metal manufactures stemmed from the decline in international demand.

### *c. Invisible Earnings and Payments*

Invisible earnings totalled \$ 2,652 million in 1975, having recorded an increase of 12.2 per cent compared with the year before, while invisible payments totalled \$745 million, having increased by 3.4 per cent only. As a result, there was an increase of \$264

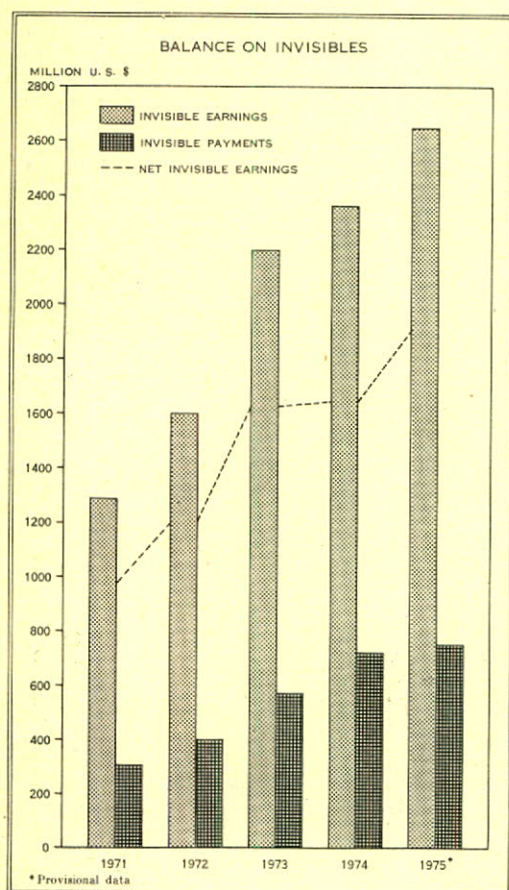
million in the surplus left by the balance on invisibles, which was the chief factor underlying the improvement of the balance on current account during the year under review.

The growth of invisible earnings stemmed chiefly from tourism and secondly from emigrants' remittances. The percentage increase in these two basic items amounted to 42.5 per cent and 13.7 per cent respectively. Receipts from both these sources had declined in 1974, under the effect of the recession then prevailing in the world economy and of non-economic factors. The Cyprus crisis in the summer of 1974 caused a sharp decline in earnings from tourism, whereas the international recession had affected earnings from emigrants' remittances since the first half of 1974.

Conversely, the international shipping crisis had affected foreign exchange earnings since the last months of 1974 and caused a slight decline of 2.4 per cent in the 1975 earnings from shipping. However, it should be noted that Greek ocean-going shipping was less affected by this crisis, compared with that of other countries. This was due to the composition of the Greek-owned merchant fleet which for the most part includes dry

cargo ships of small and medium size which had no surplus capacity during the year ended, as well as small and medium-sized tankers whose freight rates decreased less than the corresponding rates for large-sized tankers.

The increase in emigrants' remittances stemmed chiefly from Western Europe





(+18.6 per cent) and, secondly, from overseas countries (+8.7 per cent). In view of the fact that recession in the world economy continued and intensified during the year under review, the upward trend in these remittances should be basically attributed to the creation of a climate of confidence as regards the prospects of the Greek economy, following

## INVISIBLE RECEIPTS

(Million U.S. dollars)

Category of revenue	1973	1974	1975	Changes in %	
				1974/1973	1975/1974
1. Tourism	514.9	436.0	621.3	-15.3	42.5
2. Emigrants' remittances	735.3	645.3	733.6	-12.2	13.7
3. Shipping	600.1	874.4	853.8	45.7	-2.4
4. Interest-Dividends-Profits	52.4	85.7	93.7	63.6	9.3
5. Government services	91.7	118.1	47.1	28.8	-60.1
6. Other services	201.0	203.5	302.4	1.2	48.6
Total	2,195.4	2,363.0	2,651.9	7.6	12.2

## INVISIBLE PAYMENTS

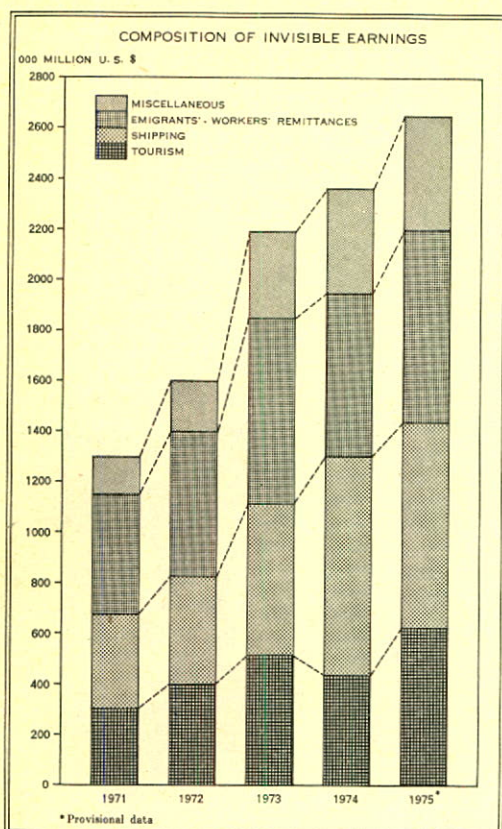
(Million U.S. dollars)

Category of expenditure	1973	1974	1975	Changes in %	
				1974/1973	1975/1974
1. Tourism	113.3	130.1	155.2	14.8	19.3
2. Transportation	142.0	154.1	172.3	8.5	11.8
3. Interest-Dividends-Profits	104.3	180.8	182.9	73.4	1.2
4. Government services	60.8	88.1	64.8	44.9	-26.5
5. Other services	149.9	167.3	169.8	11.6	1.5
Total	570.3	720.4	745.0	26.3	3.4

the restoration of normal political conditions. It should be noted in this connection that the limited repatriation of Greek workers from Western Europe, the high unemployment benefits paid in W. Germany and the considerable savings held abroad by Greek



workers account for the relative stability of foreign exchange receipts from this source. The increase in the number of tourist arrivals last year was particularly large.



This was basically due to the restoration of normal political conditions, the state of unrest that prevailed in certain competitor countries in the Mediterranean area and the competitive cost of tourist services offered in Greece, which was partly due to our foreign exchange policy.

As regards the other items of invisible receipts, there was a considerable growth of foreign exchange earnings from other services, mainly owing to the large increase in "other remittances". There was also a 9.3 per cent increase in revenue from investment, mostly interest on foreign exchange reserves. Conversely, earnings under the heading "government services" decreased, largely owing to the suspension of contributions from member-countries for NATO infrastructure projects in Greece.

With regard to invisible payments, there was an increase in private expenditure for foreign travel (+19.3 per cent) and in expenditure for transportation (+11.8 per cent). This increase, however, was offset for the most part by the decline in payments for

government services. These payments were particularly high in 1974, partly owing to the exceptional events that took place in that year.

### 3. CAPITAL MOVEMENT

The financing of the current account deficit was achieved with relative ease during the year ended, chiefly owing to the rapid increase in the autonomous inflow of private capital, which substantially reduced accommodating borrowing requirements. Net capital inflow (including borrowing by the Central Bank, Government and public enterprises) amounted to \$1,267 million, against \$1,047 million in 1974. High rates of increase were seen in the inflow of private capital through credit institutions (chiefly in the form of deposits by Greek seamen and workers abroad), other private capital imported mainly by Greeks living abroad for investment in Greece and, lastly, foreign suppliers' credit. This increase was primarily due to the restoration of a climate of confidence in the stability and future of the Greek economy and was strengthened by the policy pursued as regards interest rates on deposits in foreign exchange.



These interest rates were kept at a high level despite their considerable decline in foreign money markets. Moreover, the composition of capital inflow improved, considering that very high rates of growth were registered in foreign exchange deposits made by Greek seamen and emigrant workers, as well as in other private capital, a significant part of which represents unilateral transfers that do not entail any future obligation for servicing.

In particular, private capital imported for business purposes rose to \$195 million in 1975, against \$187 million in 1974 and \$145 million in 1973. The relatively low rate of increase in capital inflow under this category reflects the slackening in the rate of investment in the basic productive sectors of the economy. It should be noted that the inflow of capital imported under Law 2687/1953 declined further in 1975, when it totalled nearly \$17 million against \$43 million in 1974 and \$45 million in 1973. The decline in this inflow should be attributed to the gap created by the non-execution of large new industrial projects during the last few years. A larger increase was observed in the inflow of private venture capital imported outside Law 2687/1953, which amounted to \$190 million in 1975, against \$144 million in 1974 and \$100 million in 1973. This inflow, which constitutes the bulk of imported venture capital, reflects the investment activity of a large number of small and medium-sized enterprises both in the industrial and in other sectors of economic activity.

Private capital imported for other than business purposes totalled \$312 million in 1975, against \$245 million in 1974 and \$271 million in 1973. Capital under this category chiefly comes from Greeks living abroad, who take advantage of the incentives offered mainly for the purchase of real estate in Greece.

Net capital inflow through the banking system totalled \$233 million in 1975, against \$177 million in 1974 and \$212 million in 1973. The main source of capital under this category is foreign exchange deposits by Greeks living abroad, most of whom are workers and seamen. This source yielded \$207 million in 1975, against \$105 million in 1974 and \$112 million in 1973.

The total outstanding balance of foreign suppliers' credit grew by \$230 million in 1975, compared with increases of \$125 million and \$161 million in 1974 and 1973 respectively. This increase should be attributed to the restoration of a normal rate of acceptances and payments of bills of exchange, following the acceleration of payments in 1974 owing to international monetary disorder, and to the facility offered for importing private passenger cars on foreign suppliers' credit. Also, as already mentioned, the efforts made by the industrial countries for promoting their exports, particularly those of capital equipment, has made it easier for Greek importers to secure suppliers' credit.

Borrowing by the Government and the Bank of Greece totalled \$620 million in 1975, against \$487 million in 1974 and \$418 million in 1973. The Bank of Greece borrowed mainly from the international capital market and, to a lesser extent, from the International Monetary Fund. Loans in the former category include the DM 200 million loan from German banks, the \$200 million loan from the Eurodollar market through Crédit Lyonnais, the DM 50 million loan granted by Kreditanstalt für Wiederaufbau and the \$20 million loan granted by Grindlays Bank. Furthermore, loans from the International Monetary Fund in 1975 totalled \$144 million.



## VIII. INTERNATIONAL ECONOMIC DEVELOPMENTS

### 1. ECONOMIC DEVELOPMENTS IN 1975 AND PROSPECTS FOR 1976

It was around mid-1975 that the world economy started to recover from its deepest recession in the post-war period. Signs of a slow recovery appeared first in the economically more advanced countries, mainly the U.S.A. and Japan followed by West Germany, and then in the other countries, at different periods of time.

Recession set in mainly as a result of the restrictive economic policies pursued in the period 1973-1974 by the major industrial countries in order to check strong inflationary pressures. These policies had an adverse effect on investment and consumption, but failed to achieve their main target, that is to combat inflation. Specifically, for the OECD countries as a whole the rate of inflation dropped from 14.4 per cent in 1974 to 9.2 per cent in 1975. Furthermore, in several European members of the OECD this policy had little, if any, effect. A less favourable picture emerges from a comparison of changes in average consumer price levels. Thus, for the OECD members as a whole there was a drop from 13.4 per cent in 1974 to 10.6 per cent in 1975, whereas in the European members of the OECD the rise in price levels was about the same in both years (1975 : 13.5 per cent; 1974 : 13.2 per cent). Nevertheless, in 1975 the major industrial countries, under the pressure of growing unemployment, started one after the other to take measures for the purpose of reflating their economies. These measures helped them move out of recession.

According to OECD estimates, in the autumn of 1975 all industrial countries entered a phase of economic recovery. However, owing to the steep decline experienced in the first months of 1975, economic activity for the year as a whole was reduced in practically all Western countries. Specifically, GNP in the OECD members taken as a whole declined by 2 per cent in 1975, whereas in 1974 it had remained unchanged. In the EEC countries it decreased by 3 per cent, against a 1.9 increase in 1974. In most countries, economic recovery was mainly fostered by an increase in domestic demand, which stemmed primarily from the public sector and secondarily from private consumption. It should be noted in this connection that only a small part of the increase in disposable private income contributed to increased consumption. Under the impact of a climate of uncertainty due to unemployment and recession, the propensity to deposit increased. This reservedness in consumer behaviour was the outstanding feature of the latest world-wide economic recession. In at least seven of the leading industrial countries, during the first half of 1975 private consumer demand remained at the levels it had reached two years earlier. Therefore, final consumer demand in the first half of 1975 did not promote industrial production and investment.

On the basis of the relatively limited data available, stocks decreased significantly in the first half of 1975, which had an adverse effect on industrial output. By contrast, progressive replenishment of stocks has been a powerful factor behind economic recovery since the autumn of 1975.

Despite the uncertainty characteristic of the present transitional period, prospects for 1976 are favourable for the world economy, especially for the major industrial nations.



According to the latest forecasts, GNP in the EEC and the OECD members will increase by 2 to 3 per cent and 4 to 4.5 per cent respectively. The upturn in economic activity is expected to originate mainly in the three economically stronger countries, that is first in the U.S.A. and Japan and then in West Germany, since these three countries moved out of recession before the others, that is late in the summer of 1975. Revival of economic activity in the other countries will follow, mainly as a result of increased foreign demand. Specifically, recovery of economic activity in the main industrial countries, on which recovery in the other countries will depend to a significant extent, is expected to be the outcome of the following :

a) The most significant effect will be exerted by an increase in private consumption, which will mainly be the outcome of the change expected in consumer behaviour as a result of a recovery in economic activity and of more favourable prospects as regards developments in employment and the cost of living. It should be noted that, in 1975, increased incomes did not lead to a growth of consumption, owing to the fact that savings increased. This is attributed to the climate of uncertainty which prevailed during the recessionary phase.

b) During 1976, overall economic activity is expected to be decisively affected by increases in stocks. It is estimated that in the seven major industrial countries of the OECD, taken as a whole, two-thirds of the increase in real GNP between the first and the second half of 1975 stemmed from changes in stocks. It is expected that in 1976 changes in stocks will again play a significant—albeit smaller—role in the formation of national income. Specifically, it is estimated that one-third of the increase forecast for 1976 (about 5 per cent) in the real GNP of these seven countries will stem from changes in stocks.

c) On the other hand, gross investment is expected to rise only slightly in 1976, after its sharp decrease in the first half and relative stabilisation in the second half of 1975. Specifically, investment in dwellings is expected to record a slight increase in Western Europe and a substantially larger one in the United States. Other private investment is not expected to increase considerably, chiefly because of the idle productive capacity in industry.

At the beginning of 1976, the total number of unemployed in the OECD members was 15 million or 5.5 per cent of the labour force. Specifically, the number of unemployed in the EEC countries was 5.6 million. It should be noted that in the current year unemployment is still not expected to decrease significantly. Despite economic recovery, unemployment will decrease at a slow rate, since the economic policies implemented by the majority of industrial countries are cautiously expansionary and are mainly aimed at curbing inflation.

As regards prices, during 1976 inflationary pressures are expected to ease further. It is estimated that for the OECD countries as a whole the average increase in the consumer price index will be brought down to about 8.5 per cent, against 10.6 per cent in 1975. It should be noted that the difference between the indices of individual countries and the predicted average are significant, ranging between 4.75 per cent and 7 per cent for West Germany and the U.S.A., and 11.5 per cent and 15.3 per cent for Italy and the United Kingdom. Developments in prices are expected to be mainly influenced by two opposite forces. First, a reduction in pressures from labour cost, owing to the expected



improvement in productivity and moderation in workers' income claims. This will be the result of the unfavourable conditions prevailing in the labour market and of more favourable prospects in connection with cost of living developments. Second, price developments in 1976, which largely depend on the reaction of employers and workers, as well as on consumer behaviour. If it should be sought to regain losses in purchasing power through increases in profits or wages, inflation may be rekindled, the more so since inflationary pressures are still here, although their presence is felt with differing intensity in various countries.

## 2. ECONOMIC DEVELOPMENTS AND ECONOMIC POLICY TARGETS IN MAJOR COUNTRIES

In connection with economic developments and prospects, as well as targets and objectives of economic policies in the major industrial countries, the following remarks can be made:

In the United States, GNP decreased by 3 per cent in 1975, further to its 2.1 per cent decrease in 1974. The declining trend, however, was not continued throughout 1975. A turnaround in economic activity was noted as from the second quarter of 1975, mainly fuelled by an increase in private consumption, which in turn was due to a reduction in taxes early in 1975. Economic recovery was further assisted by revived building activity, which had reached very low levels in the beginning of 1975. Furthermore, as from the third quarter of 1975 there was an upturn in industrial investment, at a time when industry was destocking at an accelerating pace. A relative improvement was also seen in employment: the unemployment rate fell from its record 9.2 per cent of the labour force in May 1975 to 8.3 per cent late in the year. The rate of price increases dropped from 11 per cent in 1974 to 7 per cent in 1975.

For 1976, it is forecast that GNP will increase by 5.75 to 6 per cent, and this forecast is partly based on an expected replenishment of liquidated stocks. Final demand is expected to be further stimulated by an increase in private consumption, which is related to a change in consumer behaviour. In addition, there are favourable prospects as regards business investment.

Economic policy is aimed at fostering recovery in economic activity without giving rise to a new round of inflation. The principal and most effective fiscal measure in this connection was the cut made in tax rates in the spring of 1975, which resulted in a significant and immediate rise in consumer demand. By contrast, monetary policy in 1975 was not particularly expansionary, while for the current year it seems that it will remain unchanged, in order to avoid rekindling strong inflationary forces. This is concluded from the quantitative targets set in connection with the growth of money supply. Expansion of money supply is held to exert rather restrictive effects on economic activity, even after it is taken into consideration that during the phase of economic recovery, it is usual for the velocity of circulation to accelerate.

In W. Germany, GNP decreased by 3.7 per cent in 1975, whereas it had remained virtually unchanged in 1974. In the summer of 1975, economic activity scraped along the bottom of the trough, but a progressive upswing started in the second half of the year. Economic recovery was assisted by an increase in both foreign demand and domestic



consumer demand, as well as by the increase in investment activity which took place in the second half of 1975. However, unemployment remained at high levels. At the beginning of 1976, the number of unemployed was 1,300,000 or 5.9 per cent of the labour force, and there are no signs of a reduction in the next few months. These developments in the German labour market led to a considerable drop in the employment of immigrant workers.

Economic recovery had no effect on developments in prices, the rising trends of which slowed down in 1975 and are expected to continue decelerating in the coming months. The increase in the consumer price index in the current year is estimated at 4.5 to 5 per cent.

In 1975, the economic policy of W. Germany was less restrictive than the policies of the majority of industrial countries. The tax measures taken late in 1974 proved insufficient to halt the recession. In August 1975, it was decided to increase public spending by DM 5.75 billion (or 0.5 per cent of GDP), mainly in order to stimulate construction activity.

Economic activity was further stimulated by monetary policy. Measures were taken to keep the growth of currency circulation around 8 per cent in 1975. For this purpose, from the beginning of 1975 the discount rate was repeatedly lowered and the ratio of commercial bank reserve requirements to their sight deposits was reduced. This policy led to a substantial increase in bank liquidity and to a drop in short-term interest rates.

In the United Kingdom, GDP decreased by 1.8 per cent in 1975, whereas it had remained unchanged in 1974. Economic recession, apparent since the last months of 1974, deepened in the first half of 1975 and continued even after economic activity had started to recover in the other industrial countries. It was only in the last months of 1975 that there were signs of a slow recovery, mainly in the building sector. Thus, the decline in industrial production fell from 8.8 per cent in the first half of 1975 to 5 per cent for the whole of 1975. However, unemployment continued to grow through the last months of 1975. In fact, unemployment rose to 5.1 per cent of the labour force in January 1976, against 3 per cent in January 1975.

As a result of the measures taken in the summer of 1975, the rate of price increases slowed down significantly. The rate of inflation, on an annual basis, fell from 38 per cent in the first half of 1975 to about 14 per cent in the second half. However, prices increased by 24.3 per cent in 1975 (against 16 per cent in 1974), which was the highest rate recorded in the main industrial countries.

The current account deficit was reduced from \$8.8 billion in 1974 to \$3.75 billion in 1975, but the exchange rate of the pound declined as from the second quarter of 1975.

Forecasts are that in 1976 GNP will show a limited increase, while unemployment will remain at high levels.

The economic policy pursued in 1975 was basically restrictive throughout the year. Strong inflationary pressures and the worsening of the pound's position made it necessary to introduce, as from July 1975, a series of drastic measures aimed at restraining increases in prices and wages.

The fiscal policy for 1976 is considered to be rather restrictive. It calls for a reduction of public investment, especially investment by local authorities, in order to shift



productive resources towards the private sector and thereby promote investment activity and exports.

Monetary policy was definitely restrictive. In 1975, the policy of restraining the growth of money supply was continued. Furthermore, it was sought to curb credit expansion and to direct bank credit towards the financing of basic sectors of the economy. It is expected that this policy will be continued in 1976.

In France, GNP decreased by 2 per cent in 1975, against an increase of 3.9 per cent in 1974. Economic activity reached the bottom of the trough about the end of summer 1975, and then in autumn it started on a slow upswing. However, unemployment continued to grow in the first half of 1975, owing to the sharp decline of industrial production (15 per cent on an annual basis). Unemployment rose to 4.1 per cent of the labour force at the end of 1975, compared with 2.8 per cent at the end of 1974.

There was a slight slowdown in the rate of price increases in 1975. On an annual basis, this rate was brought down from 11.6 per cent in the first half of 1975 to 9.2 per cent in the second half. There are indications, however, that this downward trend has come to an end.

As a result of a substantial improvement in the balance of trade, the balance on current account showed a \$0.7 billion surplus in the first half of 1975, against a \$6 billion deficit in 1974. The growth of imports in the second half of 1975 and the slowdown of exports resulted in the reappearance of a deficit in the balance on current account. This development affected the French franc unfavourably. Economic activity is expected to revive on a rather limited scale in 1976. It is estimated that GNP will increase by 3 to 4 per cent. Under these conditions, unemployment is expected to remain at high levels until the end of 1976.

Moreover, a slightly more favourable trend in prices is anticipated, as compared with last year. Their rate of growth is estimated at 11 per cent for 1976, against 11.7 per cent in 1975 and 13.7 per cent in 1974.

The economic policy pursued remained basically restrictive until last summer. Emphasis was distinctly laid on combating inflation and improving the balance of payments. However, the fall of production and the growth of unemployment led to the implementation of an anticyclical policy. A large variety of fiscal and credit policy measures were taken in September 1975, chiefly aimed at encouraging private investment. However, the government budget for 1976 is considered to be rather restrictive.

Monetary policy became gradually expansionary during the year ended. In September 1975, the discount rate was lowered from 9 to 8.5 per cent, while the ratio of commercial bank reserve requirements to their sight deposits was reduced from 11 to 2 per cent. Likewise, the terms of consumer credit became more flexible.

In Italy, GDP in 1975 decreased by 4.5 per cent, against an increase of 3.2 per cent in 1974. The recovery noted in the economy since the second half of 1975 was slight. However, the number of unemployed remained unchanged and at rather low levels (3.5 per cent of the labour force). This was chiefly due to the reduction of hours of work in the sectors particularly hard hit by recession.

Moreover, there was a substantial deceleration in the growth rate of prices which, on an annual basis, dropped from 17 per cent in the first half to 9 per cent in the second



half of 1975. However, there are signs that over the past few months the upward movement of prices has accelerated.

Favourable developments in the balance of payments were offset by capital outflow during the second half of the year ended, resulting in the worsening of the lira's position, particularly during the last months of the year, despite the continuous and extensive intervention of the Bank of Italy in the foreign exchange market.

Forecasts for the current year are not optimistic. A slight increase of 1 to 2 per cent in GDP is expected while final demand should remain virtually unchanged during the first half of the current year.

The restrictive economic policy started slackening at the beginning of the year ended and became clearly expansionary last August, following the application of a series of chiefly fiscal measures, which aim at a significant increase in public expenditure (corresponding to 3.5 per cent of GNP) by the end of 1976.

Furthermore, monetary policy gradually became expansionary as from the beginning of 1975. Thus, the ceilings on bank credits were abolished together with prior import deposits, while the ratio of compulsory purchases of fixed income securities which the banks are required to make was reduced. In 1975, the discount rate was lowered from 8 to 7 per cent in May and to 6 per cent in September. However, under the pressure of the recent foreign exchange crisis and in order to re-establish confidence in the lira, a series of restrictive monetary and foreign exchange measures were taken during the year under review. Thus, the discount rate was gradually raised to 12 per cent and a higher ratio of commercial bank reserve requirements to their sight deposits was fixed.

Japan was the first industrial country to pull out of economic recession, in the spring of 1975. However, the growth of its economic activity slowed down late in the year. Its GNP increased by 2.5 per cent, against a decrease of 1.8 per cent in 1974. Economic recession, which hit its deepest in the spring of 1975, was followed by gradual recovery until the third quarter of the year under review and by stagnation in the last quarter. In 1975, developments in economic activity were mainly affected by the expansion of public investment spending in the first half, followed by increased public consumption and investment in dwellings, whereas business investment remained at the low levels of 1974. In the summer of 1975, however, the increase in domestic consumer demand started to slow down, and this led first to an accumulation of stocks of manufactured goods and then to a drop in output. Thus, despite the recovery of exports, the relatively slow growth of industrial production came to an end in the last quarter of 1975. As a result, there was an increase in unemployment.

The slackening of economic activity had a favourable effect on prices. It is expected that the slowdown in the rate of increase of prices will continue in the coming months. In 1976, the consumer price index is expected to rise by about 8 per cent.

Prospects for 1976 are quite favourable. It is predicted that GNP will increase by 4 per cent. This prediction is mainly based on the expected growth of exports, public investment and economic activity. By contrast, domestic consumer demand and industrial investment are not expected to have a marked effect.

Economic policy remained moderately expansionary. The main fiscal policy measures taken in 1975 were an increase in government expenditure early in the year and a



reduction in taxes. Further measures aimed at reviving economic activity were taken in October 1975. Monetary policy was fairly restrictive in the first half of the year, but then became more expansionary following the slowdown of economic activity. Specifically, the discount rate was gradually lowered from 9 per cent in April 1975 to 6.5 per cent in October, while the ratio of commercial bank reserve requirements to their sight deposits was lowered in November 1975 and again in February 1976.

### 3. INTERNATIONAL TRANSACTIONS AND PROBLEMS OF INTERNATIONAL EQUILIBRIUM

The main developments in international trade and payments during the year under review reflect the impact of economic recession in the industrial countries during the first half of 1975, the slight recovery in the second, and the sharp increase in the volume of industrial imports by the oil-producing countries. As a result, there were significant changes in the balance on current account of OECD member-states. The total current account deficit run by OECD members was brought down from \$33.2 billion in 1974 to \$6.5 billion in 1975, as a result of reduced imports owing to economic recession, and of increased exports, particularly to oil-producing countries.

Moreover, owing to a sharp increase in payments, the current account surplus of the OPEC declined from \$67 billion in 1974 to \$35 billion in 1975. The oil-importing developing countries are faced with serious balance-of-payments problems as a result of the fact that their current account deficit totalled \$23 billion in 1975, against \$17.5 billion in 1974.

The shifting of current account deficits to oil-importing developing countries aggravates the problem of their external financing, the more so because of their higher payments towards servicing their external debts, which in many cases have grown larger, particularly after the sharp increase in oil prices.

The decrease in the surplus of the oil-producing countries is reflected in the improvement of the balance on current account of the major industrial countries, except West Germany and Canada. The current account deficit of the less industrialised OECD countries, taken as a whole, remained at about the same level as in 1974 and is estimated at some \$16 billion or about 5 per cent of their total GDP.

In 1975, for the first time in many years, there was a decline in the volume of international trade, estimated at 6 to 7 per cent. This development is mainly attributable to the decrease in imports by non oil-producing countries, particularly the industrial ones, owing to the deepening economic recession in the first half of 1975. Considering that in 1975 there was a slowdown in the growth rate of export prices owing to a decline in world demand combined with an improvement in the supply of certain internationally traded goods, the value of world trade is estimated to have increased by about 3 per cent in 1975. Furthermore, the terms of trade of the oil-importing primary producing countries deteriorated substantially as a result of a 4 per cent decrease in their export prices and a 9.5 per cent increase in their import prices. On the other hand, the terms of trade of the industrial countries improved.



For the current year, it is forecast that the volume of international trade will increase by 6.5 to 7 per cent, mainly because of the expected large-scale replenishment of the international stocks of merchandise. Specifically, it is predicted that the moderate recovery of economic activity forecast for 1976 will lead to a deterioration in the balance of trade of the major industrial countries, which will be aggravated by the restrictions several oil-importing developing countries may have to impose on their imports.

It does not seem probable that these developments are going to affect to a significant extent the balance of trade of the smaller OECD member-countries, whose total deficit is expected to remain at the levels of 1975 and 1974.

According to recent OECD forecasts, in 1976 the current account deficit of its member-countries, taken as a whole, will be almost three times more than in 1975 (\$6.5 billion). As mentioned previously, this development mainly reflects economic recovery, the adverse effects from restrictions on imports by non oil-producing countries, and the latest increase in oil prices. This total deficit is expected to grow, chiefly as a result of a drop in the surpluses of the United States and West Germany, as well as of an enlargement of the deficits of Japan and France. The current account positions of the other OECD members are not expected to change substantially.

Owing to the increase in oil prices, the problem of ensuring adequate international financing of balance-of-payments deficits did not prove particularly difficult, despite original fears. Economic recession in the industrial countries, the establishment of international credit facilities and the adoption of a system of freely floating exchange rates facilitated the restoration of equilibrium in international payments. Thus, although international official reserves recorded only a small increase in 1975, mainly because of the improvement in the balance of payments of the United States, there were no special problems as regards the adequacy of international liquidity.

Specifically, of a total \$7.1 billion increase in international official reserves in 1975 (against \$37 billion in 1974), the foreign exchange reserves of the industrial countries, taken as a whole, and of the OPEC rose by \$2 billion and \$10 billion respectively, while those of the oil-importing primary producing countries and of the other countries decreased by \$1.7 billion and \$3.2 billion respectively.

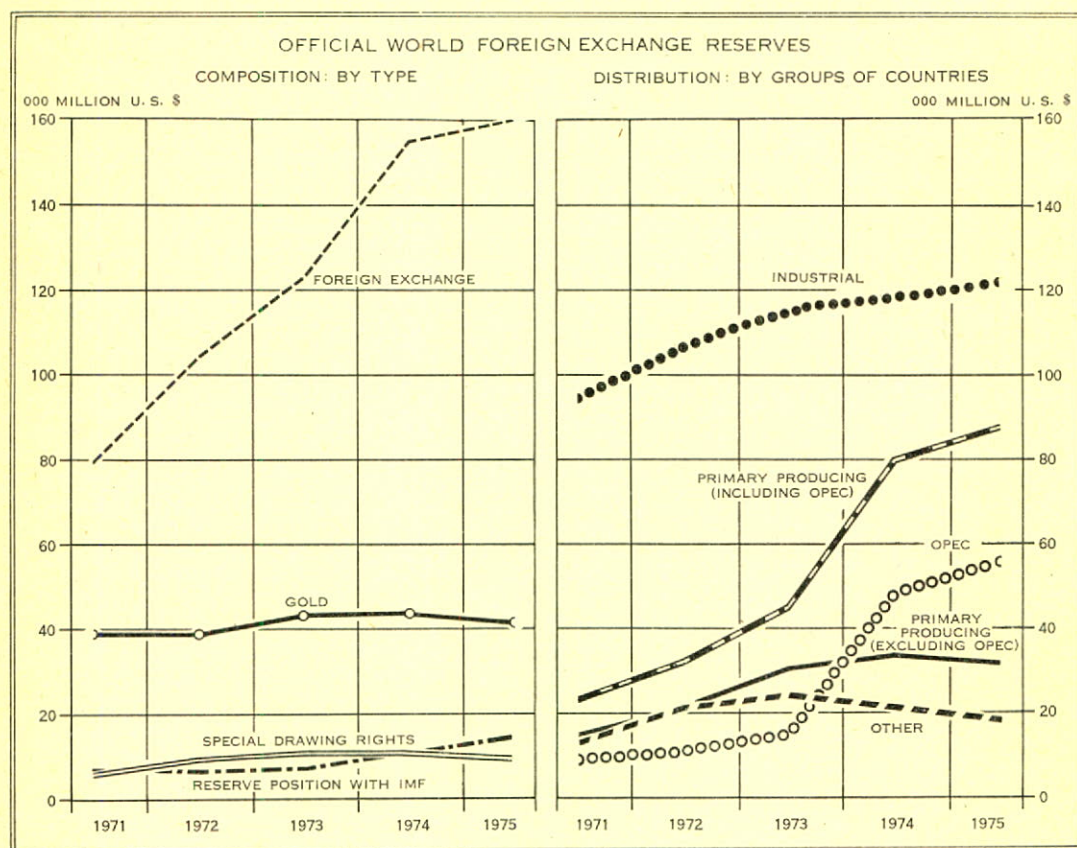
Furthermore, in 1975 there were no significant changes in the composition of world foreign exchange reserves. Thus, at the end of 1975 foreign exchange reserves and Special Drawing Rights accounted for about three-fourths of the total, as they did at the end of 1974. The remaining one-fourth included the gold tranche and the member-countries' net positions with the IMF. There was an improvement in the latter during 1975, whereas there was a decline in the share of gold in world monetary reserves.

As in previous years, U.S. dollars accounted for the better part of the increase in international liquidity during 1975. However, there was a significant change as regards the sources of international liquidity, through the substitution (as from 1974) of dollars moving freely in the eurodollar market for dollars resulting directly from deficits in the balance of payments of the United States.

Following prolonged negotiations, which started in 1972, an agreement was reached in 1975 as regards certain basic matters relating to the reform of the international monetary system. The decisions taken in this connection were finalised at the Jamaica conference, and the most important of them are the following :



Article 4 of the IMF Articles of Agreement (which relates to the procedure to be followed for changing currency parities) was amended and the *de facto* system of floating exchange rates was legalised. This system was introduced—mainly in the industrial countries—early in 1973, when it was found impossible to continue applying the Smithsonian agreement. As the new system does not impose floating rates, it is possible to maintain under it stable rates as well, expressed in currencies of other countries or in SDRs, but not in gold. At the same time and in order to prevent



undesirable developments, it was found necessary to establish "close and continuous" co-operation between the various member-countries and the IMF, both as regards the operation of exchange markets and in general matters related to fiscal, monetary and foreign trade policies.

Furthermore, it was decided to demonetise gold, in the sense that it will be recognised only as a precious metal, the price of which will be freely determined. The central banks of the IMF members can carry out transactions at this price. To supplement this measure, it was forbidden—as mentioned above—to associate currency parities with gold.



In connection with international liquidity, it should be noted that after the strong pressure brought to bear by the developing countries, it was decided to increase the IMF's credit tranches by 45 per cent and on current terms. This entails a total increase in the Fund's usual credit facilities from 100 to 145 per cent of members' quotas. Moreover, provision has been made to grant additional credit in emergencies.

In addition, the increase in international liquidity was tied with financial aid to the developing countries, by selling in the international market one-sixth of the IMF's gold reserves and channelling the proceeds to the less developed countries through a special trust fund. It was also decided to return another one-sixth to the IMF's members in proportion to their quotas. Lastly, in order to assist financially weaker countries, the maximum limits of compensatory credit facilities to primary exporting countries were raised. As a result, each country can now draw amounts totalling up to 75 per cent of its quota.

During the year under review, further measures were taken by international financial institutions for the purpose of providing credit facilities to their members. Outstanding among these measures was the OECD's decision to set up a Solidarity Fund which, as regards the rights and obligations of participating countries, will function according to the IMF's rules of operation. The total of quotas was finally set at 20 billion SDRs.

Of a similar nature was the World Bank's decision to set up an annual supplementary credit facility amounting to \$1 billion on relatively favourable terms and conditions, as well as the establishment of a Fund for subsidising the interest charged on the IMF's Oil Facility.







BANK OF GREECE

48TH YEAR

GENERAL BALANCE SHEET

31st December 1975

(In drachmae)

ASSETS				1975				1974				LIABILITIES				1975				1974			
GOLD AND FOREIGN EXCHANGE												SHARE CAPITAL				262,500,000.—				262,500,000.—			
I. Bank's holdings				37,157,337,258.55				32,168,490,896.40				RESERVES											
II. Gold tranche with IMF				—				—				I. Regular reserve				262,500,000.—				262,500,000.—			
III. Special Drawing Rights on IMF				733,264,468.90				981,074,042.40				II. Special reserve from the sale of shares above par				486,428,000.—				486,428,000.—			
BALANCES UNDER BILATERAL TRADE AGREEMENTS				37,890,601,727.45				33,149,564,938.80				III. Provision according to Art. 71 of the Statutes				694,394,000.—				507,694,000.—			
COIN				936,044,780.35				—				IV. Provision for foreign exchange risks				304,600,000.—				304,600,000.—			
DOMESTIC BILLS DISCOUNTED				82,719,195.75				65,361,361.20				V. Other provisions				194,796,082.60				174,877,195.45			
LOANS AND ADVANCES				1,765,488,122.30				1,997,235,063.30				FUND RESULTING FROM THE REVALUATION OF ASSETS (R.D. 14/27.11.56)				31,691,569.35				31,691,569.35			
I. To the Government												NOTES IN CIRCULATION				93,995,896,050.—				81,299,730.900.—			
1. Current Receipts & Payments account				2,463,367,916.15				1,676,837,836.55				LIABILITIES IN DRACHMAE											
2. Purchases under Consumer Goods account				31,010,453,173.20				24,414,707,448.95				I. Government Current Accounts											
3. Treasury bills				1,087,650,000.—				10,956,050,000.—				1. Government Departments accounts				4,716,074,883.40				3,792,343,076.50			
4. Loans under special agreements												2. Public Investment accounts				2,453,351,984.55				972,924,343.30			
a. Loans for membership in international financial institutions				5,125,122,607.35				4,950,079,133.65				3. Special accounts				4,506,630,950.80				9,460,695,222.85			
b. Long-term loans				8,235,683,273.—				7,329,889,543.—				4. Current Receipts & Payments account				—				—			
II. To Banks and Others				47,922,276,969.70				49,327,563,962.15				II. Deposits				11,676,057,818.75				14,225,962,642.65			
1. Advances				77,318,463,175.35				70,552,852,501.90				1. Banks				15,806,107,292.05				10,246,902,974.—			
2. Advances out of public entity funds deposited with the Bank				41,798,423,006.15				24,095,705,577.—				2. Advance deposit requirements on imports				6,612,802,423.15				3,918,482,089.90			
INVESTMENTS				167,039,163,151.20				94,648,558,078.90				3. International institutions				11,807,844,103.85				5,926,953,259.45			
PREMISES AND EQUIPMENT				72,347,641.05				162,890,769.20				4. Public entities				46,541,758,014.95				37,736,855,242.15			
1. Land				163,390,986.80				705,250,726.60				5. Other deposits				1,680,148,894.15				1,409,349,133.95			
2. Buildings and equipment				778,912,923.60				483,799,645.55				6. Dividends for 1975				150,000,000.—				118,750,000.—			
Less depreciation:												SIGHT LIABILITIES IN FOREIGN EXCHANGE				82,598,660,728.15				4,692,733,478.20			
Up to 1974				482,564,018.50				221,451,081.05				BALANCES UNDER BILATERAL TRADE AGREEMENTS				—				87,863,015.05			
In 1975				527,879,811.50				222,311,774.45				ALLOCATION OF SPECIAL DRAWING RIGHTS (IMF)				1,927,861,735.65				1,696,728,717.—			
VALUE OF BANK-NOTE PRINTING MATERIALS				155,843,154.55				28,185,261.55				OTHER LIABILITIES				70,870,249,126.10				41,741,449,789.50			
Less depreciation				33,219,379.80				94,126,512.90															
OTHER ASSETS				59,674,956,097.05				25,765,994,205.40															
				267,998,368,588.80				205,496,933,186.85								267,998,368,588.80				205,496,933,186.85			

PROFIT AND LOSS ACCOUNT

D E B I T		1 9 7 5		1 9 7 4		C R E D I T		1 9 7 5		1 9 7 4
Personnel Remuneration – Pensions						Earnings from transactions with the Govern-ment				
Wages and salaries		1,012,090,734.25				Earnings from foreign exchange transactions			541,779,627.30	
Pensions (Laws 759/1937, 2510/1953 etc.)		76,541,315.50				Income from the settlement of accounts out-standing from previous financial years ...			533,993,207.90	
Principal and supplementary pensions to retired personnel		192,420.883.50				Earnings from other transactions			198,700,000.—	
Payment of contributions to personnel insurance funds outstanding from previous financial years		100,439,434.—	1,381,492,367.25		979,793,078.05				4,405,043,511.85	5,679,516,347.05
Contributions to Personnel Insurance Funds:										
Pension Fund		127,931,366.—								
Supplementary Pension Fund		84,728,464.50								
Self Insurance Fund		36,820,599.—								
Health Insurance Fund		45,205,461.50	294,685,891.—		223,733,379.50					
Contributions to other Social Insurance Funds and Organisations										
			33,024,612.—		22,463,301.—					
Other Administrative Expenses										
			137,387,692.60		93,487,971.50					
Depreciation:										
Bank-note printing materials		33,219,379.80								
Buildings and equipment (other than office equipment)		36,400,934.35								
Office equipment		8,914,858.65	78,535,172.80		76,918,949.35					
Provisions										
Provision according to Art. 71 of the Statutes		186,700,000.—								
Sundry provisions		21,000,000.—	207,700,000.—		286,503,000.—					
Net Profit for 1975										
			2,132,825,735.65		1,682,899,679.40					
			3,546,690,611.40		5,196,551,960.85					
			5,679,516,347.05		6,879,451,640.25				5,679,516,347.05	6,879,451,640.25



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BANK OF GREECE

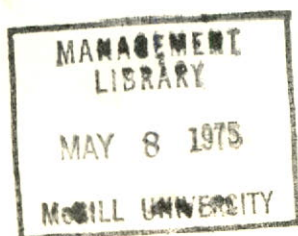
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SUMMARY  
OF THE  
STATEMENT

OF  
GOVERNOR XENOPHON ZOLOTAS  
AT THE ANNUAL MEETING  
OF SHAREHOLDERS, 24 APRIL 1975



ATHENS  
1975









BANK OF GREECE

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# I. PROBLEMS AND PROSPECTS OF THE GREEK ECONOMY

## 1. ECONOMIC ACTIVITY AND MONETARY EQUILIBRIUM

### *a. General Remarks*

When the Government of National Unity came to power on July 24, 1974, the economy was in a recession, the rate of inflation was high, and the balance of payments deficit was large. A climate of uncertainty prevailed, aggravated by political instability and the Cyprus crisis, as well as by adverse conditions and prospects in the international economic scene.

The economy started slowing down in the last months of 1973 and recession set in during the spring of 1974, deepening in the second half of the year. It is estimated that in 1974 GNP at factor cost decreased by about 2 per cent, despite a 12.4 per cent increase in agricultural income.

The recession and the economic policies which were implemented after the country's return to democratic rule contributed to a substantial slowdown in the rate of inflation during the second half of 1974. The price rises which took place in the first quarter of 1975 were largely due to special factors and do not imply a reversal of the tendency of inflation to slow down. On the other hand, the balance of payments deficit is still large, despite the significant slackening in the growth rate of imports since mid-1974. This is due to exceptional factors which have inflated the import bill (increases in oil prices, and imports of defence equipment), and to unfavourable developments in invisible earnings, which have been mainly affected by the recessionary conditions prevailing abroad.

The measures taken in August 1974 and the climate of confidence created by the country's return to democratic rule contributed to checking the recession by the end of last year. Credit ceilings were raised and bank liquidity, drastically reduced during the Cyprus crisis, was increased. Furthermore, wages and pensions were readjusted and prices of agricultural products were raised, so as to restore, at least partly, the purchasing power of large groups of the population, whose real



incomes had been eroded by inflation. In the context of the short-term economic policy which is being followed, the support of the incomes of lower income groups is being continued during the current year. This policy aims at gradually reflation the economy in a manner that will not have adverse repercussions on the balance of payments or on prices.

Although inflationary pressures are slackening, they may reappear if a sound economic policy is not applied or if the expansionary measures taken go beyond available resources. Furthermore, it is not an easy task to counterbalance the adverse factors which have brought about a deterioration in the balance of payments and to achieve a desirable rate of economic development.

#### *b. Monetary and Credit Policy*

The considerations outlined above have weighed heavily in the formulation of current credit policy. It was considered necessary to maintain credit expansion within the limits determined by the amount of savings that can be mobilised from domestic and foreign sources. Credit expansion to the public and private sector will have to be confined within these limits. The borrowing requirements of the Government and public enterprises are estimated at close to Dr. 50,000 million for the current year. As regards the private sector, the monetary authorities are giving priority to financing private productive investment in manufacturing and agriculture, and to satisfying current requirements of enterprises for working capital. An additional aim is the stimulation of building activity through housing loan schemes.

The measures which have already been taken ensure an easier supply of credit, sufficient to sustain the revival of economic activity, provided that other factors ensure an adequate level of national expenditure. The role of credit policy in reviving the economy is subject to certain limitations. First, credit policy is not a suitable means of increasing consumer demand. Second, excessive credit expansion, particularly to trade and manufacturing, might lead to a diversion of funds to import financing, which would place a further burden on the balance of payments. Lastly, easy credit under the oligopolistic conditions prevalent in many markets might enable many firms to maintain or even aim at increasing profit margins.



As regards the agricultural sector, credit expansion can ensure higher levels of agricultural output and, eventually, larger expenditure by the agricultural sector. Under present circumstances, the latter is desirable, within certain limits, since it is mainly directed at locally produced goods and does not increase the import bill excessively. These considerations account for the relatively larger expansion of credit to agriculture planned for the current year.

### *c. Savings and Bank Deposits*

The savings mechanism has been disrupted since the last months of 1972 as a result of inflation. At the same time, the portion of private savings channelled to the economy through the banking system and the capital market has declined. Despite the improvement shown over 1973, the increase of private deposits in 1974, in real terms, amounted to about two-thirds of the corresponding increase in 1972. The difference is even larger if we add the channelling of private funds to new investments through the capital market. Finally, it is worth noting that the decline in the growth rate of private deposits coincides with a considerable decrease in private investment in housing.

These developments indicate a decline in the propensity to save. Inflation and, subsequently, recession have placed a heavy burden on lower income groups, who seem to deposit a large part of their savings with the banks, until they are able to accumulate the capital required to invest in real assets. It is also possible that the population groups hardest hit by inflation and recession use previous savings to maintain their level of consumption. Finally, the danger of inflation may have diverted savings away from the banking system.

Under these conditions, improving the attractiveness of bank deposits is of primary importance. An essential condition to this end is the consolidation of monetary stability, without which savings are diverted away from controlled channels into speculative or other socially undesirable forms of investment. At the same time, it must be sought to stimulate the capital market, through which the Government as well as public and private enterprises could raise funds. In present circumstances, the mobilisation of savings through the capital market should be pursued by issuing new types of securities ensuring either liquidity and higher yields or higher yields combined with greater safety.



*d. Fiscal Policy*

The public sector, which comprises the ordinary budget, the public investment budget and the accounts of agricultural price support operations, left a deficit of Dr. 28,500 million in 1974. The corresponding deficit in 1975 is estimated at Dr. 43,500 million, despite additional taxes which are expected to yield about Dr. 13,000 million during the current year. The size of these deficits may be assessed if one considers that they correspond to 4.7 per cent and 6.1 per cent of estimated GNP at current prices in 1974 and 1975 respectively. These percentages are high and seem to exhaust the possibilities of fiscal policy as a means of reflating the economy.

The increase in the overall government budget deficit is largely due to the impact of inflation and recession on government revenues and expenditure. In particular, since last summer the amount yielded by indirect taxes has fallen below the increase in money national income. This may partly reflect a change in the structure of private consumption, owing to inflation and recession. To counterbalance these effects, new taxes were introduced for the purpose of containing the overall government budget deficit which, if allowed to expand further, might have adverse repercussions on the country's monetary equilibrium.

Furthermore, budget expenditure is burdened with exceptional outlays for national defence purposes and for the implementation of the policy to support agricultural incomes. The fiscal cost of this policy will probably exceed the amount of Dr. 15,000 million in 1975 and is justified not only by the fact that farmers constitute the weakest income group of the population, but by economic reasons as well. It is self-evident, however, that the support of agricultural income should neither outstrip the economy's capabilities nor lead to a decrease in the international competitiveness of the agricultural sector. The government budget is burdened with the heritage of the dictatorship, during which there was an excessive growth in both consumption and low-productivity investment expenditures. The reallocation and rationalisation of public expenditure is necessary in order to render fiscal policy a more effective tool for attaining anticyclical and development-oriented targets.

The recent tax reform concerns both direct and indirect taxation. The changes in personal income tax rates and the extension of tax allowances and rebates have made the distribution of the tax burden more equitable. The introduction of a tax on real estate also aims towards



this end. Many of the increases in indirect taxes, such as the fuel consumption tax, the annual road tax on motorcars, the extra tax on private vehicles and certain other taxes were also dictated by balance-of-payments considerations.

#### *e. Incomes Policy*

Besides fiscal and credit policy, a rational incomes policy is another means of reflation of the economy. This policy encompasses the previously mentioned measures to support agricultural incomes, the increases awarded twice since September 1974 in minimum wages and salaries and civil servants' salaries and pensions, and the readjustments made in the earnings of several other groups of employees. These increases were higher than the price rises recorded since then, and have therefore resulted in raising real wages.

Although the policy of raising lower incomes is both socially and economically desirable, it may prove to be a serious risk for internal and external monetary stability if the economy's capabilities are exceeded. Raising agricultural prices to international levels has a direct upward effect on the consumer price index, but this is necessary in order to maintain a satisfactory rate of increase in agricultural output and to promote necessary changes in its structure, with the aim of increasing exports or substituting imports. Furthermore, provided that there exists idle productive capacity, increases in wages and salaries can help stimulate demand and production, which in turn will ensure economies of scale and productivity improvements for a large number of firms. In this way, it is possible to prevent substantial increases in costs and prices if the adjustments in wages and salaries are kept within limits.

Incomes policy extends to business profits as well, which should also be subject to control. Excessive profits realised in the past, in 1973 for instance, owing to the prevailing high inflation, cannot be maintained under present conditions. Businessmen must realise that the shifting of wage increases onto prices or, even worse, the attempt to maintain profits at high levels by raising their profit margins provides no solution. In fact, by doing so they would reduce the purchasing power of lower income groups even further and hinder the revival of the economy.

Finally, it should be stressed that, in view of the present climate of uncertainty, the economy's structural weaknesses — which were



aggravated during the dictatorship — and the burden of extra defence expenditures, economic policy should concentrate primarily on ending the recession. At the same time, efforts should be made to create a sound basis for a return to satisfactory rates of growth, as soon as international economic conditions improve.

## 2. BALANCE OF PAYMENTS PROBLEMS

### *a. General Remarks*

The deficit in the Greek balance of payments has increased sharply since mid-1972 owing to the special factors mentioned above. Nevertheless, its size partly reflects the economy's structural weaknesses, which became more pronounced during the dictatorship. The high rates at which invisible earnings increased under the favourable conditions prevailing in the international economy during the early part of the present decade created a climate of euphoria regarding the availability of foreign exchange. This induced an expansionary policy far beyond the resources available during the years of the dictatorship and led to the abandonment of the efforts to achieve a competitive economic structure. At the same time, the tendency towards import substitution was excessively stimulated by the establishment of high-cost industries which produce goods incorporating a small and sometimes insignificant amount of domestic value added.

The structural weaknesses and inflationary pressures observed in the economy are necessarily reflected in the balance of payments, which had already deteriorated before the rise in oil prices. In fact, the current account deficit rose sharply to \$1,175 million in 1973, showed a further small increase to \$1,218 million in 1974, and is not expected to be substantially different during the current year. A significant part of these deficits was financed by the ordinary inflow of private capital. It was necessary, however, for the Bank of Greece and the Government to borrow from abroad over \$500 million in each of the last two years in order to achieve equilibrium.

Government policy must have two objectives in connection with the balance of payments. The first is the gradual reduction of the current account deficit so as to cut down short-term borrowing, which is unavoid-



able under present circumstances. This can be achieved by other means as well, but principally by strengthening the economy's competitiveness. The second objective is to improve the composition of capital inflow, chiefly by increasing the inflow of capital for direct investment. If such investment is directed towards productive sectors and is realised on internationally competitive terms, it will contribute substantially to economic development and to a structural improvement in the balance of payments.

### *b. Short-term Balance-of-payments Policy*

To cope with the deficit in the balance of payments, it is necessary to take measures which yield immediate results. Since it is not considered advisable to reduce domestic demand, efforts should be mainly concentrated on increasing foreign exchange receipts and on import substitution. Generally speaking, it is important during the present phase to pay particular attention to the balance-of-payments criterion when formulating policies aimed at reviving and developing the economy. The following measures, some of which have already been taken, are the most appropriate for this purpose :

First, the measures taken to stimulate agricultural production in order to reduce the import bill, such as the higher prices set for sugar beet and maize. To improve the balance of payments, it is imperative to reorientate agricultural policy in general. Specifically, by transferring subsidies from animal feed to livestock production it would be possible to reduce the country's excessive dependence on imported animal feed, which has reduced the contribution of livestock production to the balance of payments.

Second, the additional taxes levied on liquid fuels for the purpose of curtailing or at least preventing any further increase in petroleum imports; the increase in road taxes and certain other indirect taxes.

Third, the exercise of stricter control on public-sector procurements from abroad. It seems that this could help save considerable amounts of foreign exchange by cancelling non essential imports or postponing those that can be delayed.

Fourth, by checking the prices of imported commodities and imposing heavy penalties in the case of overpricing, it would be possible to curb foreign exchange leakages to a significant extent.



Fifth, the revision of policies regarding subsidies, government regulation and interventions, many of which were decided upon without assessing their impact on the balance of payments. The aim of this revision, which is already under way, must be to eliminate negative effects and introduce new arrangements which would have a positive influence on the balance of payments.

### *c. Long-term Balance-of-payments Policy*

Together with these measures designed to curb foreign exchange payments in the short run, it must be sought to promote exports and increase invisible earnings on a long run basis. This necessitates the formulation and implementation of a consistent policy of economic development that would induce business firms to modernise their organisation, stimulate the economy's export orientation, and lead to the substitution of imports of intermediate goods through the expansion of industrial processing from the final towards the initial stages of the production process. The planned revision of export incentives in order to formulate and apply a more effective system will greatly facilitate the attainment of these targets.

In the present circumstances, top priority must be given to the penetration of the markets of the oil-producing countries of the Middle East, which are expanding their imports at a very high rate. Despite the significant opportunities afforded by geographic and historical factors, Greek exports to this area are still limited. It is only Greek construction firms that have so far developed a significant activity in the Arab countries. To stimulate trade with these countries, various measures have already been taken in order to encourage the activity of construction firms and link it to the Greek economy.

### *d. Dissociation of the Drachma from the Dollar*

It is anticipated that the disengagement of the drachma from the dollar will have favourable effects on the balance of payments and the progress of the economy in general. This disengagement was justified since the fluctuations of the dollar are often caused by speculative or other non economic factors which have given rise to serious problems for the Greek



balance of payments and the Greek economy.

The drachma's dissociation from the dollar has three basic advantages for Greece : (a) it ensures greater stability in the drachma's parity against the currencies of the country's major trading partners; (b) by narrowing the range of parity fluctuations, it will partly eliminate the uncertainty surrounding the country's foreign transactions, thus affecting favourably the positive items in the balance of payments; and (c) the country's foreign exchange policy will become more independent and the economy will no longer be subject to the influence of factors that cannot be controlled by the Greek authorities.

### 3. PROBLEMS OF ECONOMIC DEVELOPMENT

#### *a. General Conclusions*

Coping with short-term problems, particularly trying to reflate the economy, must be combined with changes in development policy, the methods used and the mentality which prevailed in many government agencies during the last few years. It, furthermore, requires the restoration of efficient functioning of the civil service, other public agencies, credit institutions etc., as well as the establishment of a competitive economic environment within which business firms may be encouraged to adjust their activity to present requirements. It is only under these conditions that strong foundations for self-sustained economic development, which will secure an efficient economic structure, may be laid. It must be realised that, in the present phase of the economy, qualitative changes in the country's economic structure are of equal, if not greater, importance than quantitative expansion.

The economic policy implemented during the period of dictatorship has also retarded progress towards solving the structural problems of the economy. The agricultural sector was neglected. As a result, the rate of increase in agricultural output has slowed down and progress towards effecting the necessary institutional and structural changes has been insignificant. In the tourist sector, there was a complete lack of planning and even elementary economic and banking criteria were ignored in selecting investment projects for financing. The system of government guarantees transferred entrepreneurial risks to the community. Under



these conditions, a waste of economic resources was inevitable and extensive structural and institutional changes are necessary.

In the manufacturing sector, structural weaknesses are also serious. The lack of planning and inappropriate government policies prompted in certain branches the establishment of industrial plants which are confined to assembling final products or to the final stage of manufacturing processes, heavily dependent on imports of semi-finished or, in many cases, almost finished manufactured goods. This resulted in a rapid increase in the import bill and rendered Greek imports inelastic. In other lines of production, however, export incentives discourage the expansion of production from the early to subsequent stages of manufacturing processes, which could ensure a considerably higher percentage of value added.

#### *b. Industrial Development Policy*

The weaknesses of the manufacturing sector are confined to certain firms and lines of production. There exist many firms with a modern organisation, which are managed efficiently and have displayed considerable dynamism. Assuming that the economic environment within which these firms operate will improve, they can expand at a faster rate and strengthen their position at the expense of other firms which are either unable to operate more efficiently or make no effort towards modernisation. It should be stressed that most of the weaknesses found in Greek industrial firms, including the quality of entrepreneurship and the business mentality prevailing in most cases, are connected with the lack of competition and the inappropriate economic framework within which these firms develop their activity. Government policy should therefore be aimed primarily at the establishment of a more competitive industrial environment, within which pressure would be exerted on the firms to use modern technology and new methods of management, and to develop towards optimum size, which would ensure considerable economies of scale and competitive cost.

The establishment of a competitive industrial environment presupposes, among other things, a reform of the entire system of government subsidies, regulations and intervention in economic life. It is a mistake to determine government protection and subsidies on the basis of the needs of the marginal firms in each industry or to differentiate



them for each firm, without taking into account objective economic criteria. Moreover, government regulations, introduced mostly to serve needs which are no longer valid, make more difficult the creation of competitive conditions and contribute to inappropriate business attitudes. Finally, the frequent changes in government policies create uncertainty and thereby discourage efficient industrial development. It is necessary to formulate and implement, as soon as possible, a new system of investment incentives that will reduce the uncertainty inevitably prevailing in long-term productive investment, without, however, exceeding the limit beyond which pressure for modernisation recedes. Furthermore, the structure of incentives must be such as to ensure a high degree of effectiveness at the lowest possible social cost, encourage competition so as to benefit progressive firms, and promote export orientation.

The readjustment of industrial development policy will encourage firms to make the most of the possibilities offered by the association of Greece with the EEC. Furthermore, the establishment of a competitive industrial environment can make Greece a more attractive location for foreign firms to set up productive facilities large enough to serve their international trade network. International experience shows that the existence of an appropriate industrial environment is indispensable for securing internationally competitive costs, which is of primary importance for attracting foreign investment of this type. Furthermore, in order to attract considerable foreign industrial investment, government policy towards foreign capital as well as the criteria to be met by foreign investors must be clearly defined.

It is also essential that credit policy should be adjusted to the needs of establishing a competitive industry. There is, first, a problem of coping with the serious shortcomings in the Greek credit system which is biased against small, medium-sized and newly established firms. There is also the problem of abolishing or rationalising a whole host of detailed credit regulations which hamper the development of initiative on the part of credit institutions. It should be noted that frequent intervention in the activities of banks during the dictatorship has further reduced initiative and has strengthened the conservatism typical of Greek banks.

The management of banking institutions has a particularly hard task to undertake. It must infuse a new spirit and restore the efficient operation of the banking system. At the same time, it must establish proper technical and economic services which will be capable of iden-



tifying and promoting the exploitation of existing possibilities for new and sound investments as well as of encouraging private initiative. This is particularly necessary in the present difficult situation due to the adverse economic climate prevailing internationally and the lack, during the period of dictatorship, of a consistent industrialisation policy with clearly defined objectives, based on the appropriate means to achieve these objectives.

The monetary authorities and the Central Bank intend to support such initiatives on the part of the banks. It should be noted that views held in the recent past, even during the period before the dictatorship, are not compatible with current conditions. The Greek economy has entered a new phase and the problems faced have changed considerably. Possibilities exist for creating a broader and competitive industrial base. Exploitation of these possibilities will depend on a proper and rapid adjustment of the Government's industrial policies, and on the active participation of the credit institutions. Above all, it will depend on the activation of private business initiative, which should also adjust to current conditions and not seek fully guaranteed profitability for the investments it undertakes, through excessive government protection and subsidies or other privileges.

### *c. Objectives of Agricultural Policy*

As mentioned earlier, the Government's policy of supporting agricultural income aims at: (a) utilisation of the agricultural sector's productive capacity to a fuller extent and (b) improvement of agricultural income, as part of the overall policy of encouraging demand and reflation of the economy. Generally, the governmental short-term policy concerning the agricultural sector must be formulated in such a way as to promote production of those crops which will strengthen the export potential of the Greek economy or act as substitutes for imports. A certain amount of progress has already been made in this direction.

In order to bring about required structural and institutional changes in the agricultural sector, the aims of government policy should be:

First, to fix producer's prices for basic agricultural products on the basis of the following criteria: (a) the covering of costs of production of the average and not the marginal farm units, (b) a correct price relationship between competitive products, determined according to the struc-



tural readjustment aimed at in agriculture and after taking into consideration the demand and price conditions both at home and abroad, and (c) the raising of agricultural prices to corresponding EEC levels, and at the same time the adoption of EEC mechanisms and methods of supporting agricultural income.

Second, to study the whole system of marketing agricultural products, in order to identify and eliminate those factors which are responsible for the differentials, which are frequently unjustifiably wide, between retail prices and the prices actually paid to producers.

Third, to revise the system of subsidising factors of production, in order to adjust it to changes in the conditions of supply and the prices of individual inputs.

Fourth, to activate farmers' cooperatives in such a way as to eliminate certain disadvantages connected with the small size of farm holdings. The creation of large farm units of a business nature should also constitute another target.

Fifth, to have the Agricultural Bank's policy readjusted in such a way that economic and bank criteria will weigh more heavily in selecting loans. The basic aim should be to grant agricultural credit on an individualised basis, and to scrap methods and systems no longer capable of fostering today's development aims in the agricultural sector.



## II. ECONOMIC DEVELOPMENTS IN 1974

### 1. ECONOMIC ACTIVITY, PRODUCTION AND NATIONAL INCOME

In 1974, for the first time in the postwar period, a fall in GNP was experienced. At the same time inflationary pressures continued. According to provisional estimates, real GNP at factor cost fell by 1.9 per cent after having increased by 9.7 per cent in 1973 and 11.0 per cent in 1972, while the GNP deflator rose by 29.6 per cent, compared with a rise of 18.4 per cent in 1973 and 4.7 per cent in 1972.

These developments are largely the outcome of the economic policy pursued in the last few years, which encouraged economic activity beyond the limits of safe expansion, thus generating strong inflationary pressures by the end of 1972. After considerable delay, in order to cope with the situation, economic policy was abruptly changed, becoming excessively restrictive early in 1973. As a result, it exerted a contractionary influence on autonomous expenditure and subsequently on incomes and consumer demand as well. The redistribution of national income at the expense of low income groups, brought about by the strong inflationary pressures, as well as the adverse psychological climate which existed, aggravated the recession. To these factors should be added rising oil prices, unfavourable developments in the terms of trade and the decline in the growth rate of invisible earnings, due to both the international economic recession and the Cyprus crisis. Since the last months of 1974, however, and as a result of the anticyclical policy measures taken, there have been clear indications that recession has been checked and price increases are slowing down.

The 1.9 per cent drop in GNP in 1974 stemmed from a 7.8 per cent decline in real income from secondary production, and a 1.9 per cent drop in income from services. The fall in income experienced by these two sectors was largely offset by the 12.4 per cent increase in income from agriculture.

The increase recorded in agricultural production in 1974 was the result of significant increases in the volume of all basic categories of agricultural production, namely annual crops (9.6 per cent), tree crops (17.4 per cent) and livestock production (8.1 per cent). These developments should be largely attributed to the farmers' response to the increases



in the prices of agricultural and livestock products, which took place early in the 1973/1974 farming season. As a result of these readjustments in prices, which had been pegged for several years, the total area under annual crops increased by some 80,000 hectares, there was a substantial improvement in the yield of almost all crops, and the country's livestock was utilised more efficiently. Thus, the high levels of output and prices, in combination with a more extensive liquidation of stocks together with increased money flows to the agricultural sector (direct income grants, subsidisation of inputs such as fertilisers, animal feed etc.) made 1974 a year of substantial rise in agricultural money income.

On the other hand, income from secondary production fell by 7.8 per cent, mainly owing to a decline in output from manufacturing, construction and mining. Specifically, income from manufacturing dropped by 1 per cent, despite a substantial increase in industrial exports. This drop can be attributed to several causes, some of which were already operative in 1973 (the measures taken to restrict demand since the beginning of that year, the decline in building activity which started in September 1973, and the political developments of the last months of the year).

In 1974, real income from construction was 30 per cent lower than in 1973, as a result of the decline in private building activity, which set in during the second half of 1973 and accelerated in 1974. The significant drop in income from construction also had an adverse effect on income from mining and quarrying, which fell (at constant prices) by 9.6 per cent during the year under review. Income of public utilities rose by only 1.6 per cent in 1974, mainly because there was no increase in electricity output. Lastly, it is estimated that income from services fell by 1.9 per cent in 1974.

## 2. EXPENDITURE OF THE ECONOMY

During the year under review, the gross expenditure of the economy at constant prices decreased by 7 per cent. Last year's decrease in the expenditure of the economy stemmed from a substantial drop in fixed capital formation. Moreover, despite the reduction in available goods and services in 1974, the sharp decline in aggregate demand resulted in a further increase in stocks, in addition to the large increase that took place in 1973.

Specifically, Government consumption recorded a 16.6 per cent



increase in 1974, because of higher defence expenditure. On the other hand, private consumption is estimated to have increased by 1 per cent in 1974. The fact that, despite the drop in national income private consumption increased in 1974, is due to a lag in adjusting consumption to the lower level of incomes and to stockpiling by households owing to the prevailing climate of uncertainty. As a result of these developments, the average propensity to consume increased. Aggregate consumption accounted for 86.7 per cent of GNP at market prices, against 81.1 per cent in 1973.

Gross fixed capital formation at constant prices (excluding ships brought under the Greek flag) is estimated to have fallen by 25.6 per cent in 1974. This sharp decline stemmed from both private (-25.4 per cent) and public investment (-26.2 per cent), particularly investment in buildings and other construction. Investment activity decreased in all sectors except manufacturing, in which it remained at 1973 levels.

### 3. EMPLOYMENT AND WAGES

On the basis of available data and indications, total employment in 1974 either remained unchanged or was at a slightly lower level than in 1973. The single exception was the agricultural sector, where manpower requirements increased. In the manufacturing sector there was a slight rise in the average annual level of employment, despite the decline in industrial production. On the other hand, in the construction sector employment declined substantially. Furthermore, it should be noted that net emigration was nil in 1974.

Nominal wages increased during 1974 at a substantially higher rate than in previous years. This is evident from the following changes: (a) On 1st September 1974, minimum daily wages were raised by 10 per cent above those prevailing since 1st December 1973; (b) Average hourly wage rates in industrial and handicraft establishments employing 10 or more persons rose by 26.5 per cent in 1974, against 16.4 per cent in 1973 and 9.2 per cent in 1972; (c) Civil servants' earnings were increased by 5 per cent on 1st January 1974, by 7 per cent on 15th March 1974 and by 10 per cent on 1st September 1974. It should be noted, however, that, at average annual levels, wages and salaries rose at a slightly slower rate than the increase in the average annual level of the consumer price index. Along with the overall decline of employment in the non-agricultural



sectors of the economy, this points to a further drop in total real labour income in 1974.

#### 4. PRICE TRENDS

The average level of the consumer price index rose by 26.9 per cent in 1974, compared with 15.5 per cent in 1973 and 4.3 per cent in 1972. Nevertheless, this should not be taken as an indication that the inflationary process accelerated in 1974, since last year's increase reflects the rise in the average level of the consumer price index between 1973 and 1974, which, however, was confined to the period from mid-1973 to April 1974. Between the beginning and the end of 1974, the rise in this index was much slower. During the course of the year a significant slowdown in price increases occurred, especially in the third quarter.

The consumer price index for the country's urban centres rose by 13.5 per cent between December 1973 and December 1974, compared with 30.6 per cent in 1973. A much smaller increase was observed in the wholesale price index: 12.4 per cent in 1974, against 44.2 per cent in 1973. The significant slowdown in the growth rate of wholesale prices was due to the drop in the prices of raw materials and metals, following their sharp rise in 1973.

It should be noted that last year's rise in the consumer price index by 13.5 per cent was relatively small compared with developments in OECD countries, where the rise in the consumer price index ranged from 5.9 per cent in W. Germany to 24.5 per cent in Italy.

#### 5. MONETARY DEVELOPMENTS

The supply of money (currency in circulation plus sight deposits) increased by Dr. 18,338 million or 19.7 per cent in 1974, compared with an increase of 22.5 per cent in 1973. More specifically, currency in circulation increased by 23.8 per cent in 1974, while sight deposits rose by 10.4 per cent. Similar developments were observed in the average annual levels of monetary variables.

Income velocity of currency circulation, that is the ratio of national income to currency circulation, was slightly higher in 1974 compared with the previous year. In other words, the growth rate of currency cir-



ulation in 1974 was lower than that of national income at current prices.

The overall liquidity of the economy in 1974 decreased for the second year in succession, but at a slower rate. The ratio of currency circulation plus private sight, savings and time deposits in drachmas to GNP at current prices amounted to 40.5 per cent (43.2 per cent in 1973; 47.1 per cent in 1972). The upturn in the growth rate of deposits in 1974 resulted in a slower rate of decrease in liquidity during this year.

During 1974, the public and the private sectors of the economy had an expansionary effect on money supply, whereas the foreign sector exerted a contractionary effect. The public sector contributed to the increase in money supply by Dr. 24,579 million in 1974 (Dr. 22,494 million in 1973). On the other hand, the foreign sector of the economy exerted a contractionary effect on money supply to the extent of Dr. 16,468 million in 1974 (Dr. 8,491 million in 1973). Finally, the private sector had an expansionary effect on money supply in 1974, to the extent of Dr. 7,989 million, whereas in the previous year it was more than double this figure.

Total private deposits in drachmas increased by Dr. 33,113 million or 18.8 per cent in 1974, compared with an increase of Dr. 16,913 million or 10.6 per cent in 1973. An even faster increase was noted in time and savings deposits, which rose by 22 per cent in 1974 (10 per cent in 1973).

The ratio of the increase in private deposits to disposable private income amounted to 6.6 per cent in 1974, compared with 4.3 per cent in 1973 and 10.8 per cent in 1972. If we take into account that there was a decline in private savings in 1974, we may say that there was a significant increase in the propensity to deposit, particularly since the last months of the year. Despite this favourable development, the propensity to deposit did not regain pre-inflation levels.

## 6. CREDIT POLICY

The disinflationary policy implemented at the beginning of 1973 was continued during the first six months of 1974 despite the fact that economic activity started to show a decline in the autumn of 1973, which turned into a recession by the spring of 1974. The disinflationary policy was aimed at countering the strong inflationary pressures due to the increase, over a number of years, of national expenditure at levels much higher than those of the economy's total resources, as well as to an



unwise foreign exchange policy in 1973. Furthermore, the inflationary pressures were intensified by the deterioration of the international economic situation.

The main disinflationary measures of credit policy taken during the first six months of 1974 were as follows:

a) The rediscount rate of the Bank of Greece and the interest rates on time and savings deposits were raised by 2 percentage points; the interest rates on bank loans were raised by 1-2 percentage points; the interest rates on deposits by legal entities were increased by 1 percentage point.

b) For the first six months of 1974, a ceiling was set on commercial bank credit to the private sector, equal to 2 per cent above the balance of credit outstanding at the end of 1973.

c) The credit programme for 1974 provided for an increase in new loans granted by specialised credit institutions, at a slower rate than that of 1973, while, at the same time, the suspension of new housing loan approvals was maintained throughout 1974. Furthermore, the approval of new loans to tourist enterprises was suspended in 1974.

After July 1974, the Government of National Unity had to counter the recession in the economy and the intense inflationary pressure accompanied by a deterioration of the monetary situation brought about by the Cyprus crisis. In July and August, the psychological climate deteriorated sharply and, as a result, large sums were withdrawn from bank deposits. In order to tackle the liquidity problems caused by these developments, the compulsory deposits of the commercial banks with the Bank of Greece were almost entirely freed and, in the case of borrowing by these banks, the interest rate on overdrafting and the rediscount rate were lowered to 9 per cent and 8 per cent respectively.

After these pressing problems had been tackled, credit policy was mainly aimed at reflation of the economy, in a way, however, which would minimise the dangers of aggravating inflationary pressures and the balance of payments. The main measures of credit policy were the following:

As from 22nd August 1974, the increase in commercial bank credit to the private sector was fixed at 12 per cent above the balance of credit outstanding at the end of 1973; this ceiling was raised to 15 per cent in October. Moreover, important categories of credit (long-term credit to industry, handicraft and mining enterprises for investment purposes, export and tobacco trade financing, etc.) were excluded from this ceiling. Restrictions on hire-purchase and consumer credit have also been sub-



stantially eased since September 1974.

The main objective of credit policy in 1975 is to assist the reflation of the economy within the limits prescribed by the deficit in the balance of payments and the resources available from savings. To this end, the ceiling on commercial bank credit was further raised, while the approved new programmes of the specialised credit institutions provide for increased credit to nearly all sectors, particularly to agriculture and housing, and for a parallel increase in the ceilings set on the various categories of housing loans.

## 7. CREDIT DEVELOPMENTS

The outstanding balance of total bank credit to the economy rose by Dr. 48,560 million or 20.4 per cent, compared with a corresponding increase of Dr. 38,576 million or 19.4 per cent in 1973. The largest part of this increase was absorbed by the private sector. The outstanding balance of credit to this sector increased by Dr. 40,630 million or 20.1 per cent (Dr. 30,943 million or 18 per cent in 1973). The growth rate of long-term credit to the private sector in 1974 was lower than that of the previous year while, on the other hand, the rate of increase in credit to this sector for working capital accelerated substantially, particularly during the second half of the year, as a result of the slackening of credit restrictions.

In 1974 there was a pronounced reduction of savings invested in new share and bond issues and a downward trend in the prices quoted on the Athens Stock Exchange. Inflation, the rise of interest rates, economic recession, the unfavourable psychological conditions brought about by unexpected events and the measures taken during the last two years to curb the liquidity of the economy, have all had an adverse effect on the capital market. Another negative effect was also exerted by the policy pursued in recent years, which created a heavy demand for shares without taking effective measures to stimulate the supply of shares.

Owing to the high rate of inflation then prevalent, the Government and public enterprises have not been able to raise capital through new bond issues since the middle of 1973. The value of new shares and bonds issued in 1974 was limited to Dr. 980 million, compared with Dr. 4,850 million in 1973. The aggregate value of dealings on the Athens Stock Exchange amounted to Dr. 7,602 million in 1974, against Dr. 8,543



million in 1973, while a downward trend in share prices was noted throughout the year.

In August 1974, in a move to stimulate the capital market, banks were allowed to grant loans on collateral of shares listed on the Athens Stock Exchange. The maximum amount which can be borrowed is fixed at 50 per cent of the shares' quoted value.

## 8. PUBLIC FINANCE

Total revenue under the overall government budget (ordinary and public investment budgets) for the fiscal year 1974 amounted to Dr. 104,874 million, while total expenditure amounted to Dr. 127,160 million. The resulting deficit of Dr. 22,286 million was entirely due to payments under the public investment budget and was financed to the extent of Dr. 14,565 million by the issue of interest-bearing treasury bills, Dr. 2,500 million by borrowing from the Bank of Greece and Dr. 5,221 million from foreign sources.

After August 1974, the government budget was revised in order to achieve sound fiscal management and cope with the various emergencies arising from the Cyprus crisis. Revenue and expenditure under the ordinary budget were estimated at Dr. 104,000 million and expenditure under the public investment budget at Dr. 23,000 million. Finally, realised revenue and expenditure under the ordinary budget amounted to Dr. 104,400 million, compared with revenue of Dr. 87,032 million and expenditure of Dr. 79,165 million in 1973. The ordinary budget was balanced by the curtailment of expenditure and, chiefly, through the significant increase of revenue from direct taxes due to the substantial rise in nominal incomes and profits of corporations in 1973 as well as to the once and for all supplementary tax on higher incomes of private individuals and legal entities. Conversely, there was a deceleration in the rate of increase in revenue from indirect taxes due to a decline in the growth rate of consumption, imports and economic activity in general.

Finally, expenditure under the public investment budget amounted to Dr. 22,760 million, against Dr. 24,334 million in 1973, while expenditure for investment realised by the Public Power Corporation and the Hellenic Telecommunications Organisation, which is not included in the government budget, was reduced to Dr. 16,621 million, against Dr. 16,845 million in 1973.



## 9. DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In 1974, the main items in the Greek balance of payments were affected by international and domestic factors. The effect of the latter was more pronounced during the second half of the year, when slackening economic activity and a decline in investment had a contractionary influence on imports. In 1974, import payments were contained and exports recorded a high growth rate, but there was only a slight increase in invisible earnings. These developments led to a current account deficit which, though slightly larger than in the previous year (1974: -\$1,218 million; 1973: -\$1,175 million), was more than three times that of 1972 (-\$368 million). As the net movement of normal forms of capital inflow offset about half of the current account deficit for 1974, the bulk of the remainder was financed through borrowing from abroad by the Central Bank (\$ 295 million), and the public sector (\$182 million).

There was a considerable slowdown in the growth rate of imports in 1974. Import value (c.i.f. payments plus suppliers' credits) totalled \$4,635 million, while in 1973 it had totalled \$4,031 million.

In view of the large increase in the average value of imports, it is clear that import volume decreased significantly. The decrease in the growth rate of imports stemmed from both the private and the public sector. On the other hand, there was an increase in the share of raw materials, particularly oil, whereas there was a decrease in the share of all other goods, mainly foodstuffs, machinery and manufactured consumer goods.

Export earnings grew rapidly in 1974, totalling \$ 1,774 million, compared with \$ 1,230 million in 1973. Manufactured products continued to enlarge their share in total export volume, whereas the share of agricultural products decreased significantly.

As a result of these developments in the country's foreign trade, the export-import ratio rose from 30.5 per cent in 1973 to 38.3 per cent in 1974 and the trade deficit was around the same level as in 1973.

The surplus left by the balance on invisibles remained virtually unchanged (1974: \$1,642 million; 1973: \$1,625 million) mainly because of a decrease in earnings from tourism (-15.3 per cent) and emigrants' remittances (-12.3 per cent). On the other hand, foreign exchange earnings from shipping (mainly shipowners' remittances) increased by 46 per cent, more than compensating for losses in foreign exchange earnings from tourism and emigrants' remittances.















