

BANK OF GREECE  
ECONOMIC RESEARCH DEPARTMENT

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Athens  

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March, 1967

## P R E F A C E

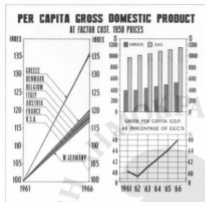
Since the mid-nineteen fifties the Greek economy has shown a record of stability and growth which few countries have excelled. A rapid rate of increase in income and output has been accompanied by relative price stability at home and by balance of payments equilibrium. This was achieved within the framework of a free enterprise economy and without the imposition of import restrictions or direct controls.

To a large extent the substantial rates of growth which have characterized the Greek economy over the past decade have been the result of policies pursued systematically by the authorities. Thus, the rapid expansion of investment and, particularly, in the industrial sector must be attributed to the important incentives granted to firms (both local and foreign) wishing to expand their field of operations in sectors contributing to rapid economic development. These incentives were not only of a fiscal character but also extended to credit by the banking system. The substantial rise in private deposits since 1956 provides yet another field where systematic policy measures have produced impressive results.

Since 1961 the Greek economy has shown signs of accelerating progress in many sectors and increased resilience in the face of exogenous upsetting factors. At the same time real income and output continued to expand at a high rate and the inflow of foreign venture capital showed a substantial increase. The present publication aims at providing reliable information to all those people who are interested in the experience of a small but rapidly developing and stable economy.

X. Zolotas  
Governor of the Bank of Greece

March, 1967

1. Per capita gross domestic product

Between 1961 and 1966 the per capita domestic product in Greece at constant (1958) prices increased by 36% which corresponds to an average annual rate of increase of 6.3%. This rate of increase has been one of the highest internationally and as a result of it, per capita gross domestic product in Greece at factor cost and 1958 prices rose from \$ 390 in 1961 to \$ 530 in 1966. The corresponding figure for 1966 at current prices was \$ 660.

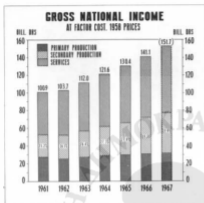
The rate of increase of Greek domestic product per capita was higher than the corresponding rate for the European Economic Community. As a consequence, per capita gross domestic product in Greece, expressed as a percentage of that in the E.E.C., rose from 40% to about 46%. It is worth noting, however, that despite this relative improvement the absolute difference between the two magnitudes showed a small increase in the period under review.

2. Gross national income

The gross national income of Greece rose from 100.9 billion drs. in 1961 to 141.1 billion drs. in 1966, i.e. it increased at an average annual rate of 7%.

Secondary production rose in the period under review at a relatively faster rate than that of other sectors with the result that its percentage share in total

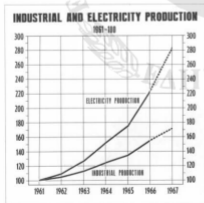
Note: The figures for countries other than Greece are derived from data available in official international publications. The national accounting figures for Greece contained in the text are, as far as 1966 is concerned, of a preliminary character.



national income increased from 25.2% in 1961 to 29.3% in 1966. On the other hand, income from primary production - which includes agriculture, livestock production, fishing and forestry - fell from 26.9% of the total in 1961 to 21.3% in 1966. This development constitutes a reliable indication concerning the progress that has been made in the period under review towards structural readjustments in the Greek economy.

The increase in the percentage share of income from services which took place during this period reflects the internationally observed trend of increasing demand for services which accompanies the rise in per capita income.

### 3. Industrial and electricity production



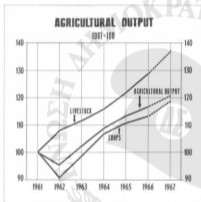
Industrial output contributed substantially to the rapid increase in income from secondary production in the period 1961-1966. Between 1961 and 1966 industrial production increased by 53% i.e. at an average annual rate of 9%, which is a particularly high rate by international standards.

The rise in industrial output was largely due to the substantial increase in productivity and the coming into operation of new industrial units of large size in the sectors of metallurgy, petroleum

products, nitrogenous fertilizers etc.

Electricity production, on the other hand, increased throughout the period at a high rate (18% per annum). Thus, in 1966 electricity production (which is of fundamental significance to the development of the country's infrastructure) exceeded that of 1961 by 126%. A further substantial increase in electricity production is expected to take place during 1967.

#### 4. Agricultural output



The general index of agricultural production (which includes crops, livestock production, fishing and forestry) rose by 17% in the period under review, i.e. at a lower rate than industrial production. In particular, crop production rose by 13% whereas livestock production increased by 29%.

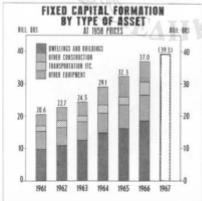
Despite the progress made in increasing production and improving productivity, structural weaknesses are still evident in Greek agriculture and had during the period under review unfavorable effects on the composition of agricultural output. For example, the increase which has taken place in products with a high income elasticity of demand (fruits and vegetables, livestock products etc.), cannot be considered as adequate. On the other hand, products which cannot be easily absorbed by the home and foreign market (e.g. wheat and tobacco) are produced on a scale which leads to the accumulation of excessive stocks.

In the period under review various measures have been taken in order to promote the readjustment of crop structure. These measures include subsidization of particular crops and various credit facilities and should exert a favorable influence on the development of the agricultural sector.

5. Gross expenditure of the economy

fixed capital formation absorbed in 1961 17.3% of resources available, in 1966 the relevant percentage was 21.2%.

The increase which took place in the percentage of resources devoted to fixed capital formation is an indication that Greece made serious efforts during the period under review to extend and mobilize its internal resources with the aim of achieving a faster rate of economic development.

6. Fixed capital formation by type of asset

The gross expenditure of the Greek economy for goods and services steadily increased in the period under review. Its average annual rate of increase was about 8%.

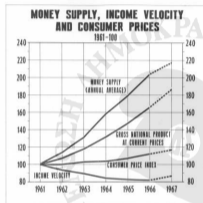
It is important to note that expenditure on fixed capital formation (ships excluded) rose at an average annual rate of 11.5%. During the same period consumption increased by 8% per annum.

As a result of these developments considerable improvement was achieved in the composition of total expenditure. Thus, whereas gross

Total expenditure on fixed capital formation increased substantially in the period 1961-1966. Specifically, it rose in absolute terms from 20.6 bill. drs. in 1961 to 37 billion drs. in 1966, with the prospect of rising further to the level of 39.3 bill. The increase in expenditure on fixed capital formation was continuous and showed particularly high rates of increase in 1964 and 1966. It is worth noting that spending on equipment, mainly in industry, almost doubled

in the period under review. This rise has contributed substantially to the achievement of high rates of increase in income and output in the period under review and was stimulated by the important incentives provided for investment in industry. Nevertheless, given the aim of achieving even higher rates of increase in income and output, every effort is being made to encourage the expansion of investment in sectors contributing to the rapid development of the Greek economy.

#### 7. Money supply, income velocity and consumer prices



The rate of increase in money supply in the period under review was greater than the rate of increase in the gross national product at current prices. This development is reflected in the fall (by 19%) of the income velocity of money between 1961 and 1966.

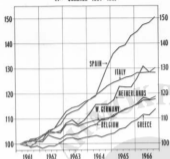
The decrease in the income velocity of circulation implies that the proportion of income held in the form of money has increased as a result of the increased monetisation of the economy. Under the influence of this factor, the

considerable increase in the money supply has not led to any disturbances. In fact increases in the consumer price index during the period under review were moderate, balance of payments equilibrium was not seriously affected, and public confidence in the drachma remained strong throughout the period 1961-1966.

#### 8. Consumer prices in selected countries

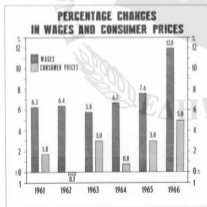
Consumer price increases in Greece between 1961 and 1966 were smaller than corresponding increases in other European countries. From the third quarter of 1964 prices in Greece showed a somewhat more rapid rate of increase which, however, did not exceed corresponding price rises in other European countries and did not show any signs of accelerating into serious inflation. The basic factor which has caused

### CONSUMER PRICES IN SELECTED COUNTRIES (1961 QUARTER 1961=100)



prices to rise at a relatively faster rate from 1964 onwards was the substantial increase in international food prices, particularly in meat and dairy products. Despite progress made, Greek livestock production is still not in a position to satisfy the continuously increasing home demand with the result that imports of food at inflated prices showed a substantial rise in the period under review. The impact of this factor on domestic prices was significant and could not be offset by short-term policy measures.

### 9. Percentage changes in wages and consumer prices

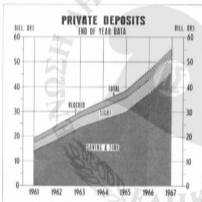


Wage-rates showed substantial and continuous increases throughout the period while increases in consumer prices were noticeably smaller. Consequently, it can be maintained that real wages have risen substantially between 1961 and 1966 and workers shared in the significant increase of real national income that took place in the period under review. Attention, however, must be paid to the likelihood that increases in wage-rates may exceed the corresponding increase in productivity. If this were to happen the inflationary pressures



created would adversely affect relative monetary equilibrium and would eventually, undermine the process of economic development, i.e. the only certain foundation on which a lasting increase in living standards can take place.

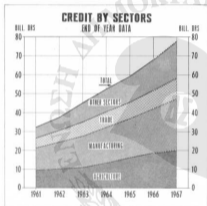
#### 10. Private deposits



The annual increase in deposits in the period under review was substantial and, in percentage terms, exceeded the rise in private income. In 1966 saving and time deposits showed a rate of increase which was substantially higher than that which prevailed in 1964 and 1965, and in absolute terms rose by more than 8 billion drachmas. The fact that this substantial rise in deposits took place while at the same time large amounts of funds were drawn from the capital market through bond issues, provides an optimistic outlook for the evolution of deposits during the current year.

The substantial increase in deposits which took place during the period 1961-1966 provided the banks with ample funds for financing the private sector of the economy, and allowed the Government to issue bonds in the capital market successfully. The funds drawn from this source were used for financing the government investment budget.

11. Credit by sectors

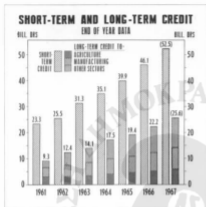


Credit extended to all sectors of the economy increased steadily over the whole period under review, and particularly from 1962 onwards. In the last three years credit to agriculture and manufacturing as well as to the private sector in general has expanded at a relatively faster pace. The expansion of credit to the economy, as shown in the diagram, is expected to continue in 1967.

During the period under review every effort was made by the authorities to favor those sectors which made a higher contribution to economic development. This meant that the industrial sector in particular received every possible assistance in terms of credit facilities.

The measures taken in the late nineteen fifties and which obliged the commercial banks to devote 15% of their deposits to the long-term finance of industry were maintained during the period under review. At the same time the procedure for granting loans to industry was considerably liberalized and measures were taken to assist small-size firms in getting loans from the banks.

### 12. Short-term and long-term credit

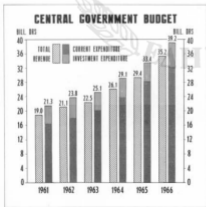


As can be seen from this diagram more than one third of bank credit is extended for the finance of investment in industry, agriculture and other sectors of higher priority for economic development.

Between 1961 and 1966 the outstanding total of long-term bank credit increased by 11.5 billion drs., i.e. more than doubled. Out of this increase 3.5 bill. drs. were channelled into industrial investment, 2.2 billion drs. into investment in agriculture, and 5.8 billion drs. into other long-term investment, as e.g. in tourist enterprises, public

utilities and housing for lower income groups.

### 13. Central Government budget



Both revenue (excluding loan proceeds) and expenditure steadily increased in the period under review.

As far as current expenditure is concerned, its rate of increase was particularly high in 1964 and 1965.

The main factors which were responsible for this increase in ordinary government expenditure were first the improvement in the education services offered by the State, which are of primary significance for economic development; secondly, the increase and extension of agricultural subsidies,

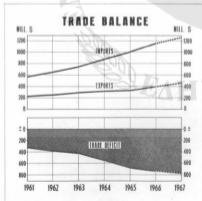
a substantial part of which was aimed at the readjustment of crop structure, and thirdly, the substantial increase in expenditure on servicing the public debt, following the settlement of Greece's pre-war external debt.

As far as investment spending is concerned, in the first five years of the period under review it showed substantial fluctuations without a significant upward trend. Last year, however, spending under the government investment budget showed an increase of more than 30% compared with the 1965 level.

From 1962 until 1965 the rate of increase of government revenue, including transfers from abroad, was lower or about equal to the corresponding rate of increase of government expenditure. In 1966 it was substantially higher than the corresponding rise in expenditure.

As a result of this, the overall budget deficit (which is heavily influenced by public investment expenditure and is covered by internal and external borrowing) rose from 2.3 billion drs. in 1961 to 4 billion drs. in 1965. This development should be attributed in large part to the sharp decline in foreign aid which amounted to 950 million drs. in 1962 and fell to 130 million drs. in 1965.

#### 14. Trade Balance



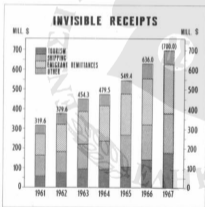
The overall development of the Greek economy over the period 1961 to 1966 brought about a 100-percent increase in import payments, which rose from \$ 570 million in 1961 to \$ 1.150 million in 1966, with a prospect of increasing by another \$ 100 million in 1967. Imports of capital goods played a prominent role in this increase, considering that their value almost tripled, from \$ 100 million at the beginning of the period to \$ 250 million in 1966.

During the same period, Greek

exports increased by only 68 percent owing to the fact that they consist largely of agricultural products, e.g., currants and tobacco, which are not easily absorbed by the international market. It should be noted, however, that industrial exports, although they still represent about 10% of total exports, rose almost five-fold in the period under review.

Thus, the increase in payments for imports could not be offset by export earnings and caused the trade deficit to expand from \$ 330 million in 1961 to \$ 750 million in 1966. Despite the expected slowing down in the rate of increase of import payments during the current year, the trade deficit is estimated to exceed the level of 1966.

#### 15. Invisible receipts

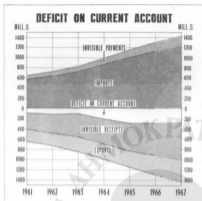


Invisible receipts doubled in the period under review. From \$319.6 million in 1961 they rose to \$ 636 million in 1966, and are expected to reach \$ 700 million in 1967.

All categories of invisible receipts contributed to this increase. Thus, receipts from shipping almost doubled, those from tourism more than doubled and are expected to increase further during the current year, while emigrants' remittances rose from \$ 107 million in 1961 to \$ 235

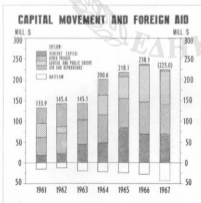
million in 1966.

The contribution of invisible receipts to financing the current account deficit was substantial. Their total exceeded earnings from exports and their rate of increase was particularly high during the period under review.

16. Deficit on current account

1967 is expected to remain at last year's level.

The increase in the current account deficit after 1963 was the result of many factors. The substantial rise in international food prices was one of them while the slowing down in the rate of increase in invisible receipts in 1964 also played a significant role.

17. Capital movement and foreign aid

The upper part of the chart shows current foreign exchange payments while current foreign exchange receipts are shown in the lower part of the diagram.

It can be seen that whereas between 1961 and 1963 the current account deficit (including foreign suppliers' credit) was in the neighbourhood of \$ 80 million annually, in the last three years it increased substantially to \$ 200 in 1964 and \$ 270 million in 1965 and 1966. It should be noted that the current account deficit during

During the first three years of the period under review the current account deficit was more than covered by capital inflow and aid. Since 1964, however, capital inflow although substantial did not fully cover the current account deficit.

Private capital made up about three quarters of the total capital inflow in the period under review, and rose from \$ 60 million in 1961 to \$ 150 million in 1966. It should be noted that about two thirds of private capital inflow does not en-

tell a corresponding loan obligation to the rest of the world.

Also worth noting is the four-fold increase in imports of venture capital which rose from \$ 18 million in 1961 to \$ 70 million in 1966.

#### 18. Official foreign exchange reserves



In the first three years of the period under review the official foreign exchange reserves of Greece rose steadily from \$ 250 million at the end of 1961 to \$ 278 million at the end of 1963. In the last three years foreign exchange reserves have declined to the level of \$ 248 million.

The fall in reserves since 1963 has been the result of two factors. First, the decline in the surplus of invisibles which occurred in 1964 and, secondly, the substantial decrease in foreign aid in 1965.

Following the measures taken by the Bank of Greece on December 23, 1965, which involved the abolition of the free market for gold sovereigns, a substantial reflux of gold to the Bank of Greece has taken place. Specifically, since December 23, 1965 more than 10 million pieces of gold sovereigns have been sold by the public to the Bank of Greece. This development is undoubtedly one of the most important events in the postwar monetary history of Greece and provides an optimistic indication concerning the prospects of the Greek economy.