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THE IMPENDING FOREIGN EXCHANGE CRISIS IN GREECE

The Greek Junta is constantly issuing official announcements in support of its contention that the Greek economy is thriving in all its sectors. In fact, they claim that it is doing far better than at any other time in the past, and they go so far as to assert that it has become a prototype to be envied by economically far more advanced countries. This miracle has been achieved in just one year, which is a truly remarkable record, but apparently one well within the scope of the present "Government".

In spite of these official claims, however, the economy of the country is in dire straits. The foreign exchange crisis is imminent, and in a few months the Junta will have to face a most unpleasant situation, and one entirely of their own making. The strident official announcements that speak of stability, progress, a healthy balance of payments, and the suchlike, are mere words and wishful thinking, while the crisis in the foreign exchange reserves is based on a body of unanswerable figures.

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In the first four months of 1968, the "official" foreign exchange reserves have dropped by $25.4 millions. The real fall, however, amounts to $36.6 millions since we must also take into account the $11.4 millions in gold sovereigns, which were transferred from the special gold sovereign reserve in order to pad the official reserves.

The officially issued figures on the 30th April 1968, just one year after the coup, show that the total official exchange reserves stand at $235.7 millions compared with the $240.3 millions on the 30th April 1967. On deeper investigation, the drop in the reserves is revealed to be not merely one of $4.6 millions, but $61.6 millions, because the $47 million drop in the special gold sovereign reserve and the $10 million drop in the foreign exchange reserve of the commercial banks, must be taken into consideration. Such a grave setback has never before been recorded in Greece.

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In view of the above, the inevitable question arises: for exactly how long can the country's reserves suffice, particularly, as is well-known, a substabtial part of them is not freely available?

"Official Foreign Exchange Reserves, 30/4/'68 in million dollars

Gold - gold sovereigns	138.1
Foreign Exchange	97.6
	235.7

Of the above total the following sums are frozen as a result of existing obligations (collateral to loans etc) and are, therefore, not available for current use:

Foreign Exchange	45.0
Gold:	
Loan from the European Monetary Fund	30.0
The "Galanis" credits (June 1968)	30.0
	105.0

Thus the free foreign exchange reserves amount to only $130.7 millions

At a conservative estimate, the deficit in the balance of payments in 1968 will approach $100 millions, and even this only under the assumption that borrowing from abroad by the "Government" and public corporations (because of the Galanis credits –) will ~~not be~~ be substantially ~~lower~~ higher than in 1967. If from this the $36 million deficit recorded in the first four months of this year is deducted, the freely available foreign exchange reserves of Greece will be down to $60-$65 millions by the end of 1968. To this figure must be added the $75 millions of the special gold sovereign reserve. Thus, the total freely available reserve will amount to $130 millions, which covers little more than one month's imports.

There are no further foreign exchange funds available. These of the commercial banks cannot be utilised because they are the product of sight and short-term (up to six months) deposits (Law 2684/53 referring to the attraction of foreign capital). These funds amount to $33 millions, and are smaller than liabilities by $10 millions, a sum that was used last year by the Bank of Greece to cover the fall in its foreign exchange reserves. It is clear, however, that this operation cannot be performed again.

Such a headlong fall in the country's foreign exchange reserves clearly points to a parallel decline in the general solvency of the economy and signals an imminent and major economic crisis.

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Who is responsible for this state of affairs? For the sake of objectivity, it must be stated that the problem of insufficient foreign exchange resources existed before April of last year. It became particularly strongly felt after the severing of free American aid to Greece, a decision taken in 1962 and put into effect in 1964. Nevertheless, the parliamentary governments that dealt with the problem, did so from a strong position, since prospects for the Greek economy were truly favourable. Foreign credit was freely available, and the increase in invisible foreign exchange earnings was steady and substantial. In such circumstances, covering the deficit in the balance of payments was not difficult.

Since the coup, however, a series of events have occured, which have seriously affected the balance of payments and hence the foreign exchange reserves. Broadly speaking, the hostile attitude of foreign public opinion and the lack of confidence shown by private investors from abroad in the new state of affairs in Greece, are the root-causes of the trouble.

Then, to begin with, the real loss in foreign exchange as a result of the reduction of the influx of tourists from abroad amounts to $50 million. (Receipts in 1966 stood at $144 millions, in 1967 at $127 millions, ~~and~~ It is estimated that in 1968 they will barely reach $115 millions, and it should be noted that in previous years the annual rate of increase of tourist receipts was around 20%).

Secondly, a fall of $20 millions was recorded in the influx of private capital from abroad in 1967, and the drop this year will no doubt be even larger.

Thirdly, the action taken by the EEC in suspending the granting of credits due in accordance with the agreements of association, and in indication of its disapproval of the abolition of democracy in Greece, further deprived the country of $50 millions. There is now, of course, no possibility of renewing the financial protocol in order to grant new credits,or to make the grant for the harmonisation of agricultural policies, which was a matter under discusiion at the time of the coup.

Fourthly, the remittances from Greek workers abroad have fallen by $20 millions annually.

Fifthly a further decrease of $5 m. in the foreign exchange resources has resulted from the policy adopted by the Bank of Greece in purchasing the 100-drachma bank-notes in foreign exchange markets in an attempt to keep the drachma at its present official exchange rate.

Sixthly, there has been a remarkable increase in government expenditure abroad, from $25 millions in 1966 to $38.5 millions in 1967, and an estimated $45 millions in 1968. This has happened in spite of the fall of military expenditure in Cyprus following the rundown of Greek troops there. It appears, therefore, that the Junta's need for projecting their image abroad costs the Greek exchequer more than Cyprus ever did!

Only one conclusion can be drawn from all the above: The responsibility in the country's foreign exchange reserves crisis must be laid squarely at the doorstep of the Junta's "Government", and the problem will not be solved unless the military remove themselves from power.

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The next question that arises is what can the regime do to deal with the impending catastrophe?

The "Government", in facing the problem, simply await the deus ex machina influx of foreign capital.

This explains the exceptionally favourable terms the Junta ~~is offering abroad~~ - terms not compatible with the independence and dignity of the country, ~~which~~ have ~~been~~ granted both by legal and administrative measures to foreign investors. But so far their hopes have been frustrated. Of the $100 millions of new investments approved since April 21st 1967, only $0.5 millions have actually been invested so far.

In their disappointment at the failure of this policy they have now directed their energies into a new sector. Following a special decision of the Currency Committee, contractors of public works have been allowed to borrow from abroad, on onerous terms, with the Greek exchequer and the Bank of Greece as guarantors.

But once again, this policy has met with failure, since no foreign investor has been found willing to demonstrate the necessary confidence in the future of the country.

Banks and public corporations are not expected to be able to raise credits from abroad over the 1967 level. In fact, the contrary seems more probable.

The same applies to the Bank of Greece. ... june that Mr Galanis, the Governor of the Bank of Greece, had succeeded in raising a five-year credit of $30 millions in Germany and Switzerland. These credits,however, will only superficially strengthen the foreign exchange reserves of the Bank, as a corresponding amount of the Bank's gold reserve was given as collateral. This costly operation was undertaken only to create a favourable impression of the Junta's capacity to raise capital abroad.

Finally, Greece can appeal to the I.M.F. for assistance, and thereby raise credits up to $125 millions. The terms, however, under which these credits are given can scarcely help to meet the balance of payments predicament of the country. It will only ensure a short postponement of the explosion. "C'est reculer pour mieux sauter." Thus, it is doubtful whether the authorities of the ~~World Bank~~ I.M.F would agree to grant such credits, even if the Junta wanted to have them in order to postpone the crisis.

The dilemma that faces the Junta has already taken clear shape: Import restrictions or devaluation. Either will be disastrous both for the "Government" and the country. And it appears most likely that Greece will have to suffer both.

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20th June 1968