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THE WORLD BANK

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President G.D. Woods Briefs - 22nd Annual Meeting 1967
Europe



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RECONSTRUCTION AND DEVELOPMENT

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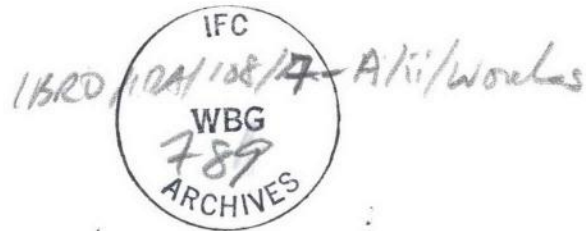
INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

G. D. Woods's Meetings

Europe Department

<u>Country</u>	<u>Date</u>	<u>Time</u>
South Africa	Sept. 26	5:00-5:30
Spain	Sept. 28	9:30-10:00



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September 5, 1967

BRIEFING PAPER - 1967

CYPRUS

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Renos Solomides
Governor (Bank)

Minister of Finance

A. C. Patsalides
Alternate Governor (Bank)

Director, Planning Bureau

C. C. Stephani
Governor (Fund)

Governor, Central Bank of Cyprus

K. N. Lazarides
Alternate Governor (Fund)

Manager, Economic Research
Department, Central Bank of
Cyprus

III. BANK/IDA PROSPECTIVE OPERATIONS

A second loan of \$2.8 million to the Electricity Authority of Cyprus for expansion of the Moni power station was signed on May 16, 1967, after cancellation of a like amount from the first loan. The Government has asked the Bank's help in obtaining consultants for port development. We have suggested that it get in touch with the Norwegian Agency for International Development (NORAD) which has a standing offer of free advice in such matters. We do not know what the outcome of the approach to NORAD has been. We have also provided the Government with names of consultants to make a proposal for a sewage system for Nicosia.

The Government has also asked for a preinvestment survey under the Bank/FAO Cooperative Program of projects in agriculture. We are prepared to send a loan officer and an agricultural specialist; account will have to be taken of a study of water resources now being undertaken under the UNDP.

Agriculture and highways could offer opportunities for Bank financing if the economic situation justifies further lending.

We expect to discuss the foregoing with the Minister of Finance at the occasion of the Annual Meeting.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff

Bank 9% and IDA 90% Releases. We have written the Minister of Finance about the possibility of the Government releasing the 9% portion of the capital subscription to the Bank (\$1.35 million) and the 90% portion of its IDA subscription (\$684,000) and expect to discuss this with him during the Annual Meeting.

(b) Topics to be raised by Bank at meeting with President or Senior Officer

None.

(c) Topics likely to be raised by the Delegation

The Delegation may inquire whether the Bank would in principle consider assisting Cyprus for agricultural and highway programs (see Section III above). It may also wish to rediscuss the possibility of Bank Group assistance to the Cyprus Development Corporation. Last January, we informed the Government that in our view a private development company in Cyprus could not reasonably expect to have a volume of business in the next few years which would provide an adequate basis for profitable operations.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

(U.S. \$ Million)

Year	Purpose	Amount	Undisbursed Balance
1963	335 CY Electricity Authority of Cyprus	Power	15.3
1967	494 CY Electricity Authority of Cyprus	Power	2.8
	Total (less cancellations)		18.1
	of which has been repaid	0.3	
	Total outstanding		17.8
	Amount sold	1.9	
	of which has been repaid	0.3	1.6
	Net amount held by Bank		16.2

(b) IDA Credits as of August 31, 1967

None.

(c) Technical Assistance Activities

See III above.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Subscription

Amount: \$1.35 million. No release (see IV (a)).

(f) IDA Subscription

Part II member. Subscription (90%): \$684,000.
No release (see IV (a)).

(g) Holdings of Bank Bonds

\$1.0 million.

(h) I.F.C.

IFC has no investments in Cyprus. For position on Cyprus Development Corporation, see IV (c) above.

(i) Settlement of Investment Disputes

Cyprus ratified the convention on December 25, 1966.

VI. POLITICAL SITUATION

In the past year the political situation has generally been quiet although incidents have occurred from time to time which have maintained the tension between Greek and Turkish Cypriots.

There are indications that the contacts between the Greek and the Turkish Governments on the Cyprus question, which were suspended last December, have been resumed since the military junta came to power in Greece. So far these contacts have been kept strictly secret.

V. ECONOMIC SITUATION

Population: 610,000
GNP per capita (1966) \$730
Gold and foreign exchange reserves (May 1967): \$155 million

Despite the low rainfall which affected agriculture, the economy progressed satisfactorily in 1966 and GNP grew by 6.6%. Monetary stability was well maintained and the price level was practically stable. Government revenues exceeded current expenditures in 1966 and the budget surplus, together with grants from other governments, financed more than half of Government development expenditures, the balance being provided by local and external borrowing. The 1967 current budget provides for a surplus of \$8 million equivalent and a substantial increase in development expenditures.

Imports increased in 1966 by 7.2% and exports by 12.6%. A foreign trade deficit remained; it was covered by the expenditures of UN and British forces, by immigrants' remittances, and by earnings from tourism (which is recovering from the 1964 crisis). After taking transfer payments into account, the current account of the balance of payments left a small surplus. The foreign exchange position is strong; reserves equal about 11 months' imports. Cyprus' external public debt amounts to some \$35 million and debt service is around 5% of gross foreign exchange earnings.

The Second Five-Year Plan (1967-71) aims at an annual growth rate of 6.5%, considered compatible with maintaining monetary stability and a strong balance of payments position. The Plan emphasizes agriculture, tourism, and export promotion. Gross investments are scheduled to increase from an average of 17.2% of GNP in 1962-66 to 21.7% during the new Plan. The economic situation of Cyprus is characterized by conflicting tendencies: the political factors which cause strains in the economy are at the same time the cause of the substantial foreign exchange earnings from military expenditures. Even a gradual reduction of these expenditures will have a severe impact on the economy. The Government is aware of this danger and the new Plan stresses the importance of increasing domestic savings and foreign exchange earnings. Cyprus is creditworthy for further Bank lending.

FJI

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September 5, 1967

BRIEFING PAPER - 1967

FIJI

I. BANK/IDA PROSPECTIVE OPERATIONS

A Bank/FAO project identification mission and a FAO mission visited Fiji in June 1965 and March 1966. It recommended Bank/IDA assistance for a land settlement and farm development project, an application for which was submitted last May. We are planning to send an economic mission within the next few months.

II. POLITICAL SITUATION

As a result of the constitutional conference of 1965, Fiji is moving towards greater internal self-government, on the basis of universal adult suffrage, a majority of elected members in the Legislative Council and the introduction of a ministerial system. In the October 1966 elections, the multiracial Alliance Party won a large majority over the predominantly Indian Federation Party. Strong sentiment exists in all communities, and particularly among the Fijians, to maintain a permanent link with Britain. Under the new system the Governor retains responsibilities for defense, external affairs, internal security and the public service. On September 1, 1967 a Council of Ministers was nominated, consisting of members of the Legislative Council appointed by the Governor and of officials of the British Administration. The prospective Chief Minister, Mr. Ratu Mara, plans to visit the United States shortly after his nomination as part of a world tour.

III. ECONOMIC SITUATION

Population (1966): 450,000

GNP per capita: \$250

Foreign exchange reserves: Currency Board system

Fiji is an archipelago of more than 500 islands; most of the population is concentrated on the two largest islands.

The economy is largely on a non-monetary, subsistence level. Per capita income is about \$250 and has risen slowly, partly because of the rapid population growth (over 3% per annum). Agriculture, which accounted for over 40% of GDP in 1965, is the main source of income. Manufacturing accounts for some 10% of GDP and caters primarily to the local market. There is some mineral production (gold and manganese ore) but known deposits are small and almost exhausted. Fiji's main exports are sugar, representing more than 60% of the total, coconut products and gold.

The Development Plan for 1966-70 assumes a tentative growth rate of 5.6% and, without expecting radical changes, aims to diversify the structure of the economy by promoting the development of non-agricultural activities. Major developments are expected in forestry, tourism and manufacturing. In addition, the Plan emphasizes transportation, one of the basic problems. Despite the scarcity of arable land, there is considerable potential for development in agriculture by intensifying and diversifying production. Drainage and cultivation of a part of the swampy land may also be practicable.

The Plan expects the rate of investment to increase from 14.9% to 16.2% of GDP and total investment for the five years ending 1970 to amount to \$115 million. The target for public investment is \$52 million with some 38% to be financed by U.K. assistance.

The external debt is small; in 1965 the debt service ratio was 3.9%. The new Plan envisages a substantially higher level of expenditures than the previous one and Fiji may well look for foreign financing from sources other than the U.K. A recent effort to place an issue in the Australian market failed.

The margin for borrowing on conventional terms is limited by the heavy dependence on one main export crop, which faces the possibility of over-supply in the free world market, and Fiji should be considered a "blend" country.

FINLAND

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September 5, 1967

BRIEFING PAPER - 1967

FINLAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Mauno Koivisto
Governor (Bank)

Minister of Finance

Olavi Salonen
Alternate Governor (Bank)

Minister of Trade and Industry

Reino Rossi
Governor (Fund)

Deputy Governor, Bank of Finland

Jaakko Lassila
Alternate Governor (Fund)

Advisers:

Hekki Leppo

Ambassador of Finland to Brazil

Jorma Aranko

Alternate Executive Director (Fund)

III. BANK/IDA PROSPECTIVE OPERATIONS

During discussions in June with the General Manager of the Industrialization Fund of Finland (IFF) the idea was suggested of a joint operation in which a market issue would be effected simultaneously with a Bank loan. We do not know how far IFF has progressed in its preparation of a market issue. In any event, the Finns were informed that the Bank does not contemplate lending to Finland before prospects of raising Bank funds have substantially improved.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Senior Officer:

None.

(c) Topics likely to be raised by the Delegation (other than those raised by Bank/IDA):

The Government is likely to inquire again about the possibility of a Bank loan to the Industrialization Fund of Finland, to be effected simultaneously with a market issue for the Industrialization Fund. The Government might also inquire about the possibility of a third road loan, for which we have not given any encouragement.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967:

(See table on next page).

(b) IDA credits as of July 31, 1967:

None.

(c) Technical Assistance Activities:

None.

(U.S. \$ Million)					
Year	Loan No.	Borrower	Purpose	Amount	Undisbursed
1949-62		Loans fully disbursed		142.1	--
1963	352	Teollistamisrahashto Oy	Industry	7.0	0.1
1964	384	Finland	Roads	28.5	4.4
1965	420	Teollistamisrahashto Oy	Industry	14.0	5.9
1966	445	Finland	Roads	20.0	13.4
		Total (less cancellations)		221.6	23.8
		of which has been repaid		64.0	
		Total outstanding		157.6	
		Amount sold		53.9	
		of which has been repaid		42.1	11.8
		Total held by Bank		146.2	

(d) Access to Private Capital Markets:

The tightness of the international capital market was felt sharply by Finland in the last three years. Borrowing abroad declined from ten bond issues totalling \$118 million in 1964 to three issues totalling \$36 million in 1965 and one issue of SwF 4.5 million in 1966. In 1967, the Republic of Finland issued in Europe a loan of \$12 million at 7-1/4% interest and an issue price of 98, repayable in 1968-77. In addition, \$12 million was raised by the Mortgage Bank of Finland, with the guarantee of the Republic of Finland; this loan, also at 7-1/4% was issued at 99-7/8 and is repayable in 1969-79. Another loan of \$12-15 million at 7%, repayable in 10 years, is to be raised shortly by the Republic of Finland on the European capital market. Finland is still exempted from the U.S. interest equalization tax.

(e) Bank 9% Capital Subscription:

Amount: \$12 million. Entire 9% released, convertible into any currency. \$9.4 million disbursed and on loan; unused balance available in annual installments of \$1 million through January 1, 1969 with a final installment January 1, 1970.

(f) IDA Subscription:

Part I member.	Original subscription	\$3.83 million
	Replenishment	<u>\$2.30 million</u>
		<u>\$6.13 million</u>

(g) Holdings of Bank Bonds and Borrowers' Obligations:

Bank Bonds:	\$4.35 million
Borrowers' Obligations:	\$4.57 million

(h) I.F.C.

IFC's gross commitments in Finland amount to \$3.2 million including \$.3 million in a Development Bank. At June 30, 1967, the Corporation held \$174,093 (a loan of \$103,250 and equity of \$70,843) in Huhtamakiyhtymä Oy, a major Finnish foodstuff, pharmaceutical, and packaging company. No new applications have been received in the past year. Present corporate financial practices in Finland (stemming in part from the existing tax system) contribute to an environment in which further IFC financing seems unlikely.

(i) Settlement of Investment Disputes:

The Convention has been signed by Finland on July 14, 1967, but has not yet been ratified.

VI. POLITICAL SITUATION

No major changes took place in the political scene since May 1966 when, as a result of general elections, the center-coalition government of the Agrarian Mr. Virolainen was replaced by the People's Front Cabinet headed by Mr. Rafael Paasio, leader of the Social Democratic party. The government is composed of Social Democrats, Centre Agrarians, one Left-Wing Socialist and - for the first time since 1948 - three representatives of the Communist party; it enjoys a substantial majority in Parliament (152 seats out of 200).

VII. ECONOMIC SITUATION

Population (1966): 4.64 million

GNP per capita (1966): \$1,850

Gold and foreign exchange reserves of Central Bank
(June 1967): \$188.5 million

Rising costs, leading to balance of payments difficulties, are at the root of current economic problems in Finland and were to a large extent responsible for the modest rate of economic expansion in 1966. In that year GNP expanded by about 2% in real terms compared to a growth rate of 5% in 1965 and of 6% in 1964. Monetary and fiscal measures were applied in 1966 to reduce the growth in demand; consumption was affected, but it was private investment, particularly in the building sector, which suffered most from the restrictive measures.

Exports expanded by 5.5% during 1966 while imports grew at 4.9%; on the whole, the current deficit in the 1966 balance of payments (Fmk 650 million or about US\$202 million) was slightly higher than in the previous year. However, a very steep decline in net capital inflow, as a result to a large extent of a high debt service, required a considerable run-down of foreign reserves to finance the current deficit; in the period December 1965 to December 1966 foreign reserves declined from \$289 million to \$189 million (equivalent to somewhat over one month's imports).

In 1966 the cost of living rose by about 4%, against 10% in 1964 and 5% in 1965.

An expansion in economic activity was noticed in the first few months of 1967, particularly in industrial production and house-building. However, imports were higher than expected and the central government's financial position seemed to weaken.

To support stabilizing efforts by the Finnish authorities, the IMF approved a stand-by arrangement in March 1967 for up to \$93.75 million, to be used over the following 12 months.

At the end of 1966 the external public debt of Finland amounted to \$647 million. Its service will absorb in the next four years on average about 6% of merchandise export earnings in 1966. Finland has substantial borrowing capacity and is creditworthy for Bank loans.

GREECE

Mr. Hoods

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September 22, 1967

BRIEFING PAPER - 1967

GREECE

I. MEETING WITH DELEGATION

Meeting scheduled September 28, 1967 - 2.30 - 3.00 p.m.

To be attended by: Mr. Knapp
Mr. Cope
Mr. Miller
Mr. Cheek

II. MEMBERS OF DELEGATION

John P. Paraskevopoulos Governor (Bank)	Governor, National Bank of Greece
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Costas A. Thanos Alternate Governor (Bank)	Secretary General, Ministry of Economic Coordination
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Demetrius Galanis Governor (Fund)	Governor, Bank of Greece
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Advisers:

Costa P. Caranicas	Alternate Executive Director (Fund)
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Evangelos Eliades	Director, Bank of Greece
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III. BANK/IDA PROSPECTIVE OPERATIONS

NIBID: Negotiations with the National Investment Bank for Industrial Development (NIBID) were completed in July and with the Government in August. We propose a loan of \$12.5 million, which is to be matched by a \$7.5 million loan by the European Investment Bank. We hope to present the loan to the Executive Directors during the last half of October.

Education: A reconnaissance mission in February reported possibilities of lending for technical institutes and the Athens Technical University, but project preparation would be required. Because of the political situation we have not yet informed the Government of our findings and a visit planned by Ballantine has been postponed. In any event we do not believe a project would be ready for appraisal before the spring of 1968. Since an important part of any educational project is likely to be related to agricultural education we would propose to postpone further action until we have discussed agricultural policies with the Government (see below under agriculture.)

Agriculture: The report "Development of Agriculture in Greece" was transmitted to the Government in December, 1966. A visit to discuss the report was cancelled because of the political crisis. The translation into Greek, undertaken by the Government, has now reached the final stage of editing and publication and wide distribution is planned by the Government for the near future. The recommendations expressed in it have been welcomed by the new Government and a number of them have already been partly implemented. According to the staff of the planning unit in the Ministry of Coordination, the Bank report is to be a cornerstone in the new five-year Development Plan for 1968-1972 presently under preparation. The draft Plan is expected to be presented to the cabinet before the end of the year. It would seem appropriate to start discussions on agricultural policies as early as possible while the authorities are willing to listen to advice. We had made it clear to the Greeks before starting our study on agricultural problems that implementation of the recommendations would be a pre-condition for lending in agriculture. Judging from our experience in other fields, project preparation is likely to be difficult and slow and lending seems to be far off under any circumstances.

Highways: Preparations for this project have been slow and we wrote in March and April that we considered project preparation after eleven months still at an early stage. The feasibility studies for the road sections proposed for financing were below the required standards and at our request the Greeks promised to revise them before the end of September. The Government is presently reviewing the status and they said they would inform us of their findings at the

Annual Meeting. With regard to the maintenance study, we suggested to the Greeks early this year to seek clarification of certain aspects from the proposed consultants (SAUTI) who had expressed an interest in undertaking such a study. This supplementary information which was supplied to the Greeks in May has reached the Bank only a few days ago and we plan to give them our views before the end of this week. Assuming smooth sailing from here on, a contract for the maintenance study could be awarded in the next few weeks. It is expected that eight months will be needed to carry out this study and another two months to discuss and review. In the best of circumstances, a mission to appraise the project could be in the field about a year from now.

Railways and Electric Power: We have also received informal inquiries about financing railways and electric power, but nothing concrete has been put to us so far.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Staff:

1. Inquire about progress in preparation of the highway project.
2. Inquire about arrangements to publish in Greece the report "The Development of Agriculture in Greece", about the Government's consideration of the recommendations contained in it and indicate the Bank's willingness to discuss implementation problems.
3. Inquire about release of 9% capital subscription and 90% IDA subscription. (See V (d) and (e)).

(b) To be raised by Bank at meeting with President or Senior Officer:

What progress has been made in settling remaining pre-war debts. We understand some progress has been made recently towards settlement of the U.S. dollar treasury notes, but we have not been informed of the details.

(c) Likely to be raised by Delegation:

The Delegation might ask to speed up lending for roads, agriculture and/or education and possibly electric power and railways. We should reply that (i) we cannot lend without well-conceived and carefully prepared projects; and (ii) further lending (i.e. beyond NIBID) would depend, among other things, on continued progress in the settlement of the defaulted external debt.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967:

None

(b) Technical Assistance Activities:

The report on agriculture was transmitted to the Government in December 1966. Subsequent discussions have been held up because of the political changes (see III).

(c) Access to Capital Markets:

None.

(d) Bank 9% Capital Subscription:

\$6.0 million. \$2.25 released subject to consultation (see IV (a)).

(e) IDA Subscription:

Part II member. Subscription (90%): \$2,268,000. No release (see IV (a)).

(f) Holdings of Bank Bonds:

\$2.0 million.

(g) I. F. C.

IFC has three industrial investments totalling \$5.6 million. These are in the two leading Greek cement companies, General Cement Co., S.A. (\$3,500,000 loan) and Titan Cement Co., S.A. (\$1,000,000 loan and \$526,000 equity investment), and in an organic fertilizer company, Aevol Industrial Company of Organic Fertilizers, S.A. (\$600,000.)

IFC has also an investment of \$719,082 (in the form of ordinary shares) in NIBID and is represented on NIBID's Board.

(h) Settlement of Investment Disputes:

Signed March 16, 1966. No date for ratification has yet been established.

VI. POLITICAL SITUATION

After the fall of the Stephanopoulos Government on December 20, 1966, the leaders of the Radical Union, Kanellopoulos, and the Center Union, Papandreou, agreed to advise the King to form a non-political government in order to prepare general elections in May 1967. However, the caretaker government under Paraskevopoulos fell when Kanellopoulos, the leader of the Radical Union, was unable to form a government with the help of splinter parties, he dissolved the Parliament and elections were scheduled for May.

On April 21 a group of conservative Greek army officers seized power in the name of King Constantine, but without his approval, ostensibly to prevent a leftist take-over. The military junta took into the Government respected civilian personalities at an early stage and almost all senior civil servants have continued to be in office. Censorship of the press has been imposed. The Government seems to be firmly in power and some relaxation of measures limiting the freedom of the foreign press and of private citizens has taken place recently. A committee of constitutional experts, mostly respected personalities from academic and public life, has been appointed to draft a new constitution. The underlying idea is to strengthen the executive power of the governmental institutions along the lines suggested by practically all quarters in recent years. The examples of Gürsel and de Gaulle are frequently mentioned. The draft of the constitution is supposed to be submitted to the Cabinet by the end of October and the Government has promised to present it to a referendum. After that new elections are planned to be held. The new Government has publicly committed itself to free enterprise and to proceed with long standing basic reforms. It has already taken a number of measures to liberalize the internal economy and to improve the long-run position of public finances. Some of these, such as the reduction in support prices for various agricultural products, although economically sound, have naturally not been popular. The approach to public policies has, so far, been extremely conservative and the younger elements in the army propose to push ahead much faster with basic reforms. The Government enjoys a surprisingly large measure of support from the business community.

VII. ECONOMIC SITUATION

Population (1965): 8.55 million

GNP per capita (1965): \$690

Foreign exchange reserves (June 1967): \$260 million

After favorable developments during most of 1966, the beginning of a slight recession was visible towards the end of the year. The political uncertainties in the early months of 1967 and the military takeover of April 21 have reinforced this tendency, but on the whole the change in government has had surprisingly few repercussions on the economy so far.

In 1966, the 8% rate of growth of GNP in real terms of the three previous years was maintained. Agricultural production exceeded the high 1965 level by less than 2%, but manufacturing increased by 15% and construction by 13%. During the first quarter in 1967, the index of industrial production was 8-9% higher than in the corresponding period of last year, an

appreciably lower growth rate than in 1966. It is presently expected that real GNP will grow by 5-6% in 1967.

The trade deficit rose somewhat in 1966 and reached \$727 million, but large receipts from tourism made for an increased surplus on services account and the balance of payments deficit on current account was reduced from \$412 million in 1965 to \$399 million in 1966; if receipts from private transfers are included, the reduction is from \$277 million to \$238 million. Capital imports were larger than the deficit and foreign exchange reserves increased during the year from \$250 million to \$273 million; this is equivalent to about three months' commodity imports. During January-June 1967, exports as well as imports were 3% higher than in the same period of 1966. There was a further increase in the surplus on the services account and in emigrant remittances. The overall current deficit was \$130 million against \$128 million in the first half of 1966.

There was also an improvement in public finances in 1966. Investment expenditures increased by almost a third, accounting for nearly 20% of public spending. At the same time tax revenue rose by somewhat less than one quarter and the Government deficit was reduced by over 40% to Drs 2.6 billion. In the first quarter of 1967 tax revenues were 17% higher than in the same period of 1966. No formal budget has been announced so far for 1967 and Government agencies have been budgeting their expenditures at about the levels of the previous year, but it is clear that increased pensions and salaries for Government employees and higher military expenditure will only partly be offset by some reductions resulting from lower support prices for agricultural products.

Credit to the private sector rose 15% in 1966. In the same period, the increase of money supply was no more than 13%, as the public preferred to hold their financial assets in less liquid form. However, the expansion of the money supply accelerated rapidly following the coup, after a considerable slowdown in the first months of the year. Since only part of the deposits retired from banks in late April has flowed back so far, total money supply at the end of June 1967 was 18% above the level of a year ago. Prices rose about 5% in 1966 and were stable in the first half of 1967.

External public debt in January 1967 was about \$475 million; the debt service for this year is \$35 million, about 4% of export earnings. Foreign exchange reserves at the end of June 1967 were \$260 million, equivalent to 20% of imports of goods and services in 1966.

Assuming reasonable prospects for political stability, Greece can be considered creditworthy for Bank lending.

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WBG ARCHIVES

CONFIDENTIAL

September 5, 1967

BRIEFING PAPER - 1967

ICELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Gylfi Gislason
Governor (Bank)

Minister of Commerce

Magnus Jonsson
Alternate Governor (Bank)

Minister of Finance

Johannes Nordal
Governor (Fund)

Governor, Central Bank of Iceland

Jonas H. Haralz
Alternate Governor (Fund)

Director, Economic Institute

Advisers:

Vilhjalmur Thor

Alt. Executive Director (Bank)

Petur Thorsteinsson

Ambassador of Iceland to Brazil

III. BANK/IDA PROSPECTIVE OPERATIONS

No further lending is contemplated at present.

Construction of the Burfell power project is now about three months behind schedule as a result of labor and equipment difficulties. A Bank mission which visited Iceland in July to discuss these problems felt that it would be necessary to keep in close touch with developments. A further visit is planned for October/November; it may also be necessary at that time to visit the members of the contracting consortium (Sentab of Sweden, Pihl of Denmark and an Icelandic firm). A mission to review economic development is planned for the spring.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

The financial position of the Hot Water System for which we made a loan in 1962 is unsatisfactory; the return on assets is negligible. We have written to the General Manager of the System and the Mayor of Reykjavik suggesting a rate increase. We may wish to inquire where the matter now stands. We should also inquire about the latest developments on Burfell (see III above).

(b) Topics to be raised by Bank at meeting with President or Senior Officer:

None.

(c) Topics likely to be raised by the Delegation (other than those raised by Bank/IDA):

No indication.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967:

(See table on next page).

(b) IDA Credits as of July 31, 1967:

None.

(U.S. \$ Million)					
Year	Loan No.	Borrower	Purpose	Amount	Undisbursed
1951	46	Iceland	Power	2.4	
1951	53	Iceland	Agriculture	1.0	
1952	69	Iceland	Industry	.9	
1953	79	Development Fund of Iceland	Agriculture	1.3	
1953	80	Development Fund of Iceland	Communications	.3	
1962	311	Iceland	Hot water supply	2.0	
1966	466	Landsvirkjun	Power	18.0	14.4
		Total (less cancellations)		25.9	14.4
		of which has been repaid		3.6	
		Total outstanding		22.3	
		Amount sold		.6	
		of which has been repaid		.2	.4
		Total held by Bank		21.9	

(c) Technical Assistance Activities:

We have undertaken to train a staff member of the Planning Institute in Mr. Waterston's office. We have also been asked to provide the name of a consultant for a transport study.

(d) Access to Private Capital Markets:

In August 1966 Landsvirkjun, the Icelandic public power company, was able to place \$6 million government guaranteed external bonds with several institutional investors in the United States (for a period of 15 years, yielding 7-1/4% to the lenders). The success of this placement was influenced by the Alusuisse guarantee of power payments and by the parallel loan of \$18 million for the Burfell Power Project by the Bank. The Hot Water System has also been able to raise modest amounts abroad, most recently \$500,000 through Hambro's Bank.

(e) Bank 9% Capital Subscription:

Amount: \$1.35 million. Entire 9% released in dollars, of which \$.88 million disbursed and on loan. Unused balance available in annual installments of \$234,000 through March 1, 1969.

(f) IDA Subscription:

Part II member. Entire 90% subscription (\$90,000) released and lent in dollars.

(g) Holdings of Bank Bonds and Borrowers' Obligations:

Bank Bonds: \$5.0 million.

Borrowers' Obligations: \$.90 million.

(h) I.F.C.

IFC has made no investments in Iceland, and there are no applications.

(i) Settlement of Investment Disputes:

The Convention entered into force for Iceland on October 14, 1966.

VI. POLITICAL SITUATION

No major changes in the political scene resulted from the general elections held in June 1967. The coalition between the Social Democrats and Conservatives (Independence Party), which have been in power since 1959, maintained an absolute majority in Parliament (32 seats out of 60) and no major government changes are expected.

VII. ECONOMIC SITUATION

Population (1966): 193,000

GNP per capita (1966): \$2,500 (at official exchange rate)

Gross gold and foreign exchange reserves of Central Bank
(June 1967): \$49 million

Considerable economic progress was made in the last several years: GNP rose by 5-7% per annum between 1963 and 1965 as a result primarily of a good fish catch, of productivity gains in the fish industry and rising prices for fish and fish products in the international markets. However, the favorable developments were accompanied by inflationary pressures as a result, inter alia, of large budget deficits, wage rises and a strong credit expansion. Stabilizing measures, of both fiscal and monetary nature, were applied in 1966, which reduced demand pressures and contributed to a slower expansion of the economy (about 3.5%). Prices have risen fast in the last few years; in 1966, the cost of living went up by 10%.

A fall in prices for fish and fish products was a most important development in 1966. Frozen fish, fish oils and fish meal were the three export items for which prices registered the sharpest decline. At the same time, imports continued to rise and the balance of payments on current account showed a deficit, at the end of 1966, of more than \$8 million, compared to a substantial surplus the previous year. Thus far, prices for fish products have failed to recover and actual fish catches this year were lower than in recent years; therefore, a larger balance of payments deficit is expected by the end of this year. During the first half of 1967 the foreign reserves of the Central Bank declined by some \$9 million to \$49 million (equal to about four months' imports).

At the end of September 1966 the external public debt amounted to about \$67 million; its service will absorb, in the next few years, about 3% of the current foreign exchange earnings at the 1966 rate.

Iceland would be creditworthy for further Bank lending, but, given the size of the Bank's investment, no further lending is contemplated for the time being.

IRELAND

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BRIEFING PAPER - 1967

IRELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Charles J. Haughey Governor (Bank)	Minister for Finance
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T. K. Whitaker Alternate Governor (Bank)	Secretary, Department of Finance
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Charles J. Haughey Governor (Fund)	Minister for Finance
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B. Menton Alternate Governor (Fund)	Deputy Assistant Secretary, Department of Finance
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III. BANK/IDA PROSPECTIVE OPERATIONS

A Bank mission which visited Ireland in January 1967 felt that the Electricity Supply Board would be acceptable as a borrower. A pumped storage project could probably provide a basis for a Bank loan and should be in a sufficiently advanced state for Bank consideration by early 1968.

A memorandum on the extension and automation of the telephone service in Ireland was sent by the Ministry of Finance in May 1967. The Projects Department expressed the opinion that the telecommunications sector probably could provide a basis for a Bank loan.

Further consideration of these projects is subject to a more favorable outlook for Bank lending to Ireland (see IV c).

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Senior Officer:

None.

(c) Topics likely to be raised by the Delegation (other than those raised by Bank/IDA):

The Delegation might inquire about the Bank's willingness to lend to Ireland. We should point out that Bank funds available for lending are scarce and that we cannot foresee when we might be in a position to consider lending for projects in Ireland.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967:

None.

(b) IDA credits as of July 31, 1967:

None.

(c) Technical Assistance Activities:

None.

(d) Access to Private Capital Markets:

As Ireland's creditworthiness has never been in question and since its external debt is very small, the country should normally be capable of raising reasonable amounts in foreign capital markets.

In March 1966, the Irish Government issued the country's first international loan, a £7 million 15-year issue at an effective rate of 7-1/4% (7% coupon and issue price of 97-3/4). The bonds were over-subscribed by investors from Germany, Switzerland, Sweden, the Benelux countries and Canada. Another £5 million was borrowed in June 1966 from the Bank of Nova Scotia, repayable over 10 years and bearing interest at 7%. Underwriters absorbed a major portion of another issue of £5 million in August 1966 offered to the public on the London market at an effective rate of 7-3/4% (7-1/2% coupon and issue price of 97) repayable in 1981-83.

A Bank operation in Ireland could enhance Ireland's ability to borrow from private capital sources abroad and would generally improve its image on the international capital market.

Ireland was originally included among the countries exempted from the U.S. interest equalization tax but was subsequently removed from the list.

(e) Bank 9% Capital Subscription:

Amount: \$7.68 million. Entire 9% released, convertible into any currency, of which \$5.86 million disbursed and on loan. Unused balance available in annual installments of \$455,400 through January 1, 1971.

(f) IDA Subscription:

Part II member. Entire 90% (\$2.727 million) released in five annual installments, convertible into any currency, through November 1, 1969; \$1.091 million disbursed and on loan.

(g) Holdings of Bank Bonds:

\$2.00 million.

(h) I.F.C.

IFC has made no investments in Ireland. From time to time, there is talk with the Irish authorities about IFC participating in a reorganized Industrial Credit Company which would be privately controlled, but the present management of ICC seems to be against a change in ICC's set-up.

(i) Settlement of Investment Disputes:

The Convention was signed on August 30, 1966, but has not yet been ratified.

VI. POLITICAL SITUATION

The latest general elections, held in April 1965, strengthened somewhat the position of the Fianna Fail Government of Mr. Lemass, who had been in power since 1959. In the fall of 1966 Mr. Lemass retired; he was replaced by Mr. John Lynch, former Minister of Finance and Governor for the Bank and Fund.

In June 1966 Mr. de Valera, then 83, was re-elected President of the Republic for a further seven-year term.

VII. ECONOMIC SITUATION

Population (1966): 2.88 million

GNP per capita (1966): \$1,030

Gold and foreign reserves of monetary authorities (May 1967): \$457 million.

The stabilization of the economy and particularly a reduction of the balance of payments deficit were the major policy aims for 1966. To achieve these objectives the restrictive monetary and fiscal measures adopted in the course of 1965 were maintained during 1966 and part of the growth potential of the economy had to be sacrificed. GNP rose in 1966 by about 1% compared to 2.5% in 1965 and an annual average of 4.3% in the period 1959-64.

A considerable improvement was at the same time registered in the external accounts. The current account deficit in the balance of payments was reduced, in the course of 1966, to about \$45 million, compared to \$118 million one year earlier. The improvement resulted primarily from exports increasing at about 10% over 1965, while imports showed very little change.

Consumer prices rose in 1966 by almost 3%, after rising by 5% in 1965.

An increase in economic activity began to be registered in the second half of 1966, with consumption and investment rising appreciably over the comparable period of 1965. Imports followed the same pattern and this trend continued in the early months of 1967.

Cautious reflationary policies are expected to be pursued in the course of 1967 to favor primarily an increase in capital expenditure, while the abolition by the U.K. of the import surcharge is expected to stimulate exports and contribute to a higher growth rate than in the last two years.

Ireland applied for membership of the European Communities in May 1967.

The external debt is small and its service is negligible.

Ireland is creditworthy for Bank lending.

MALTA

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BRIEFING PAPER - 1967

MALTA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

No delegation attending.

III. BANK/IDA PROSPECTIVE OPERATIONS

In April, the Malta Government requested a postponement of its membership application for Fund, Bank, IDA and IFC until the Central Bank becomes operative. This was expected to materialize during the current year.

The financial situation of the Malta Electricity Board has been unsatisfactory and we may want to take up again the question of increases in tariffs. Increases have been recommended by consultants retained by the Board as well as, repeatedly, by the Bank. The Government has, nevertheless, decided against an increase.

Prior to any discussions on further Bank lending, there would have to be an economic mission and we would have to be satisfied about Malta's creditworthiness. We could not consider further lending for power unless we were satisfied with the management and financial position of the Board as well as the technical and financial aspects of the project.

IV. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967

<u>Year</u>	<u>Loan No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (U.S. \$ million)	<u>Undisbursed</u>
1963	351	Malta <u>1/</u>	Power and Water Distillation	<u>6.52</u>	<u>1.0</u>
		Total (less cancellations) of which has been repaid		6.52 <u>0.40</u>	
		Total outstanding		6.12	
		Amount sold of which has been repaid	6.49 <u>0.40</u>	<u>6.09</u>	
		Net amount held by Bank		<u>0.03</u>	

1/ The loan is guaranteed by the U.K.

In April 1967, \$980,000 were cancelled because of lower cost of the project. Construction and disbursements were some months behind schedule but procurement is now complete. The closing date of March 31, 1966 has been postponed to June 30, 1966. The Bank has agreed to postpone it further to the end of 1967, but is awaiting Maltese confirmation of the revised amortization schedule.

V. POLITICAL SITUATION

Malta became independent in September 1964, but is part of the Commonwealth and maintains close ties with the U.K. The first elections since independence were held in March 1966 and maintained Dr. G. Borg Olivier, the Nationalist Party leader, as Prime Minister for a period of five years.

In March 1967, the U.K. and Malta reached an agreement on the run-down of British forces, on minimizing its economic consequences and on economic aid. The agreement represents a compromise between the original British proposal of faster withdrawal and dismissal of workers, and of the Maltese request that withdrawal be postponed. The agreement also provides for financial compensation to dismissed workers and for substantial aid for development.

VI. ECONOMIC SITUATION

Population (1966): 318,100
GNP per capita (1965): \$460
Foreign exchange reserves (end of 1966): \$80 million
Other foreign exchange of Government and banks (rough estimate for end 1966): \$130 million

Malta is in a period of transition from an economy largely dependent on British military installations for employment and foreign exchange earnings, to an independent economy based on civilian production.

Commodity exports are growing at a much faster rate than commodity imports, but they still cover only about 20% of the value of imports. In 1966 commodity imports were \$109 million and the trade deficit \$88 million. No balance of payments figures are available for 1966; in 1965 over 60% of the trade deficit was financed by expenditures of the British military bases, 20% by transfer receipts from the British Government, and another 20% by earnings from foreign assets. At the end of 1966 about 4,300 British troops were stationed in Malta; of the 88,000 gainfully employed, 20% were employed by the Government and 9% by British defense installations.

The agreement reached in March between the Maltese and the British Governments (see VI) provides for the withdrawal of 2,900 troops over a period of five years, and assures that the dismissal of Maltese workers in the first year will be limited to 300, although the cumulative total will reach 6,000 - 7,000 after five years. The agreement also provides for \$100 million of economic aid over the next seven years.

Efforts are now being made to create new employment opportunities and to channel accumulated as well as current savings increasingly into domestic investment instead of holding them as sterling balances. A joint Anglo-Maltese mission on employment for Maltese workers, expected to lose their jobs, has recommended a number of measures, among them reorganization of the dry docks, construction of a floating dock, acceleration of industrialization, construction of an industrial estate and development of tourist facilities. Various incentives are being provided for promoting investments from local as well as from foreign sources. The incentives include exemptions from taxes, grants, interest-free loans and low-cost factory sites. Another project planned is the establishment of a limited free-port area.

External public debt was, at the end of 1966, \$16 million; about \$7 million from IBRD and the rest from the U.K. Government. Debt service is low (1 - 2% of current foreign exchange receipts). Assuming the phasing out of the British base can be managed without undue strain to the economy, Malta would be creditworthy for a modest amount of Bank lending. In view of the size of its per capita GNP (\$460) it would not be eligible for assistance from IDA.

MAURITIUS

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MAURITIUS

I. BANK/IDA PROSPECTIVE OPERATIONS

The Central Electricity Board has inquired about the possibility of a second loan for power. We are planning a supervision mission for the present power loan in November 1967. The report of the economic mission should be available in the next few weeks. We should decide in the light of that report to what extent and for what projects we can consider further lending in Mauritius. (See further the attached Back-to-Office Report of June 22, 1967, paragraphs 10 - 11.)

II. BANK LOANS AS OF JULY 31, 1967

<u>Year</u>	<u>Loan No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (U.S. \$ million)	<u>Undisbursed</u>
1963	355	Mauritius <u>1/</u>	Electric Power	7.0	--
		of which has been repaid		<u>0.4</u>	
		Total outstanding		6.6	
		Amount sold	5.0		
		of which has been repaid	<u>0.4</u>	<u>4.6</u>	
		Net amount held by Bank		<u>2.0</u>	

1/ Guaranteed by the U.K.

III. POLITICAL SITUATION

Elections took place on August 7, 1967. The Independence Party (representing the Labour Party and some smaller parties) won a decisive victory. In accordance with the new Constitution, Sir Seewoosagur Ramgoolam, the Independence Party leader, has been appointed to head the new Government. Independence is expected within six months. (See the attached Back-to-Office Report of June 22, 1967, paragraphs 2 - 3.)

IV. ECONOMIC SITUATION

Population: 770,000
GNP per capita: \$220
Foreign exchange reserves: Currency Board System

(See the attached Back-to-Office Report of June 22, 1967,
paragraphs 4-9.)

Attachment

To: Mr. S. R. Cope

Date: June 22, 1967

From: Ernst F. Schaad

Subject: MAURITIUS - Back-to-Office Report

1. A mission, consisting of myself (Chief of Mission), Risto Harma (Agricultural Economist) and Francesco Abbate (General Economist), was in Mauritius from April 30 to May 25, 1967. Its purpose was to report on Mauritius' need of external capital, to make a judgment of its credit-worthiness or its eligibility for IDA assistance and to identify possible areas for Bank group assistance.

2. The political scene of Mauritius, a British dependency with a large degree of internal self-government, is largely dominated by the ethnic and religious diversity of its population. The Hindu canefield proletariat, the largest group, is represented by the Labour Party and has as its main opposition the Catholic and western-oriented middle-class Creoles and Franco-Mauritian plantation owners and their descendents of the Parti Mauricien Social Democrate (Mauritian Party). Minority communities of Moslems, Chinese and Tamils are represented by smaller parties which align themselves from time to time with either of the large parties.

3. In the latest general elections, 40 percent of the votes went to the Labour Party which has been in power since 1959 in coalition with other small parties. The opposition Mauritian Party was able to improve considerably its position at that time and obtained about 20 percent of the votes. The Labour Party is in favor of independence while the Mauritian Party, fearing Hindu supremacy after the withdrawal of British protection, wishes a form of association with the U.K. similar to that of the Caribbean islands. The 1965 Constitutional Conference in London ended in agreement that Mauritius could go forward to independence provided the next Legislative Assembly wanted to do so. Elections were supposed to be held in 1966, but they were delayed by the Labour Party which feared a setback. Since then actions by the Government and private business have been largely paralyzed in the expectation of early elections. General elections are now expected to take place in September.

4. Mauritius has experienced a rapid increase in its population in the postwar period, with the annual rate of growth declining only slowly to somewhat less than 3 percent in recent years. It is estimated that the population at the end of 1966 reached 770,000 compared with 680,000 in 1962, 500,000 in 1952 and 420,000 in 1944. The substantial population expansion has been the result of high birth rates in combination with a spectacular decline in mortality as a result of eradication in the late forties

of malaria, for long the leading cause of death in the island. At the same time, to a large extent as a result of generally improved health conditions, the birth rate rose considerably and stayed well above the pre-war level since. Even under the assumption of a moderately declining birth rate, which is hoped to result from a family planning program, the population is expected to grow over the next 20 years at an average annual rate of only slightly less than 3 percent which would result in about doubling the present population. These prospects pose particularly difficult problems in a single-crop economy with only limited land resources for further expansion, with poor market prospects, a population density already amounting to well over 1,000 persons per square mile and practically no possibility of emigration.

5. The economy of Mauritius is almost exclusively dependent on sugar: sugar production accounts for about one-third of GDP and exports of sugar and by-products account for more than 90 percent of total foreign exchange earnings. However, the expansion of the economy on the basis of sugar cane has become more and more difficult in the recent past. Looking at broad trends in sugar production in the postwar period, possibilities of expanding the area cultivated with sugar cane have been rapidly disappearing. Whereas the average annual increase in acreage amounted to about 3 percent in the early fifties, it declined to 1.5 percent in the early sixties and less than 1 percent in most recent years. The extent to which marginal land was brought under cultivation is reflected in the change of yield. While in the early fifties output per acre was increasing by about 1.5 percent per annum, it was actually declining slightly in recent years, despite further technological progress in cane growing and sugar production. The combined result of these developments was that the average annual increase in sugar production declined from more than 6 percent in the early fifties to perhaps 1 percent in recent years.

6. Mauritius enjoys an assured preferential market under the Commonwealth sugar agreement, which now runs until 1973, for about two-thirds of its sugar production. The remaining part has to be sold on the world market, generally at substantially lower prices. Inelastic demand and a rather narrow world market caused considerable price fluctuations in the past. In addition, crops tend to fluctuate heavily under the influence of cyclones and droughts. GNP has, therefore, fluctuated greatly from year to year. Over the last 10 years, GNP at current prices has increased on the average by about 3 - 4 percent per annum. As a result of the rapid growth of the population, real per capita income has hardly increased at all and is today certainly appreciably lower than in 1963.

7. With the rapid growth of the population, the solution of the unemployment problem has become increasingly difficult. Technological progress suggests the further rationalization of the sugar industry by employing

less labor. However, it is estimated that the natural growth of the labor force is presently about 7,000 persons per annum, whereas in manufacturing industries perhaps 300 job opportunities have been created annually over the last 5 years. Unemployment has, therefore, risen continuously and it is estimated to be at present about 10 percent of the labor force. At the same time, stiff labor laws enacted under political pressures have generally increased the cost of labor. Sugar growers have been obliged to employ labor in excess of their needs and minimum wages have been increased by law.

8. Mainly to cope with the political and social consequences of the unemployment problem, the Government has embarked on a highly expensive system of relief work. The handling of the unemployment problem, and many other increases in public spending dictated by electoral considerations have had considerable repercussion on public finances. The fiscal year 1965/66 closed with a deficit in the current budget of about Rs 20 million (about \$4.2 million), instead of providing Rs 12 million (\$2.5 million) to the investment budget as planned in the public sector development program 1966/70. For the fiscal year ending June 30, 1967, a deficit of Rs 12 million (\$2.4 million) is expected. Public investment is therefore falling considerably short of the planned amounts and private investments have been affected not only by political uncertainties, but also as a result of the worsening economic situation. Increasing deficits in the current balance of payments and a considerable outflow of capital resulted in a deterioration of the commercial banks' foreign exchange position.

9. So far the Government's policies to foster diversification in agricultural production and promote industrialization have not gone beyond the initial stage. Without any doubt sugar will continue to be the backbone of the economy for many years to come. Large differences in productivity between small, medium and large-scale sugar planters persist and a more determined effort in economic policies is needed to correct this and to cope with such fundamental problems as the deteriorating public finances, rising costs in the face of increasing unemployment, declining investments and capital flight. Specific policy measures so far have been few and largely ineffective. In addition, political considerations have prevented necessary but unpopular actions.

10. The tendency has been to seek solutions in spectacular projects, in which the expectation to get some relief from the pressing unemployment problem is an important consideration. Projects mentioned by the Government to the mission for possible Bank or IDA financing included two new irrigation projects, in addition to Chamarel which was mentioned again and which was found unsuitable previously. These projects which are not ready for appraisal and others are as follows:

- (a) The Magenta project would be the relining of an existing irrigation canal in the south-western part of the island. According to preliminary estimates the cost of the project could be in the \$2 million range, which would probably imply an extremely high cost in relation to benefits.
- (b) The Midlands scheme consists of the completion of a dam in the northern part of the central plateau of the island. It was started in the late twenties and abandoned unfinished in the thirties. The purpose would be to irrigate certain areas in the north. Preliminary estimates indicate that construction costs could be in the \$10 to \$15 million range. The initial results of the pre-investment investigations of the UNDP land and water resources survey team are not encouraging. Although the team is now reviewing its findings after discussions with the Bank mission, it is unlikely that the scheme will have an adequate economic justification.
- (c) Other possibilities of Bank/IDA assistance would be financing part of the present expansion program of the Central Electricity Board (CEB) with a foreign exchange part of up to \$1 million and the construction of better port facilities at Port Louis, which is at present under study.

11. The mission found that increasing the supply of and strengthening the organization for agricultural credit (production and development) would have high priority. Such a scheme could have the advantage of flexibility in a situation where the urgent need is for many small detail improvements in a variety of fields. This could help to improve poor farming practices generally. On-farm development could include destoning of fields, smaller irrigation schemes, and possibly some of the more economic parts of the proposed larger irrigation schemes. In addition, small fishing vessels and ancillary equipment and material could be included. An agricultural credit scheme could make an important contribution towards setting up a proper agricultural credit organization and the modernization of the entire banking system. The Central Bank of Mauritius will be formally established shortly and the authorities are aware of present deficiencies. With the possible exception of CEB, no projects are ready and project preparation would be necessary. Moreover, finding projects measuring up to the size of usual Bank/IDA project may prove difficult.

12. These preliminary findings are subject to change in the process of preparing a single volume economic report now underway.

cc.: Mr. Friedman	Mr. Owen	Mr. Harma
Mr. Kamarck	Mr. Williams	Mr. Abbate
Mr. Stevenson	Mr. Fontein	
Mr. Adler	Mr. Thompson/Mr. van der Mel	
Mr. Collier (2 copies)	Mr. Takahashi	

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SWAZILAND

I. BANK/IDA PROSPECTIVE OPERATIONS

None at present.

II. BANK LOANS AS OF JULY 31, 1967

<u>Year</u>	<u>Loan No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (U.S. \$ million)	<u>Undisbursed</u> (U.S. \$ million)
1963	338	Swaziland 1/	Electric Power	4.2	--
1967	492	Swaziland 1/	Electric Power	2.8	2.8
		Total		7.0	
		of which has been repaid		0.2	
		Total outstanding		6.7	
		Amount sold		2.1	
		of which has been repaid		0.2	1.9
		Net amount held by Bank		4.8	

1/ Guaranteed by the U.K.

III. IDA CREDITS AS OF JULY 31, 1967

<u>Year</u>	<u>Credit No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (U.S. \$ million)	<u>Undisbursed</u> (U.S. \$ million)
1962	20	Swaziland	Roads	2.8	--

IV. POLITICAL SITUATION

Elections were held as scheduled in April 1967, under a constitution granting Swaziland a larger measure of internal self-government. The more conservative of the political parties - the Imbokodvo National Movement - won all 24 seats in the National Assembly. The United Kingdom under the constitution retains responsibility for defense, external affairs, internal security, the civil service and justice, but is committed to grant independence to Swaziland before the end of 1969.

V. ECONOMIC SITUATION

Population: 385,000

GNP per capita: \$220

Foreign exchange reserves: Swaziland is part of the South African monetary area

Swaziland, still largely a subsistence economy, has during the past ten years experienced a fast expansion of production and exports of sugar, rice, cotton, fruit, forest products and iron ore, as large private investments came to fruition. At the same time, progress has been made in providing some of the basic infrastructure on which future economic growth will have to depend. Major productive areas have been linked by the new railway to Mozambique and the port of Laurencio Marques. Roads of economic significance have been greatly improved and the Swaziland Electricity Board, which started operations in 1963, is currently implementing a major expansion program.

In the fiscal sphere, a rapid expansion of services, increased costs of administration and a sharp increase in the annual debt service burden as a result of the Government's borrowing to finance infrastructure have more than doubled current Government expenditure since 1960. Domestic revenue from taxation has risen appreciably, but not sufficiently to meet the requirements of public spending for both current and investment purposes, and the shortfall remains large. However, financial aid from the United Kingdom is likely to continue.

In addition to grants and loans from the U.K. Government and Bank/IDA assistance, Swaziland has been able to attract substantial funds from other sources to finance investment, principally from the Commonwealth Development Corporation and from South Africa. Although investments in the coming years are not expected to be as large as in the recent past and the generation of local savings has increased with the growth of the economy, Swaziland continues to need substantial amounts of foreign capital.

Almost three-quarters of Swaziland's external public debt has been incurred for self-liquidating investments like the railway and electric power. Past economic performance and political stability suggest further growth of the economy and despite a rather high ratio of debt service payments to estimated export earnings (about 10% to 1971), Swaziland should be able to meet its obligations without difficulty.

TURKEY

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BRIEFING PAPER - 1967

TURKEY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Cihat Bilgehan Governor (Bank)	Minister of Finance
Zeyyat Baykara Alternate Governor (Bank)	Undersecretary, Ministry of Finance
Zeki Toker Temporary Governor (Bank)	Chairman, Board of Counselors for Economic Affairs, Turkish Embassy
<hr/>	
Cihat Bilgehan Governor (Fund)	Minister of Finance
Kemal Canturk Alternate Governor (Fund)	Secretary General of the Department of the Treasury and OIEC, Ministry of Finance
Naim Talu Temporary Governor (Fund)	Director General, Central Bank of Turkey
<hr/>	
<u>Adviser</u>	
Husnu Kizilyalli	Assistant Director, Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

Turkey has been regarded as a Bank/IDA blend country since 1966. Turkey has a heavy debt repayment burden, and both the Turkish Consortium and Keban Syndicate of Lenders have accepted the need for maintaining soft terms on loans. The Consortium is starting to examine the need for another debt rescheduling next year. We have informed Turkey that we can make no IDA credits pending IDA replenishment.

We are faced therefore with the alternatives either of financing the projects under consideration as Bank loans, or of cutting back the amount. Before reaching a decision, we plan to update the findings of last year's economic mission on Turkey's debt repayment capacity and on the implications for Turkey and the Consortium of Bank lending on hard terms. Only one Bank loan has been made to Turkey in recent years, \$10 million in August 1966 for the Industrial Development Bank (TSKB).

At the request of the OECD, the Bank made available an economist, Mr. Simmons, for a mission to Turkey in August sent by the Turkish Consortium Secretariat to analyze and interpret Turkey's second Five-Year Plan for 1968-1972 and its assumptions concerning external financing. The mission is headed by Professor K. Berrill of Cambridge University, England.

Loans now under consideration by the Bank total about \$55 - 60 million, as follows:

- a. Seyhan irrigation project - Stage II (up to \$20 million);
- b. Keban hydro-electric project - Transmission lines (\$25 million);
- c. Industrial Development Bank of Turkey (TSKB) (\$10 - 15 million).

IDA agreed in August 1966 to new administrative arrangements for speeding the execution of the Seyhan irrigation project, Stage I, in particular the on-farm development work which had lagged. A supervision mission in June 1967 found the project, including on-farm development, finally progressing satisfactorily, even though on-farm work will take about two and a half years longer than originally contemplated. The Bank mission also appraised the second stage of the Seyhan project, and recommended a loan of \$20 million by the end of this calendar year to permit an early start in 1968 of the major construction work in the Stage II area. The Projects Department has taken the position that with minor exceptions all works should be contracted for after international competitive bidding. We do not know how the Turks will react to this requirement.

Construction on the Keban Dam hydro-electric project began in 1966 financed by the other lenders. The Bank group had earmarked \$25 million for the transmission lines portion of the project on which construction is now scheduled to begin early in 1968. We have been discussing with the Turkish Government a new basis for Bank lending in the absence of legislation establishing a centralized Turkish electric power authority (TEK). Creation of such an authority to which we would lend had been considered a precondition of our lending. Because of the great difficulty of obtaining new legislation and because of the Government's constructive actions in starting to reorganize its power industry in the interim pending the establishment of TEK, we have been exploring whether Etibank could be given the necessary powers, organization, and funds to enable it to carry out and operate the project effectively as a part of the whole electric power system. A Bank mission headed by Mr. Knox is in Ankara for this purpose and is expected back in Washington by the end of the month. The mission will also explore matters related to procurement, including the level of preference to be accorded to domestic bidders in bid comparisons, the method of comparing bids and the allowance to be made for the overvaluation of the lira. The first phase of the Bank's program of technical assistance for the reorganization of the electric power industry began early in September to be completed in one year. The second phase can only be undertaken when the TEK legislation is enacted.

A loan of \$10 million (the first loan to Turkey since 1954) and a credit of \$15 million for the Industrial Development Bank of Turkey (TSKB) were signed a year ago on August 10, 1966. We are now contemplating a loan for a modest amount (\$10 - 15 million) early in 1968. An IFC mission visited Turkey in August to appraise TSKB.

In transport, the Bank reached agreement in principle with the Government last year on the scope of measures, including new legislation, for the coordination of various modes of transport and for the reorganization of the railways. Turkey has now requested technical assistance for a transport coordination and a railway study, which is expected to be financed by UNDP with the Bank acting as executing agency. This could lead to lending for the Turkish Railways in about a year.

We are also contemplating an economic mission in the spring of 1968 which would pay particular attention to problems in agriculture. In the meantime FAO under the Cooperative Programme is planning to send a small mission to explore the possibilities of a livestock project.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff

Amount of Bank lending. In view of the unavailability of IDA credits for Turkey pending IDA replenishment, and in view of Turkey's heavy debt burden, we wish to reexamine the effect on Turkey's balance of payments and on the terms of Consortium lending before we reach a final decision whether to finance the entire \$55 - 60 million of projects now under consideration.

Interim reorganization of Turkish electric power industry. As stated in Section III above, a Bank mission will visit Turkey in order to reach an agreement on a new basis for Bank lending for the Keban transmission lines, pending establishment of the Turkish Electric Authority (TEK). We hope the Government will be able to take the necessary steps this year to strengthen and unify Etibank's electric power operations as the nucleus of the future TEK to permit the Bank to lend.

(b) Topics to be raised by Bank at meeting with President or Senior Officer

None.

(c) Topics likely to be raised by the Delegation

Not known.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1967:

(US \$ million)

Year	Loan No.	Borrower	Purpose	Amount	Undisbursed
1950	27TU	Republic of Turkey	Grain silos	3.9	--
1950	28TU	Republic of Turkey	Ports	12.5	--
1950	34TU	Industrial Development Bank of Turkey	Industry	8.7*	--
1952	63TU	Republic of Turkey	Irrigation	22.8	--
1953	85TU	Industrial Development Bank of Turkey	Industry	9.0	--
1954	20TU	Republic of Turkey	Ports	3.8	--
1966	461TU	Industrial Development Bank of Turkey	Industry	10.0	7.1
Total (less cancellations)				70.7	7.1
of which has been repaid				34.7	
Total outstanding				36.0	
Amount sold				0.5	
of which has been repaid				0.3	0.2
Net amount held by Bank					35.8

* repaid

(b) IDA Credits as of July 31, 1967:

(US \$ million)

Year	Credit No.	Beneficiary	Amount	Undisbursed
1962	33TU	Industrial Development Bank of Turkey	4.9	--
1963	34TU	Cukurova Power Project	1.7	--
1963	38TU	Seyhan Irrigation Project	20.0	5.6
1964	59TU	Second Cukurova Power Project	24.0	15.7
1965	66TU	Industrial Development Bank of Turkey	5.0	0.1
1965	75TU	- ditto -	10.0	1.0
1966	91TU	- ditto -	15.0	11.8
Total (less cancellations)			80.6	34.2

(c) Technical Assistance

The Bank agreed late in 1964 to pay the foreign exchange costs, \$1.95 million over a three-year period, of providing advice and assistance for the reorganization of the power industry. The first phase of this project began earlier this month (see Section III above).

In transport, the Government has requested United Nations Development Programme assistance in the coordination of various modes of transport and for the reorganization of the railways with a view to improving their financial position. The Bank would act as executing agency (see III above).

(d) Access to Private Capital Markets

None at present.

(e) Bank 9% Capital Subscription

Amount: \$10.35 million. \$7.74 million released for purchases in Turkey. Nothing has been used.

(f) IDA Subscription

Part II country. 90% Subscription: \$5.22 million. No release.

(g) Holding of Bank Bonds

None.

(h) IFC

In 1963, IFC invested \$917,000 in the share capital of the Industrial Development Bank of Turkey (TSKB). In March 1967, an additional amount of \$337,500 was invested in shares, following an increase by 30% in TSKB's capital. In July 1966, IFC invested nearly \$1.4 million in loan and share capital for the expansion of a synthetic yarn factory (Sentetik Iplik Fabrikalari A.S.). Other investment possibilities are being explored. An IFC mission visited Turkey in August 1967 to appraise TSKB in view to a Bank loan in 1968 (see III above).

(i) Settlement of Investment Disputes

Convention has not been signed.

VI. POLITICAL SITUATION

The Justice Party has been in power since November 1965. The Government, headed by Mr. Demirel, has provided greater stability than previous coalitions. After several major cabinet changes last

March, it seems now increasingly willing and able to face difficult problems. Parliament has not performed as well as expected and almost no major legislation has been approved except for annual budgets and the Second Five-Year Plan. For this reason the Government has obtained passage of a bill granting it special executive authority for the implementation of the economic plan.

Since the Cyprus crisis a strong nationalist spirit, often with anti-American overtones, has emerged with increased sensitivity to real or imagined interference by foreigners. In foreign relations this has been accompanied by a more independent policy, a turn towards neutralism, a broadening of relations with the rest of the world and a rapprochement with the Soviet Bloc. Last March an agreement was signed with the USSR providing for a \$200 million credit for capital equipment; in the following months agreements were signed for the construction of a refinery and an aluminium plant.

Turkey did not become involved in this year's Middle East crisis and has succeeded in keeping good relations both with the Arab world and with Israel. Turkey has been an associate member of the EEC since 1964, and is a member of NATO, to which it is still firmly committed, and of ORCD (Organization for Regional Cooperation and Development), together with Iran and Pakistan. A union for multi-lateral payments has been established between the ORCD countries.

VI. ECONOMIC SITUATION

Population (1966): 32.2 million

GNP per capita (1966): about \$250 (at factor cost and official rate of exchange)

Gold and foreign exchange reserve (June 1967): \$107 million

In 1966, the gross national product increased by more than 8.5% in real terms as a result of good crops, considerable gains in industry, and improvement and stability in the political climate. The current year promises to be another year of strong growth and prospects for achieving the planned increase in GNP (7%) are good. GNP per capita has reached the \$250 mark but this figure overstates the real situation owing to a substantial overvaluation of the exchange rate (see below).

Inflationary pressures remained limited in 1966 because good crops and expansion in industrial production and in imports helped in containing price increases. Wholesale prices rose by 4% and retail prices somewhat more. Prices are rising further this year since overall demand remains strong. Moreover, a number of wage agreements have been or will be negotiated, and the effect of price increases by State Economic Enterprises and of additional indirect

taxes approved at the beginning of 1967 is being felt. The money supply increased by 20% in 1966, largely because of the financing of large inventories of agricultural commodities. Central bank credit expanded by 34%. In recent months the financial authorities seem to be succeeding in restoring a greater degree of monetary stability.

Foreign trade in 1966 reflected the stronger pull of domestic demand. Imports increased 25.7% against exports 5.8%, and the trade deficit rose to \$228 million against \$108 million in 1965. Larger net receipts from invisibles reduced the current account deficit on the balance of payments to \$165 million, still almost \$100 million higher than in 1965. Despite considerable assistance from the OECD Consortium, financing of this deficit, together with debt repayments, was difficult, and net convertible foreign exchange reserves fell from \$58 million to \$24 million (equivalent to 12 days' imports) at the end of 1966. They were \$26 million at the end of April 1967.^{1/}

The Second Five-Year Plan (1968-72) was recently approved by Parliament. Full details are not yet available, but the new Plan aims at a growth rate of 7%. The prospects for achieving this rate are better than at the start of the First Plan because of the momentum gained by the economy, the progress in implementing the Plan, and the gains hoped for in industry and, particularly, in agriculture. However, important structural problems remain. The present rate of the Turkish lira is substantially overvalued and, in part related to this, many tariffs are high and important distortions exist in the domestic price structure. The present external debt service is still high, amounting to about 20% of the gross foreign exchange earnings. Turkey's creditworthiness for Bank loans is still limited. Although prospects for the expansion of foreign exchange earnings are encouraging, much will depend on continued assistance from the Consortium on concessionary terms and on performance under the new Plan.

^{1/} The main difference between the \$26 million net reserves in convertible currencies and the \$107 million gold and foreign exchange reserves given on page 7 is represented by inconvertible currencies, included in the latter and excluded from the former.

YUGOSLAVIA

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September 5, 1967

BRIEFING PAPER - 1967

YUGOSLAVIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Janko Smole Governor (Bank)	Federal Secretary for Finances
Vladimir Ceric Alternate Governor (Bank)	Deputy Federal Secretary for Yugoslavia
<hr/>	
Nikola Miljanic Governor (Fund)	Governor, National Bank of Yugoslavia
Aleksandar Bogoev Alternate Governor (Fund)	Acting Vice Governor, National Bank of Yugoslavia
<u>Advisers:</u>	
Zoran Zagar	Alternate Executive Director of Bank
Mirko Mermolja	Senior Counselor, National Bank of Yugoslavia

III. BANK/IDA PROSPECTIVE OPERATIONS

Loans of \$10 million and \$10.5 million were made in February and July 1967 for highways and industrial modernization, respectively.

Possible projects for Bank lending:

- (a) A second loan for industrial modernization. We plan to send an appraisal mission before the end of 1967.
- (b) A railway line from Belgrade to the port of Bar, expected to cost about \$188 million. Construction would take about six years. On the basis of the information then available, we concluded in March that the rate of economic return on the project would be too low to justify Bank lending. A review mission sent in July has concluded that the return would be 7.6% which is acceptable. The Yugoslavs have requested a Bank loan of \$80 million, but this amount is considerably above the likely foreign exchange component. In recent talks we mentioned a figure of \$30 million to cover expenditures during the initial years of construction in case the project is found justified for our financing.
- (c) An aluminium plant in Titograd in Montenegro, including smelter and related power facilities, which is expected to cost about \$135 million. Bank financing might be in the order of \$40 million. Pechiney is apparently not prepared to participate in the financing and management of the project to the extent considered necessary by the Yugoslavs and ourselves. The Yugoslav Investment Bank has been exploring possibilities with Montecatini and Alusuisse, so far without positive result.
- (d) Although it is uncertain whether and when an acceptable aluminium project might be forthcoming, an expansion of power capacity might be needed in any case. We would be prepared to consider the proposed power plant at Mratinje, which at present is planned as part of the aluminium complex, if the plant could be justified by itself. We expect a feasibility report within a few months. The total cost of Mratinje is estimated at about \$35 million. There are also plans for thermal plans on lignite fields.
- (e) Ljubljana-Gorizia Road. We have been approached informally by Euramerica-Finanziaria Internazionale S.p.A. about financing the above.

IV. TOPICS FOR DISCUSSION

- (a) Topics to be raised by Staff:

We should discuss the projects which are under consideration, in particular the aluminium, railway and industrial financing

projects. If progress with any or all of these projects looks unpromising, we should ask about possible projects in other fields, including roads and agriculture. We may also inquire whether any further thought has been given to using institutions other than the Yugoslav Investment Bank as a channel for our lending. We should also ask about progress in the permanent settlement of the defaulted debt. (See V (d)).

- (b) Topics to be raised by Bank at meeting with President or Senior Officer:

None.

- (c) Topics likely to be raised by the Delegation (other than those raised by Bank/IDA):

The delegation may ask about the level of future lending. We should be noncommittal and suggest the need for their presenting us with acceptable projects.

V. BACKGROUND INFORMATION

- (a) Bank loans as of July 31, 1967:

(U.S. \$ million)

Year	Loan No.	Borrower	Purpose	Amount	Undisbursed
Loans fully disbursed				95.7	--
1961	277	Yugoslav Investment Bank	Power	30.0	0.5
1962	318	Yugoslav Investment Bank	Power	30.0	0.8
1963	344	Yugoslav Investment Bank	Railways	35.0	1.7
1964	395	Yugoslav Investment Bank	Railways	70.0	55.2
1967	485	Yugoslav Investment Bank	Roads	10.0	10.0
1967	504	Yugoslav Investment Bank	Industry	10.5 ^{1/}	10.5 ^{1/}
Total (less cancellations)				281.2	<u>78.7</u>
of which has been repaid				<u>30.3</u>	
Total outstanding				250.9	
Amount sold				3.7	
of which has been repaid				<u>1.4</u>	
				<u>2.3</u>	
Net amount held by Bank				<u>248.6</u>	

^{1/} Not yet effective.

(b) IDA Credits as of August 31, 1967:

Not eligible.

(c) Technical Assistance Activities:

None.

(d) Access to Private Capital Markets:

None at present. There has been progress in arranging permanent settlements of Yugoslavia's pre-war debts. Agreements have been reached on the dollar and sterling debts. Negotiations on the Swiss franc debt were scheduled to begin on August 23, 1967.

(e) Bank 9% Capital Subscription:

Amount: \$9.6 million. Entire 9% released in dollars on annual installments of \$1.1 million with a final payment on July 1, 1971.

(f) IDA Subscription:

Part II country. 90% subscription: \$3.64 million.
Released in three equal annual installments, beginning June 30, 1968, in convertible currencies.

(g) Holdings of Bank Bonds:

\$2.0 million.

(h) I. F. C.

Not a member.

(i) Settlement of Investment Disputes:

Convention came into force for Yugoslavia on April 20, 1967.

VI. POLITICAL SITUATION

The "liberal" movement reflected in the Economic Reform and the fall of Rankovic in 1966 still appears to be in the ascendancy. After elections in April 1967 the new Federal Government was chosen in May with Mika Spiljak as Premier and Janko Smole as Finance Minister. The former Finance Minister, Kiro Gligorov, became one of the two Vice Premiers. The new Government is expected to continue the policies of its predecessor, particularly in the implementation of the Economic Reform. Externally, relations with Russia have improved and Tito is active in trying to find a solution to the Middle East crisis.

VII. ECONOMIC SITUATION

Population: 19.8 million

GNP per capita: \$500 (approximately)

Gross Foreign Exchange Reserves: (June 1967):

Convertible currencies: \$112 million

Payments agreements: \$136 million.

The Yugoslav authorities are continuing the implementation of the Economic Reform despite difficulties for the enterprises to adjust to the new conditions. It now appears, in fact, that changes required of enterprises were greater and the adjustment process slower than had been expected. Credit policy continues to be restrictive, all budgets taken together are in surplus and there is pressure to hold down the increase in incomes. The difficulties for enterprises in adjusting to the Economic Reform and to the liberalization of imports are reflected in a slower growth of output. Industrial production rose by only 1% in the first half of 1967. Imports rose by about 8% over 1966, but exports by only 4.5%. It is essential that investments in the modernization of industry and in the expansion of sectors where Yugoslavia has a comparative advantage should proceed apace if the economy is not to reach a point of stagnation which would threaten the success of the whole Reform. Although the growth of production and exports is slower, tourism continues to grow rapidly, and 1967 tourist earnings are likely to be 20% greater than in 1966. Yugoslavia drew \$25 million from the I.M.F. in May, and a further \$10 million in June, 1967. Exchange reserves at the end of June were 50% greater than a year earlier, but convertible reserves are still low (somewhat over one month's imports.)

Yugoslavia has not added to her total foreign debt in convertible currencies in the past year. Nevertheless, debt service (in convertible currencies) continues to be heavy, equivalent to about 25% of prospective convertible currency earnings. There seem good prospects of rolling over suppliers' credits (which account for 45% of the total external debt repayable in convertible currencies), but Yugoslavia will need additional assistance--preferably on longer term--if essential import requirements are to be met. Though debt service obligations are heavy, in the light of present government policies and the prospects for the growth of the economy, Yugoslavia appears creditworthy for further Bank lending.