COMMISSION OF THE EUROPEAN COMMUNITIES

COM(92) 545 final

Brussels, 10 December 1992

Proposal for a

COUNCIL DIRECTIVE

**authorizing The Hellenic Republic
to defer liberalization of certain capital movements
under Article 6(2) of Council Directive 88/361/EEC of 24 June 1988**

(presented by the Commission)

[redacted] 2

EXPLANATORY MEMORANDUM

1. The Council Directive 88/361/EEC of 24 June 1988 which entered into force on 1 July 1990, authorized four Member States - Greece, Ireland, Spain and Portugal - to defer the liberalization of certain capital transactions until 31.12.1992.

   Moreover, under Article 6 paragraph 2 of the Directive, Greece and Portugal may request an extension of the above time limit if they consider that they are unable, because of balance of payments difficulties or of insufficient adaptation of the national financial system to proceed with full liberalization before 31.12.1992. The possibility for such an extension, which cannot exceed three years, is also covered by Article 73e of the EMU Treaty.

2. The Greek authorities requested on 12.11.92 an extension of the transitional period for short-term capital operations until 1.1.1995. They also propose to liberalize some of the currently applied restrictions from 1.1.1993.

   According to the authorities the maintenance of the restrictions on short-term capital movements, for a specified period, is necessary while efforts to stabilize the economy are still underway and in order to support the monetary and exchange rate policies.

3. The Commission, after having reviewed, in collaboration with the Monetary Committee, the economic and financial situation of Greece, considers that there are grounds for granting an extension of the transitional period :

   - although the balance of payments has improved following progress made towards stabilizing the economy, this improvement remains fragile taking account of the still sizeable fiscal imbalances and the high inflation;

   - although liberalization measures and reforms have been introduced in the area of financial markets, key markets and instruments are still insufficiently developed.

   In view of the above, the Commission proposes to the Council to adopt the attached Directive authorizing Greece to defer the liberalization of certain capital movements until 30 June 1994.

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COUNCIL DIRECTIVE
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authorizing The Hellenic Republic to defer liberalization of certain capital movements under Article 6(2) of Council Directive 88/361/EEC of 24 June 1988

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community, and in particular Article 69 thereof,

Having regard to the Council Directive 88/361/EEC(1) issued for the implementation of the provisions of Article 67 of the Treaty and in particular Article 6(2) thereof,

Having regard to the proposal from the Commission submitted following consultation with the Monetary Committee(2).

Whereas under Article 6(2) of the Directive the Hellenic Republic was authorized to continue to apply, until 31 December 1992, restrictions on the movement of capital laid down in Annex IV, Lists III and IV, of the Directive; whereas the Article provides for the possibility for an extension of this time limit, not exceeding three years.

Whereas the Hellenic Republic has applied a programme of economic stabilisation and reform; whereas it has claimed that the process of budgetary consolidation has accelerated and it will be strengthened with the 1993 budget; whereas despite the adjustment effort which is underway solid expectations of monetary and exchange rate stability have not, yet, been established; whereas the maintenance of restrictions on short-term capital, for a specified period, is necessary in order to ensure a smooth macroeconomic adjustment and to support monetary and exchange rate policies after the entry of the Drachma to the exchange rate mechanism of the EMS; whereas the Hellenic Republic has requested an extension of the time limit set for complete liberalization of short-term capital until 1.1.1995; whereas it intends, however, to proceed to the liberalization, from 1.1.1993, of some of the currently applied restrictions.

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(1) O.J. No L 178, 8.7.1988, p.5
(2) .....

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Whereas the Commission has reviewed, in collaboration with the Monetary Committee, the economic and financial developments in the Greek economy; whereas it follows from this examination that although progress has been made in the stabilisation of the economy and the situation of the balance of payments has improved, the existing sizeable budgetary imbalances and the still high inflation render this improvement fragile. Whereas a gradual liberalization of short-term capital movements is appropriate before a durable improvement in the stabilization of the economy has been achieved.

Whereas reforms have been introduced and liberalization measures have been taken by the Greek authorities in the area of financial markets; whereas, however, the financial system is not yet sufficiently developed to face a situation of complete mobility of capital.

Whereas there are grounds, in view of the above, for extending the authorization to apply restrictions on the movement of short-term capital.

Whereas however such a derogation can in no way justify a control of capital movements under conditions contrary to Article 8A of the Treaty.

HAS ADOPTED THIS DIRECTIVE

Article 1

The Hellenic Republic may temporarily continue to apply restrictions to the capital movements listed in the Annex to this directive, subject to the conditions and time limits laid down in that Annex.

Article 2

This Directive is addressed to the Member States.

Done at Brussels, .. December 1992

For the Council

ANNEX

The Hellenic Republic may, until 30 June 1994, continue to apply restrictions on the following capital movements

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Operations in current and deposit accounts with financial institutions:

- operations of a duration of less than one year carried out by residents with foreign financial institutions.

Financial loans and credits of a duration of less than one year.

Personal capital movements :

- loans of a duration of less than one year.

Physical import and export of financial assets :

- means of payments.

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