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LONDON

MR. ROBERT S. McNAMARA : LONDON

Friday
16th February

3.25p.m..	Arrives London Airport - SV.781 Car Claridges Hotel Brook Street London W.1.	629:8860

Saturday
17th February

Sunday
18th February

12 noon	The Prime Minister Chequers Talks followed by lunch (William Lewis at 10 AM) (Car ordered for 10.00a.m., at Claridges) Godfrey Davies	

Monday
19th February

12 noon	Mr. D.J. Mitchell Cocktails - Claridges	930:1234 Ext:81
1.00p.m., for 1.15p.m..	Lunch - Sir Leslie O'Brien - use Lothbury entrance at the rear.) Pk where car can wait The Bank of England Threadneedle Street London. E.C.2.	601:4444
4.00p.m..	Mr. Richard Wood The Minister Overseas Development Administration Eland House, Stag Place, London. S.W.1. (This appointment may take place at The House of Commons)	834:2377
4.45p.m..	The Rt. Hon. Mr. Anthony Barber The Treasury Gt. George Street London. S.W.1.	930:1234

Tuesday
20th February

9.25a.m..	Depart London Airport for Cologne (Car ordered to be at Claridges at 7.45a.m.)	

CONFIDENTIAL

February 8, 1973

BRIEFING PAPER

UNITED KINGDOM

1. United Kingdom's GNP

In 1970, the United Kingdom's GNP amounted to $121 billion, and represented about 6% of the GNP of Part I countries. By 1975, the United Kingdom's GNP in money terms will be about $192 billion, and remain at about 6% of the combined GNP of Part I countries in that year. The 1970 GNP per capita level of the United Kingdom was higher only than that of five IDA Part I members -- Iceland, Italy, Japan, Luxembourg, and South Africa.

2. Aid Performance

In 1971, ODA flows from the UK amounted to $561 million or .41% of GNP as compared with the average for all DAC countries of .35% of GNP (Table I). By the ODA criterion, the UK ranked behind the Netherlands, France, Australia, Belgium and Sweden, and ahead of Canada, Germany, Norway, the US, and Japan.

At the 25th Session of the UN General Assembly, Mr. Heath reaffirmed the UK's acceptance of the 1% of GNP target, and indicated that the UK would do its best to reach this target by 1975 through significant increases in private flows. Total flows from the UK have exceeded 1% of GNP in each of the three years, 1969-71. At the recent UNCTAD session, Mr. Michael Noble, Minister of Trade and Leader of the UK delegation, indicated that the UK plans to increase its ODA contribution, in real terms, by an average of 7.6% per annum from 1971 to 1976; that means that it would reach .49% of GNP in the latter year.

3. International Reserves Position

Total international reserves held by the UK increased from a low of $2.4 billion in 1968 to a high of $9.3 billion in March 1972 (a fourfold increase) and had declined to $5.6 billion by the end of 1972 but were still about two-and-a-half times their 1968 level. According to the latest studies and forecasts, however, a further worsening of the balance of payments position of the United Kingdom is expected.

4. Attitude to IDA

The United Kingdom subscribed 17.46% of initial Part I subscriptions, and has contributed approximately 13% of Part I contributions to each Replenishment.

At the Paris meeting of IDA Deputies, the United Kingdom asked for a reduction in its share of the Replenishment, on the grounds that it was significantly higher than the UK share (6%) in total GNP of Part I countries. In private conversations, the United Kingdom has suggested that a 10% share would be appropriate.

The United Kingdom should be urged to indicate its support for a large Replenishment (say, $1500 million); to exert its efforts to keep to a minimum the reduction in its share requested by the United States.

In evaluating the United Kingdom's request for a reduction in its share, four major factors must be taken into consideration -- the United Kingdom's share in the combined GNP of Part I countries; the impact of Bank Group operations on the UK's balance of payments; the share of other Part I countries, particularly Germany, in the Replenishment; and the allocation of IDA resources to the Indian sub-continent. Other factors such as competing claims on UK ODA (from for example the replenishment of FED), may also be brought up in this connection.

(a) UK's Share of GNP of Part I Countries

UK's share of the GNP of Part I countries is only 6% while its share in IDA 3 is 13%. It could be pointed out that the GNP share is also lower than the UK's share (14.3%) in the IMF Quotes of Part I countries, in SDR allocations to Part I countries (15.3%), and in IBRD capital subscriptions by Part I countries (14.6%). In all these cases, other factors (in addition to the GNP share) were taken into account in determining the original UK share.

(b) Balance of Payments and Bank Group operations

The UK share in total identified IDA foreign procurement in Part I countries was 23.4% on average in FY1961-72; in FY1968-72, the share had declined to an average of 18.3%, but even the smaller figure is significantly higher than the UK share in total IDA resources. The UK's balance of payments position would, therefore, be helped by a large IDA Replenishment. Through FY1972, IDA operations (including adjustments required by the currency realignments) have had a positive effect of $122 million, and Bank Group operations as a whole of $1,370 million, on the balance of payments of the UK. In short, the UK has benefited more than any other Part I country from Bank Group operations (Table II).

But to be honest - the trend is toward net negative effect on UK BoP. see table at end.

(c) Shares of Other Part I Countries

The UK authorities have indicated that they would like to see an increase in Germany's share in the Replenishment. An increase in Germany's share above the 9.76% of IDA 3 (Germany's share in Part I GNP was 9.4% in 1970 and will probably be 10% in 1975) to say 11% or 12%, does not seem to be a justification for a reduction in the UK share. An increase in Germany's IDA 4 share above its GNP share, at the behest of the United Kingdom would negate the use of the GNP criterion alone as a determinant of the UK share. Furthermore, it now seems likely that the UK and Germany will make the same proportionate contribution to FED resources, and thus the complementarity in IDA shares is better achieved by an increase in Germany's share rather than by a reduction in the UK share.

(d) IDA Commitments to the Indian Sub-Continent

IDA has been one of the major providers of assistance to India, Pakistan and Bangladesh, which together receive 51% of total IDA resources. A smaller Replenishment will penalize these three countries whose development already is severely constrained by the scarcity of external resources.

5. Capital Market Prospects

Including the most recent public issue in early August 1971, the Bank has floated four issues in the UK for a total of $78 million equivalent of which $51 million equivalent is still outstanding.

After a 5-year issue in August 1971, at a total cost to the Bank of 8.46%, the general rate levels in the market showed a definite decline. More recently, however, there was a clear reversal in this trend and rates for long-term issues would now probably have to be in the 9% - 10% range. No issues have been considered or are planned in FY73 and FY74.

TABLE II: ESTIMATED EFFECT OF IBRD AND IDA OPERATIONS ON UNITED KINGDOM'S BALANCE OF PAYMENTS THROUGH FY72
(US $ millions; Fiscal Years)

	Through 1964	1965	1966	1967	1968	1969	1970	1971	1972
IBRD EFFECT									
Current Account									
Procurement of Goods a/	924	113	113	105	80	72	82	82	119
IBRD Administrative Expenses b/									1
Interest to Bondholders in U.K. c/	20	3	2	2	2	2	2	2	3
Interest to Loanholders in U.K. c/	2	1	1						
Issuance Costs of Sterling Bonds	3								
Less: IBRD Investment Income in U.K.	14	8	9	10	9	11	19	26	24
Equals: Balance on Current Account	935	109	107	97	73	63	65	58	99
Capital Account									
U.K.'s 1% Subscription d/	26								2
U.K.'s 9% Subscription d/	234								20
Net IBRD Bond Sales c/e/	66	-10	-2	-2	-8	-2	-2	-6	39
Net IBRD Loan Sales c/	11	-1	-3	-1	-1	-1	-1	-2	2
Balance on Capital Account	-337	11	5	3	9	3	3	8	-63
Balance on Current + Long-term Capital Account	598	120	112	100	82	66	68	66	36
IDA EFFECT									
Current Account									
Procurement of Goods a/	21	48	57	89	61	49	17	30	36
IDA Administrative Expenses									1
Less: IDA Investment Income in U.K.	1								1
Equals: Balance on Current Account	20	48	57	89	61	49	17	30	36
Capital Account									
U.K.'s Contributions to IDA	47	19	43	40	34	45	19	21	51
Balance on Capital Account	-47	-19	-43	-40	-34	-45	-19	-21	-51
Balance on Current + Long-term Capital Account	-27	29	14	49	27	4	-2	9	15
COMBINED IBRD/IDA EFFECT									
Current Account	955	157	164	186	134	112	82	88	135
Capital Account	-384	-8	-38	-37	-25	-42	-16	-13	-114
Balance on Current + Long-term Capital Account	571	149	126	149	109	70	66	75	21

→ decreasing benefit!

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a/ Includes procurement specifically identified as originating in the United Kingdom and the same proportion of procurement not identifiable by country of origin. Does not include adjustments required by recent currency realignmer

b/ Administrative expenses are not considered to have been material in prior years.

c/ US dollar bonds and also loans in other than sterling are included.

d/ The increases in 1972 are the translation adjustments of the United Kingdom's payments for its subscription to IBRD as a result of the US dollar devaluation.

e/ The decrease in 1968 includes a translation adjustment of $6 million equivalent as a result of the devaluation of sterling; the increase in 1972 includes a $4 million equivalent translation adjustment as a result of the US dollar.

TABLE I: UNITED KINGDOM: FLOW OF DEVELOPMENT FINANCE BY CALENDAR YEAR
(US $ million)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971[a/]
Official Development Assistance												
- Bilateral	312	417	380	370	448	419	430	432	370	355	400	487
- Multilateral	95	40	41	45	46	53	56	53	45	76	47	74
- TOTAL	407	457	421	414	493	472	486	485	415	431	447	561
- Multilateral as % ODA	23.3%	9.6%	9.7%	10.9%	9.3%	11.2%	11.5%	10.9%	10.8%	17.6%	10.5%	13.2%
- As % GNP	.56%	.59%	.52%	.48%	.53%	.47%	.46%	.44%	.40%	.39%	.37%	.41%
Other Official												
- Bilateral						13	27	-8	13	-3	7	12
- Multilateral												
- TOTAL						13	27	-8	13	-3	7	12
Total Official	407	457	421	414	493	485	513	477	428	428	454	573
Private												
- Bilateral	477	442	324	307	431	547	400	328	331	718	791	940
- Multilateral	-3	1	-1	-1	-5		-2	-2				23
TOTAL NET DISBURSEMENTS	881	899	744	721	919	1032	911	803	761	1146	1245	1536
- As % GNP	1.22%	1.17%	.92%	.84%	.99%	1.03%	.85%	.73%	.74%	1.04%	1.03%	1.11%
- Multilateral As % Total	10.4%	4.6%	5.4%	6.1%	4.5%	5.1%	5.9%	6.4%	5.9%	6.6%	3.8%	6.3%
- IBRD/IDA % Multilateral	79.3%	63.4%	60.0%	54.5%	48.8%	60.4%	55.6%	58.8%	48.9%	63.2%	38.3%	57.7%

a/ Provisional.

Source: DAC

February 9, 1973

BRIEFING NOTES FOR MR. MCNAMARA'S DISCUSSIONS WITH
PRIME MINISTER HEATH

We have been advised that the Prime Minister, the Chancellor and Mr Wood may wish to discuss with Mr McNamara the following subjects:

A. indebtedness,
B. the IBRD role in debt relief operations,
C. IBRD cooperation with creditor countries, and
D. expropriations.

The briefing notes that follow cover these subjects. The note on the IBRD role in debt relief operations also deals with a view expressed by some British officials which may have come to the attention of the Prime Minister.

A. Recent Trends in Debt and Debt Service

Debt outstanding of developing countries at end 1971 is estimated to have risen to slightly over $75 billion, a 12 percent increase over 1970 when debt outstanding stood at $67 billion.[1/] Debt owed to official bilateral creditors comprised $38 billion (50 percent) and another $16 billion (21 percent) was to multilateral creditors. Debt outstanding has thus doubled since 1965 when it stood at just over $37 billion - a rate of increase of over 12 percent a year (Table 1 attached).

Over this same period 1965-71, debt service has also grown at about 12 percent a year. Total debt service payments in 1971 are estimated at $6.6[2/] billion as against $3.4 billion in 1965. The increase in debt service compared with 1970 was 11 percent (Table 2 attached).

1/ This figure has been revised downwards from the figure given in the 1972 IBRD Annual Report of $69 billion.

2/ The IDA Policy paper shows a figure in 1971 of $5.8 billion. It appears that this earlier estimate of the Data Division was wrong.

Exports of developing countries are estimated to have grown at about 10 percent in 1971, slightly below the rate of increase of debt service payments to be made from foreign exchange earnings. Over the longer period 1965-71 export earnings of developing countries have been growing at around 9 percent a year - rather more appreciably below the increase in service payments. The trend in debt service ratio for individual countries is shown in Table 3 attached.

B. <u>Bank Participation in Debt Rescheduling</u>

This question was discussed in a staff study on the External Debt of Developing Countries and in the Board discussion of the paper on the Bank's Liquidity Policy (March 31, 1971). The latter states:

> "The Bank has so far taken the position that debt rescheduling agreements should exclude the Bank; it should continue to take that position. Although it is true that the direct effect on the Bank's cash receipts from the rescheduling of debt service would probably be temporary and not great in amount, it could substantially reduce the Bank's ability to place new bond issues in the capital markets and therefore should not be accepted".

Since then further attention has been given to the question, and again the conclusion has been reached that it would indeed be detrimental to the Bank's ability to raise funds if debts owed to it were to be included in reschedulings.

The guarantee portion of the IBRD capital has been and continues to be a decisive factor in the marketability and rating of IBRD bonds. However, IBRD bondholders have no assurance that in the course of the life of our bonds (up to 26 years) total IBRD issues will not exceed the amount of our callable capital from Part I countries -- at present some $16 billion out of a total callable capital of $21.5 billion. Unlike the holders of Government bonds, or bonds of Government Agencies, such as the U.S. Export-Import Bank, the holders of IBRD bonds cannot assume that they are indefinitely protected by the full faith and credit of our principal member countries. They have therefore a direct concern with the soundness of the Bank's financial management and its portfolio.

This view is fully shared by our underwriters, in the US and elsewhere, who on numerous occasions have made known their conviction that the financial integrity of the Bank's operations is of paramount importance to the potential buyers of our bonds. The only questions which underwriters have raised in recent years on the occasion of new issues, pertain to the prospects for the regular and prompt servicing of IBRD loans, and to the level of our net income in absolute amounts and in relation to interest payments on our bonds. There is no question that the adverse effects of rescheduling debt service payments due to the Bank would be pronounced, not only in this country but also abroad.

Bank participation in one case would almost inevitably be considered a precedent for corresponding action in other countries which are already in debt servicing difficulties, or are likely to be in difficulties in the near future. (An illustrative list of such countries, their debt service payments due to the IBRD and IDA, and expected disbursements to them on IBRD loans and IDA credits in FY72 is presented in the attached Table 4.)

The pattern of debt service from these countries continues to be much the same for several following fiscal years. Hence even if interest payments were continued, the shortfall in amortization receipts from these countries would amount to some $100 million a year if their obligations to IBRD were to be rescheduled. This would be reflected in the first instance in a reduction in liquid assets, and then in an increase in borrowing requirements, just at a time when the market for IBRD bonds would itself be adversely affected by the damage to confidence resulting from the rescheduling operations.

The situation would be even more serious if interest payments were rescheduled. As shown by the attached Table 4, the loss of interest receipts from the countries listed would reduce IBRD net income by some 45%. Notwithstanding that our bonded debt is still substantially below the callable capital subscription of the Part I countries, it is uncertain whether under these circumstances IBRD bonds would continue to get a Triple A rating from the rating services. Loss of this rating would mean at the very least an increase in the cost of borrowings to us which we would have to pass on to our borrowers; it might also mean -- and this is our real concern -- that we would face great difficultires in placing our bonds at a time when our borrowing requirements were increasing substantially.

Under these circumstances it is not believed that any member government would wish to risk endangering the IBRD's effectiveness as a major source of development finance. If, however, contrary to our views, member governments should take the position that the IBRD should participate in reschedulings, it would be essential for us to discuss with them what measures they would be prepared to take to restore the damage to the Bank's financial position and to its ability to borrow in the capital markets which would result from such action.

C. <u>IBRD Cooperation with Creditor Countries</u>

Some officials in the British Government have expressed the view that the Bank should involve itself in debt renegotiation with the objective of securing "reasonable settlements" for the creditors. The response to this position should be along the following lines:

(a) The Bank cannot take sides with creditor countries in debt relief operations. The Bank's primary objective is to assist developing countries to manage their debt so that crises do not arise in the first place and debt negotiations do not become necessary. The Bank offers advice to debtor countries on debt management in the course of its regular economic work. Through consortia and consultative groups it also advises creditors on the amount of assistance a country needs and the terms appropriate for that assistance.

(b) If, nevertheless, debt relief operations do become necessary, the Bank stands ready to offer its services to both parties. The Bank's aim is to reach a settlement consistent with the following main objectives: (i) minimum disruption to the debtor country's long term development prospects; (ii) the resumption of orderly international trade and financial flows; (iii) equitable sharing of the burden of financial relief between creditor countries.

(c) These objectives are also consistent with the long run self interest of creditor countries. With their stake in world trade and as the main capital exporting countries of the world, creditor countries have the greatest interest in the prompt resumption of orderly trade and financing flows.

(d) The Bank assists in the resumption of the development process by providing new financial assistance on appropriate terms for the debtor country. New lending is frequently accompanied by understandings with the country on measures to avoid a recurrence of debt difficulties. Together with the IMF, which, in the context of the standby agreements frequently accompanying debt settlements has more formal understandings with debtor country on appropriate policy measures, the Bank monitors the progress of the country so that the country and creditors can take steps to avoid future difficulties.

(e) If the Bank is to achieve these objectives, it has to act in a manner which is seen to be impartial by both the debtor country and creditor countries. IBRD could not play the role of intermediary in debt negotiations, a role which is usually welcomed both by creditors and debtors, if it sets out with a narrow view of protecting creditor country interests.

D. Expropriations

The Bank from its inception has taken an interest in disputes between a member country and foreigners over compensation to foreigners for property owned by them in the country concerned which has been expropriated. The Bank seeks to promote settlement of these disputes and it will normally not lend for projects in that country if it considers that the position taken by that country with respect to alien owners of expropriated property is substantially affecting its international credit standing. In examining such cases, the Bank pays particular attention to the question whether the country is making reasonable efforts to settle the dispute. There are various considerations which have led to the evolution of this policy, but they all stem from the interest the Bank has in the maintenance by its borrowing countries of a satisfactory international credit standing, and in the necessity for the Bank itself to maintain a satisfactory relationship with the capital exporting countries and the capital markets of the world. In applying this policy we take a flexible and pragmatic attitude; this means that (a) in the appropriate cases we adopt a graduated response, tailoring our own actions to the progress being made by the host country to resolve the dispute, (b) we try to avoid confrontations, (c) we take into account the magnitude and seriousness of the dispute and (d) we give considerable weight to the position taken by the country of the investor, both in the Bank itself and in its financial relationships with the host government.

80 Developing Countries-External Public Debt
Outstanding by Area, 1965-1971
(US$ millions)

Table 1:

	AFRICA	EAST ASIA (1)	MIDDLE EAST	SOUTH ASIA	SOUTHERN EUROPE (2)	WESTERN (3) HEMISPHERE	TOTAL
Total Debt Outstanding End of Year.							
1965	6,148.8	3,895.4	2,178.9	8,854.7	4,096.5	12,228.1	37,402.4
1966	7,202.2	4,347.7	2,514.0	10,517.5	4,324.4	13,181.0	42,086.8
1967	8,326.4	5,210.4	3,714.7	11,084.8	5,149.4	14,737.1	48,222.8
1968	9,266.8	6,230.1	4,320.0	12,454.5	5,668.0	16,314.0	54,253.4
1969	9,763.4	7,698.2	4,949.9	13,424.3	6,376.1	17,685.8	59,897.7
1970	11,069.9	9,138.3	5,603.8	14,943.9	7,020.1	19,597.4	67,373.4
1971	11,966.3	10,949.2	6,291.3	15,934.4	8,267.4	21,870.3	75,278.9
Debt Outstanding by Type of Creditor							
December 31, 1967							
Bilateral Official	5,782.7	2,750.2	1,596.5	8,068.2	3,118.2	5,748.3	26,464.1
Multilateral	1,045.9	711.4	367.2	2,284.9	880.5	3,331.3	8,621.2
Private							
Suppliers	1,079.9	1,281.6	633.7	590.6	651.8	2,650.0	6,887.5
Banks	276.0	111.2	393.5	122.2	218.6	1,284.3	2,405.9
Other	741.9	355.9	723.6	19.0	280.3	1,723.2	3,844.0
December 31, 1968							
Bilateral Official	5,743.8	3,340.0	1,898.7	9,133.4	3,225.9	6,184.3	29,526.1
Multilateral	1,282.9	826.0	381.7	2,465.6	1,011.8	3,897.2	9,865.3
Private							
Suppliers	1,157.1	1,573.8	764.3	685.6	601.3	2,652.6	7,434.7
Banks	352.3	145.7	454.3	154.1	470.9	1,510.3	3,087.6
Other	730.7	344.5	821.0	15.7	358.0	2,069.8	4,339.7
December 31, 1969							
Bilateral Official	5,918.3	3,996.7	1,997.8	9,807.4	3,610.2	6,487.3	31,817.8
Multilateral	1,661.6	1,180.4	455.2	2,717.4	1,150.5	4,301.5	11,466.6
Private							
Suppliers	1,051.1	1,806.3	890.5	742.5	574.3	2,888.2	7,952.9
Banks	422.3	266.6	695.3	144.3	669.3	1,755.8	3,953.6
Other	710.0	448.2	911.1	12.8	371.8	2,253.0	4,706.9
December 31, 1970							
Bilateral Official	6,451.5	4,855.4	2,025.7	10,947.2	3,853.8	6,599.0	34,732.6
Multilateral	2,011.4	1,645.0	591.0	3,012.9	1,385.8	5,026.3	13,672.4
Private							
Suppliers	1,165.8	1,692.9	881.2	810.0	530.5	3,358.8	8,439.2
Banks	472.6	498.8	1,008.0	164.5	862.9	2,017.2	5,024.0
Other	968.7	446.1	1,098.0	9.3	387.1	2,596.2	5,505.4
December 31, 1971							
Bilateral Official	7,052.2	5,991.3	2,227.4	11,708.8	4,196.2	6,699.9	37,875.8
Multilateral	2,367.4	2,127.1	700.2	3,251.0	1,702.7	5,998.3	16,146.7
Private							
Suppliers	1,158.8	1,782.0	996.0	801.4	518.6	3,517.5	8,774.3
Banks	558.9	584.3	1,096.9	163.8	1,183.2	2,894.5	6,481.6
Other	829.1	464.5	1,270.8	9.3	666.7	2,760.0	6,000.4

Note: Items may not add to totals due to rounding. Includes the countries listed below.

Africa: Botswana, Burundi, Cameroon, Central African Republic, Chad, Dahomey, Egypt, Ethiopia, Gabon, Ghana, Guinea, Ivory Coast, Kenya, Lesotho, Liberia, Malagasy Republic, Malawi, Mali, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Southern Rhodesia, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaire, Zambia, plus the East African Community.

East Asia: Indonesia, Malaysia, Philippines, Republic of China, Republic of Korea, Singapore, Thailand.

Middle East: Iran, Iraq, Israel, Jordan, Syrian Arab Republic.

South Asia: Afghanistan, Ceylon, India, Pakistan (including what was East Pakistan).

Southern Europe: Cyprus, Greece, Malta, Spain, Turkey, Yugoslavia.

Western Hemisphere: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela.

(1) Does not include publicly-guaranteed private debt of the Philippines estimated at $600 million in 1970.
(2) Does not include non-guaranteed debt of the "Social Sector" of Yugoslavia contracted after March 31, 1966.
(3) Debt outstanding of Brazil includes some non-guaranteed debt of the private sector to suppliers and excludes the undisbursed portion of suppliers credits and of bilateral official loans except for those owed to the U.S. Government.

ECONOMIC AND SOCIAL DATA DIVISION
ECONOMIC ANALYSIS & PROJECTIONS DEPARTMENT
FEBRUARY 8, 1973

External Resource Flows and Service Payments on
External Public Debt, 1965-1971
(US$ millions)

Table 2:

	Disbursements			Debt Service			Net Flow(2)	Net Transfers(3)
	Loans	Grants and Grant-like(1)	Total	Amortization	Interest	Total		
Africa								
1965	728.8	864.0	1,592.8	296.9	155.1	452.0	1,295.9	1,140.8
1966	686.0	722.0	1,408.1	305.7	158.0	463.7	1,102.4	944.4
1967	778.5	677.1	1,455.6	282.7	170.4	453.1	1,172.8	1,002.4
1968	848.9	720.0	1,568.8	407.6	174.3	581.9	1,161.3	987.0
1969	843.9	879.6	1,723.5	492.5	201.3	693.8	1,231.0	1,029.7
1970	1,392.1	890.6	2,282.7	552.7	229.4	782.1	1,730.0	1,500.6
1971	1,161.6			630.8	276.5	907.3		
East Asia(4)								
1965	514.4	363.4	877.8	156.9	39.7	196.6	721.0	681.2
1966	483.5	306.2	789.7	181.4	48.2	229.6	608.3	560.1
1967	789.4	397.7	1,187.1	200.4	54.9	255.3	986.7	931.8
1968	932.1	429.2	1,361.3	206.1	80.0	286.1	1,155.2	1,075.2
1969	1,351.7	381.0	1,732.7	279.1	111.2	390.3	1,453.5	1,342.3
1970	1,187.2	375.0	1,562.2	449.2	172.6	621.8	1,113.0	940.4
1971	1,346.9			498.1	232.4	730.5		
Middle East								
1965	357.6	199.9	557.5	197.5	42.0	239.5	360.0	318.0
1966	396.8	124.5	521.3	215.4	47.6	263.0	305.8	258.2
1967	572.1	58.3	630.3	161.1	58.2	219.3	469.2	411.0
1968	887.4	73.3	960.7	237.1	82.0	319.1	723.6	641.6
1969	737.9	68.9	806.8	329.4	97.3	426.7	477.4	380.1
1970	1,190.4	90.5	1,280.9	410.1	126.2	536.3	870.7	744.6
1971	752.8			467.2	162.2	629.4		
South Asia								
1965	1,316.4	828.0	2,144.4	230.6	156.2	386.8	1,913.9	1,757.7
1966	1,258.1	860.0	2,118.1	278.7	186.8	465.5	1,839.4	1,652.6
1967	1,618.0	775.9	2,393.9	343.1	215.2	558.3	2,050.8	1,835.6
1968	1,627.2	522.0	2,149.2	366.3	225.2	591.5	1,782.8	1,557.6
1969	1,488.8	350.9	1,839.6	423.2	257.7	680.9	1,416.4	1,158.7
1970	1,442.1	351.0	1,793.1	454.9	282.1	737.0	1,338.2	1,056.1
1971	1,665.3			451.5	414.8	866.3		
Southern Europe(5)								
1965	668.4	74.6	743.0	328.0	75.7	403.7	415.0	339.3
1966	794.2	59.2	853.3	340.1	105.6	445.7	513.2	407.6
1967	765.7	56.6	822.3	326.1	116.7	442.8	496.2	379.5
1968	902.9	64.8	967.7	379.0	142.3	521.3	588.6	446.3
1969	1,003.6	89.2	1,092.8	357.4	175.5	532.9	735.4	559.9
1970	940.2	95.3	1,035.5	474.2	228.7	702.9	561.4	332.7
1971	1,139.1			572.8	248.3	821.1		
Western Hemisphere(6)								
1965	2,119.1	405.3	2,524.4	1,279.3	423.6	1,702.9	1,245.1	821.5
1966	2,155.3	381.5	2,536.8	1,462.0	453.0	1,915.0	1,074.9	621.8
1967	2,673.4	367.9	3,041.3	1,542.8	512.7	2,055.5	1,498.4	985.7
1968	2,705.1	427.5	3,132.6	1,655.1	553.7	2,208.8	1,477.5	923.8
1969	3,133.6	492.4	3,626.0	1,645.5	599.5	2,245.0	1,980.5	1,380.9
1970	3,471.2	437.8	3,909.0	1,779.3	763.7	2,543.0	2,129.6	1,366.0
1971	2,953.8			1,802.7	800.7	2,603.4		
80 Developing Countries								
1965	5,704.7	2,735.2	8,439.9	2,489.1	892.3	3,381.4	5,950.8	5,058.5
1966	5,773.9	2,453.3	8,227.2	2,783.3	999.2	3,782.5	5,444.0	4,444.7
1967	7,197.1	2,333.4	9,530.5	2,856.4	1,128.1	3,984.5	6,674.1	5,546.0
1968	7,903.6	2,236.6	10,140.2	3,251.2	1,257.5	4,508.7	6,889.0	5,631.5
1969	8,559.5	2,261.9	10,821.4	3,527.2	1,442.5	4,969.7	7,294.1	5,851.6
1970	9,623.2	2,240.1	11,863.4	4,120.4	1,802.6	5,923.0	7,743.0	5,940.3
1971	9,019.5			4,423.1	2,134.9	6,580.0		

Note: Includes the same countries as Table 4. Items may not add up due to rounding.

(1) Grants consist of grant and grant-like contributions by DAC countries and grants by multilateral agencies as compiled by OECD, as well as disbursements by the Inter-American Development Bank on loans repayable in the recipients' currencies.
(2) Disbursements on loans, grants and grant-like loans minus amortization on loans.
(3) Net flow minus interest on loans.
(4) Does not include publicly guaranteed private debt of the Philippines.
(5) Does not include the non-guaranteed debt of the "social sector" of Yugoslavia contracted after March 31, 1966.
(6) Service payments for Brazil include some non-guaranteed debt of the private sector to suppliers.

ECONOMIC AND SOCIAL DATA DIVISION
ECONOMIC ANALYSIS & PROJECTIONS DEPARTMENT
FEBRUARY 8, 1973

TABLE 4

DEBT SERVICE FROM AND DISBURSEMENT
TO SELECTED COUNTRIES IN FY72
($ millions)

	Interest a/		Amortization		Disbursements		
	IBRD	IDA	IBRD	IDA	IBRD	IDA	TOTAL
Argentina b/	14.6	-	6.5	-	44.9	-	44.9
Chile c/	5.5	.2	6.0	.2	11.9	-	11.9
Egypt	1.2	-	5.5	-	-	.4	.4
Ghana	2.6	.1	1.7	.2	3.3	6.6	9.9
India d/	28.2	12.1	52.1	.8	46.6	91.9	138.5
Pakistan e/	21.3	3.2	25.4	.2	18.5	28.7	47.2
Peru f/	7.5	-	6.3	-	11.3	-	11.3
Srilanka	1.8	-	2.0	-	3.9	3.7	7.6
	82.7	15.6	105.5	1.4	140.4	131.3	271.7
% IBRD - Total	18.0%		27.4%		11.7%		

a/ Interest includes commitment charges in the case of IBRD and service charges in the case of IDA.

b/ Argentina paid interest of $ .1 million and amortization of $ .8 million in FY72 (in addition to the amounts shown) on account of loans sold to third parties.

c/ Chile paid amortization of $ .1 million in FY72 (in addition to the amounts shown) on account of loans sold to third parties.

d/ India paid interest of $ .1 million and amortization of $ .8 million in FY72 (in addition to the amounts shown) on account of loans sold to third parties.

e/ Pakistan paid interest of $ .1 million and amortization of $ .3 million (in addition to the amounts shown) on account of loans sold to third parties.

f/ Peru paid interest of $ .1 million and amortization of $ 1.0 million (in addition to the amounts shown) on account of loans sold to third parties.

P & B
2/9/73

Table 3 :Service Payments on External Public Debt as Percentage of Exports of Goods and Services(1), 1965-1971

PRELIMINARY

	SERVICE PAYMENTS							EXPORTS OF GOODS AND SERVICES							DEBT SERVICE RATIO						
	1965	1966	1967	1968	1969	1970	1971	1965	1966	1967	1968	1969	1970	1971	1965	1966	1967	1968	1969	1970	1971
AFRICA																					
Botswana (2)(3)	0.5	0.5	0.7	0.7	0.6	0.6	0.8	14.3	15.1	12.9	10.5	18.3	22.1	n.a.	3.5	3.3	5.4	6.7	3.3	2.7	n.a.
Burundi (3)	0.4*	0.4*	0.5*	0.6	0.6	0.6	0.5	13.9	14.1	16.0	15.7	13.5	20.9	22.9	2.9	2.8	3.1	3.8	4.4	2.7	2.2
Cameroon	4.6*	6.0*	6.4*	7.0*	7.5	9.1	12.3	n.a.	n.a.	317.2	306.3	379.9	386.4	378.9	n.a.	n.a.	2.0	2.3	2.3	2.4	3.2
Central African Rep.(3)	n.a.	n.a.	n.a.	1.7	2.3	1.8	1.6	27.4	30.8	29.0	35.7	33.1	30.6	-	n.a.	n.a.	n.a.	4.8	6.9	5.9	n.a.
Chad (3)	0.7*	0.8*	1.0*	3.2	3.4	2.4	6.1	37.0	33.3	34.5	41.3	35.8	44.1	30.4	1.9	2.4	2.9	8.0	9.7	5.4	20.1(4)
Dahomey (3)	0.9*	1.2*	1.1*	2.3	1.4	2.1	4.9	13.6	10.5	15.2	22.3	24.1	32.6	45.5	6.6	11.5	7.2	10.3	5.8	6.4	11.0
Egypt, Arab Rep. of	n.a.	n.a.	n.a.	152.8	209.8	251.7	256.2	926.0	990.0	862.0	810.0	890.0	991.0	1,032.0	n.a.	n.a.	n.a.	18.9	23.6	25.4	24.8
Ethiopia	7.8	12.4	14.7	16.1	19.5	21.0	20.7	163.5	163.5	155.2	175.2	182.1	186.8	200.1	4.8	7.6	9.5	9.2	10.7	11.3	10.3
Gabon	5.3	5.5	7.1	10.1	10.8	11.3	17.6	n.a.	n.a.	n.a.	185.2	199.7	209.4	254.6	n.a.	n.a.	n.a.	5.5	5.5	5.5	6.9
Ghana	67.5*	20.5*	22.5*	43.8*	38.0*	23.6	28.0	358.7	315.2	314.6	356.0	389.4	469.1	389.2	18.8	6.5	7.2	12.3	9.8	5.0	7.5
Guinea (3)	14.7*	12.5*	6.8*	4.2	6.5	15.2	20.2	50.5	51.8	56.0	58.5	65.1	67.2	-	29.1	24.1	12.1	7.2	10.0	22.6	n.a.
Ivory Coast	15.8*	19.8*	30.8	32.1	29.7	39.0	44.7	372.7	421.7	441.1	559.4	610.7	649.4	651.7	4.2	4.7	7.0	5.7	4.9	6.0	6.9
Kenya	14.9	18.4	20.0	17.9	19.3	18.8	20.0	347.5	405.4	382.6	418.3	465.1	525.9	541.5	4.3	4.5	5.2	4.3	4.2	3.6	3.7
Lesotho (2)(3)	0.2*	0.4*	0.2	0.3	0.3	0.5	0.3	14.8	16.5	6.2	5.9	4.8	5.7	-	1.4	2.4	3.2	5.1	6.3	8.8	n.a.
Liberia (3)	11.6	9.1	9.8	10.9	12.4	17.7	15.9	135.4	150.5	158.8	169.0	195.7	213.7	222.1	8.6	6.0	6.2	6.4	6.3	8.3	7.2
Malagasy Rep.	n.a.	3.7	6.0	6.9	6.7	7.0	8.9	91.7	97.8	104.2	115.9	105.0	144.8	159.5	n.a.	3.8	5.8	6.0	6.4	4.8	6.1
Malawi (3)	2.9*	3.7	4.7	4.3	4.0	6.4	6.6	53.2	64.6	72.5	64.3	70.6	78.4	80.4	5.5	5.7	6.5	6.7	5.7	8.1	8.2
Mali	4.1*	2.8*	4.5	4.0	4.6	1.2	0.5	49.2	43.5	41.4	41.7	58.3	50.8	60.0	8.3	6.4	10.9	9.6	7.9	2.4	1.0
Mauritania (3)	0.8*	0.8*	1.1	1.1	2.2	3.3	3.4	66.4	77.0	79.4	84.9	92.4	116.6	-	1.2	1.0	1.4	1.3	2.4	2.8	n.a.
Mauritius	1.9	2.7	2.8	5.5	2.7	3.5	4.8	84.4	84.6	79.8	83.7	88.0	98.6	97.2	2.3	3.2	3.5	6.6	3.1	3.5	4.4
Morocco	27.8	40.3	39.4	47.3	56.5	58.6	75.5	602.5(5)	615.5(5)	627.7(5)	681.2(5)	772.0(5)	809.0(5)	878.0(5)	4.6	6.6	6.3	6.9	7.3	7.3	8.6
Niger (3)	0.6*	0.9*	0.7*	1.9	2.3	2.5	4.0	34.6	48.3	46.3	52.6	32.0	46.4	55.7	1.7	1.9	1.5	3.6	7.0	5.4	7.2
Nigeria	25.9	46.3	35.6	39.5	53.4	53.3	60.6	818.7	867.4	739.2	660.5	964.4	1,345.0	1,997.0	3.2	5.3	4.8	6.0	5.5	4.0	3.0
Rwanda (3)	n.a.	0.2	1.0	0.4	0.5	0.3	0.4	n.a.	12.9	14.8	16.1	15.0	24.6	22.2	n.a.	1.6	6.0	2.5	3.3	1.2	1.8
Senegal	2.8	3.6	3.8	4.1	4.9	5.3	11.1	n.a.	n.a.	200.9	219.2	202.6	232.6	194.6	n.a.	n.a.	1.9	1.8	2.4	2.3	5.7
Sierra Leone	5.9*	6.3	6.9	6.1	8.8	11.0	9.9	98.1	91.3	84.6	108.7	123.5	123.6	114.3	6.0	6.9	8.2	5.6	7.1	8.9	8.7
Somalia	0.6*	0.8	0.8	0.8	0.7	0.9	3.5	42.0	38.7	38.3	42.7	48.2	44.1	49.2	1.4	2.1	2.1	1.9	1.5	2.0	7.1
Southern Rhodesia	24.6	7.6	12.1	13.6	12.0	8.0	10.5	556.6	368.3	370.9	361.3	433.3	476.5	522.2	4.4	2.1	3.3	3.7	2.8	1.7	2.0
Sudan	13.5	15.7	12.5	20.4	22.5	29.7	43.5	238.9	237.2	254.1	286.6	292.3	327.4	356.9	5.7	6.6	4.9	7.1	7.7	9.1	12.2
Swaziland (2)(3)	1.9	1.9	2.1	2.0	1.8	2.2	3.8	43.1	53.8	56.3	55.0	62.3	70.3	76.7	4.4	3.5	3.7	3.6	2.9	3.1	5.0
Tanzania	5.5	6.5	7.4	9.2	16.0	15.9	18.6	228.7	297.4	290.6	299.2	314.3	339.7	391.1	2.4	2.2	2.5	3.1	5.1	4.7	4.8
Togo (3)	0.9*	0.7*	1.4*	2.7	1.6	2.5	4.5	27.1	35.9	32.0	38.7	41.3	54.6	53.3	3.3	1.9	4.4	7.0	3.9	4.5	8.4
Tunisia	14.6	32.3	47.7	60.4	60.2	62.8	74.3	196.8	232.0	241.0	276.0	316.0	355.0	458.0	7.4	13.9	19.8	21.9	19.1	17.7	16.2
Uganda (3)	5.9	5.8	7.1	8.2	18.5	7.4	9.1	217.0	227.8	215.7	237.5	255.3	297.1	273.1	2.7	2.6	3.3	3.5	7.2	2.5	3.3
Upper Volta	0.5*	0.6*	0.8*	1.6	1.8	2.2	1.8	14.9	16.1	17.9	36.2	35.8	30.6	n.a.	3.4	3.7	4.5	4.4	5.0	7.2	n.a.
Zaire	5.3*	8.9*	9.0*	16.4	27.3	33.2	33.9	388.0	511.2	500.0	619.4	732.4	859.1	771.5	1.4	1.7	1.8	2.7	3.7	3.9	4.4
Zambia	23.2	13.9	15.9	20.3	22.8	49.3	68.6	546.4	663.0	704.0	772.0	1,231.0	994.0	727.0	4.2	2.1	2.3	2.6	1.9	4.9	9.4
EAST ASIA																					
China, Rep. of	15.4	23.6	25.9	36.9	55.4	77.2	105.2	528.4	660.1	798.8	1,041.5	1,376.5	1,731.2	2,388.3	2.9	3.6	3.2	3.5	4.2	4.5	4.4
Indonesia	70.0*	62.0*	41.1	49.2	56.6	82.8	112.1	680.0	743.0	773.0	882.0	1,006.0	1,173.0	1,307.0	10.3	8.3	5.3	5.6	5.6	7.0	8.6
Korea, Rep. of	8.1	16.5	34.1	63.7	140.3	262.8	313.3	289.8	454.7	642.9	880.3	1,150.7	1,379.0	1,616.0	2.8	3.6	5.3	7.2	12.2	19.1	19.4
Malaysia	17.0*	19.2	27.8	31.6	39.0	50.9	48.3	1,408.0	1,422.0	1,381.0	1,520.0	1,812.0	1,851.0	1,806.0	1.2	1.4	2.0	2.1	2.2	2.7	2.7
Philippines	57.9*	74.9	87.5	60.9	50.4	97.6	95.2	1,092.0	1,187.0	1,222.0	1,166.0	1,123.0	1,341.0	1,408.0	5.3	6.3	7.2	5.2	4.5	7.3	6.7
Singapore	1.0	1.4	2.1	4.9	7.0	10.8	15.7	1,241.0	1,388.0	1,433.0	1,578.0	1,898.0	1,942.0	2,246.0	0.1	0.1	0.1	0.3	0.4	0.6	0.7
Thailand	27.3	32.0	36.8	38.9	41.6	39.5	40.7	740.0	930.0	1,024.0	1,028.0	1,075.0	1,092.0	1,204.0	3.7	3.4	3.9	3.8	3.9	3.6	3.4
MIDDLE EAST																					
Iran	71.5	59.9	58.5	95.8	162.2	212.1	345.4	1,358.0	1,492.0	1,792.0	1,989.0	[illegible]	2,613.0	3,956.0	5.3	4.0	3.3	4.8	6.9	8.1	8.7
Iraq	4.7*	8.6	7.8	16.3	24.7	36.4	30.6	975.2	1,032.1	923.2	1,145.8	1,114.0	1,248.0	1,694.0	0.5	0.8	0.8	1.4	2.1	2.9	1.8
Israel	160.0*	176.9*	134.5*	183.4*	208.4*	247.5*	208.5	711.0	832.0	909.0	1,147.0	[illegible]	1,397.0	1,849.0	22.5	21.3	14.8	16.2	16.1	17.7	11.3
Jordan	1.0	1.6	1.5	1.9	3.8	3.7	4.6	104.2	116.5	103.0	104.2	128.8	121.7	96.8	1.0	1.4	1.5	1.8	3.0	3.0	4.8
Syrian Arab Rep.	2.2	16.0	17.0	21.7	27.6	36.6	40.3	247.0	259.0	249.0	291.0	333.0	326.0	368.0	0.9	6.2	6.8	7.5	8.3	11.2	11.0
SOUTH ASIA																					
Afghanistan (3)	5.8*	6.4*	11.3*	15.9	22.3	24.5	28.6	72.7	70.1	65.9	78.3	78.7	86.9	77.2	8.0	9.1	17.1	20.3	28.3	28.2	37.0
India	302.5	361.9	418.4	404.7	459.4	487.1	664.4	2,034.0	1,916.0	1,999.0	2,145.0	2,209.0	2,274.0	2,316.0	14.9	18.9	20.9	18.9	20.8	21.4	28.7
Pakistan (6)	69.6	86.3	115.4	145.1	168.4	189.1	143.0	640.5	671.0	689.0	751.0	779.0	805.0	776.0	10.9	12.9	16.7	19.3	21.6	23.5	18.4
Sri-Lanka	8.8	10.9	13.2	25.9	30.8	36.3	41.3	442.7	394.3	383.1	373.8	363.3	377.7	374.7	2.0	2.8	3.4	6.9	8.5	9.6	11.0
SOUTHERN EUROPE																					
Cyprus	2.2	2.4	3.8	3.6	4.1	4.9	6.8	149.4	168.8	175.9	182.3	219.2	229.2	258.0	1.5	1.4	2.2	2.0	1.9	2.1	2.6
Greece	27.6	36.6	50.2	51.2	62.5	78.8	108.8	880.2	1,039.4	1,122.6	1,192.6	[illegible]	1,562.0	1,892.0	3.1	3.5	4.5	4.3	4.7	5.0	5.8
Malta	0.5	8.7	1.3	1.4	1.9	2.3	9.8	95.0	110.8	110.0	117.6	[illegible]	139.4	152.9	0.5	0.8	1.2	1.2	1.4	1.6	6.4(4)
Spain	50.9	52.0	52.4	78.8	118.8	194.5	333.2	2,424.0	2,920.0	2,977.0	3,358.0	[illegible]	4,942.0	6,057.0	2.1	1.8	1.8	2.3	3.0	3.9	5.5
Turkey*	112.5	124.4	109.2	131.2	132.3	180.9	169.1	615.0	686.0	722.0	728.0	810.0	1,032.0	1,165.0	18.3	18.1	15.1	18.0	16.3	17.5	14.4
Yugoslavia	210.0	229.3	226.0	255.1	213.3	241.5	183.3	1,494.0	1,731.0	1,831.0	1,934.0	2,350.0	2,911.0	3,444.0	14.0	13.2	12.3	13.2	9.1	8.3	5.3
WESTERN HEMISPHERE																					
Argentina	339.4	455.2	456.0	480.8	478.6	462.0	431.0	1,662.0	1,795.0	1,707.0	1,778.0	[illegible]	2,220.0	2,074.0	20.4	25.4	26.7	27.0	23.5	20.8	20.8
Bolivia	6.0*	6.9	9.8	9.6	10.2	21.6	21.2	126.6	145.7	170.4	171.7	192.4	212.6	206.6	4.7	4.7	5.6	5.6	5.3	10.2	10.7
Brazil	441.0*	474.0*	580.0*	391.0*	396.0*	517.0	465.6	1,742.0	1,859.0	1,807.0	1,881.0	2,311.0	2,739.0	2,881.0	25.3	25.5	32.1	20.8	17.1	18.0	16.2
Chile	96.4	103.5	124.6	204.8	236.2	227.8	241.8	793.0	978.0	996.0	1,032.0	1,314.0	1,303.0	n.a.	12.2	10.6	12.5	19.8	18.0	17.5	n.a.
Colombia	101.9	109.2	99.8	102.4	100.7	116.7	133.1	709.0	663.0	713.1	790.9	880.0	1,019.0	997.0	14.4	16.5	14.0	12.9	11.4	11.5	13.4
Costa Rica	14.1	19.6	20.7	25.1	24.4	27.6	28.2	137.3	164.0	174.0	207.9	232.0	281.1	287.4	10.3	12.0	11.9	12.0	10.5	9.8	9.8
Dominican Rep.	27.8	20.1	13.6	15.4	19.4	13.7	17.8	144.1	161.4	182.6	200.0	229.0	257.4	296.4	19.3	12.5	7.4	7.7	8.5	5.3	6.0
Ecuador	12.4	13.0	13.8	18.7	20.5	22.5	31.3	196.6	203.3	218.0	225.9	203.5	256.5	262.9	6.3	6.4	6.3	8.3	10.0	8.8	11.9
El Salvador	7.7	7.7	5.9	6.1	6.3	9.4	15.6	214.4	211.5	230.7	237.2	226.7	253.5	n.a.	3.6	3.6	2.6	2.6	2.8	3.7	n.a.
Guatemala	11.8	14.8	17.3	20.9	24.1	27.0	27.7	228.8	260.5	234.5	269.3	306.4	354.8	347.7	5.2	5.7	7.4	7.8	7.9	7.6	8.0
Guyana	4.8	4.9	5.1	6.3	5.1	5.8	4.3	120.9	127.9	139.0	131.2	142.8	152.2	161.6	4.0	3.8	3.7	4.8	3.5	3.8	2.7
Honduras	3.3	3.4	3.5	3.4	4.3	5.6	7.0	140.0	159.4	172.4	198.6	190.7	198.8	211.1	2.4	2.1	2.0	1.7	2.3	2.8	3.3
Jamaica	6.9	7.9	9.4	13.2	13.8	16.5	21.2	362.3	436.7	439.7	426.9	480.8	537.9	567.4	1.9	1.8	2.1	3.1	2.9	3.1	3.7
Mexico	484.8	456.5	471.0	622.3	611.3	690.8	723.0	1,965.0	2,200.0	2,246.0	2,486.0	2,734.0	3,053.0	3,299.0	24.7	20.8	21.0	25.0	22.3	22.6	21.9
Nicaragua	7.3	9.6	11.5	14.4	19.1	23.0	30.8	174.1	174.4	184.6	194.8	193.0	218.9	264.2	4.2	5.5	6.2	7.4	9.9	10.5	11.7
Panama	5.8	6.2	6.9	8.4	9.1	28.1	36.2	228.6	252.8	297.7	329.0	380.0	396.4	438.2	2.5	2.5	2.3	2.5	2.4	7.1	8.3
Paraguay	4.4	3.5	4.5	6.8	7.2	9.3	12.8	66.5	64.3	62.4	68.0	78.3	89.7	90.4	6.6	5.4	7.2	10.0	9.2	9.3	14.2
Peru	54.1	90.4	97.9	147.3	142.3	173.6	212.4	776.0	913.0	886.0	975.0	1,032.0	1,213.0	1,092.0	6.9	9.9	10.0	15.1	13.8	14.3	19.5
Trinidad & Tobago	9.6	10.5	9.8	8.7	12.5	11.9	12.7	496.3	525.4	517.4	562.9	592.8	596.9	654.3	1.9	2.0	1.9	1.5	2.1	2.0	1.7
Uruguay	17.3	30.9	41.2	47.9	[illegible]	52.2	[illegible]	252.8	248.4	218.5	237.5	263.5	281.8	257.6	6.8	12.4	18.9	20.2	18.9	18.5	21.7
Venezuela	46.1	67.2	53.1	55.5	54.2	80.9	117.6	2,609.0	2,547.0	2,700.0	2,736.0	2,759.0	2,892.0	3,375.0	1.8	2.6	2.0	2.0	2.0	2.8	3.5
Total -	3381	3782	3984	4509	4970	5923	6580	38241	41617	43236	47095	53357	59647	65553							

10% 20% 11% 12% 10%

For Thailand the Export of Goods figures revised by Area.

65553
59647
5906

41617
38241
3376

6580
5923
657

* Estimates.

NOTE: The debt service ratio is, by itself, a rather inadequate indicator of the seriousness of a country's debt problem. Many other factors must also be considered, such as the stability and diversification of the country's export structure, the prospects for future growth, the extent to which imports can be reduced without adversely affecting current production, the time-profile of the country's debt outstanding, the size of foreign exchange reserves and available compensatory financing facilities, and the debt service record of the country. For this reason, international comparisons of debt service ratios have only limited meaning.

(1) Except where otherwise indicated, includes all goods and services. Data for some countries are partially estimated.
(2) Because of special monetary arrangements peculiar to countries such as these, the debt service ratio must be regarded with more than usual caution in considering the country's external financial situation.
(3) Exports of goods only.
(4) Service payments for this year reflect pre-payments.
(5) Includes workers remittances and pensions.
(6) Data are for Pakistan, which through 1971 included East Pakistan; data for 1971 included Bangladesh.

ECONOMIC AND SOCIAL DATA DIVISION
ECONOMIC ANALYSIS & PROJECTIONS DEPARTMENT
FEBRUARY 8, 1973

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Mr. Robert S. McNamara February 7, 1973

Denis Rickett

Briefs for Discussions with the UK and German Governments on the Fourth Replenishment of IDA

Attached below are briefs for the discussions with the UK and German Governments on the Fourth Replenishment of IDA.

2. These discussions will be particularly opportune coming as they do not long before the second meeting of the Deputies in London on March 13th. The line taken by the British and the German representatives may well have an important effect on the outcome of the meeting.

3. The meeting will have served its purpose if it helps to keep the interest of governments focussed on the issue and if some progress is made in building up support for a replenishment of IDA as close as possible to the target figure of \$1500 million.

4. At present the prospects of doing this are not good. We are likely to get further support from the Netherlands Government. The Canadians also may be helpful particularly after your discussion with the Canadian Ministers in the first week in March. But there is not much prospect of concerted action by the Nordic group. Denmark and Norway are friendly but Sweden is holding back until the Board discussion on IDA lending policies has taken place, and Finland (not very important anyway) is in financial difficulties. No particular support can be expected from the French and very little from the Belgians and the Italians.

5. The United States will either reserve its position as they did in Paris or may even, as Mr. Volcker suggested at your luncheon, say that they are not prepared to recommend to Congress a figure as high as has been suggested.

6. A great deal, therefore, may turn on the attitude of the British and German Governments. If they would take a positive line, supported by the Canadians and the Dutch, it is possible that the Japanese, the Norwegians and the Danes might be encouraged to join them. This might have some influence on the United States.

7. Unfortunately, both the British and the Germans are inclined to hang back on the level of the replenishment because of preoccupations about their share. The British have told us that they are afraid that if they support a level for the replenishment higher than that ultimately agreed upon, this may prejudice their claim to a reduction in the UK share. Similarly, the Germans told us in Bonn that if we were asking them to support not only a figure of \$1500 million but also an increase in the

8. In both cases I suggest that our object should be to persuade the British and the Germans to support a high level for the replenishment adding, if they wish, that this is subject to their being satisfied with the decision about their share. I think you could point out to both the British and the Germans that what is eventually decided about their share is not likely in practice to be much influenced by the line which they take now on the level of replenishment. Whatever they say, if the decision is eventually in favor of a high figure, the British claim to a reduction in their share will be strengthened and the Germans will be in a better position to resist any considerable increase in their share. The converse is also true.

9. In speaking to the British, you might remind them that if they are concerned about their balance of payments they should be in favor of a high total whatever, within limits, their share is. This is because the UK share in IDA procurement is still not far below 20%.

10. In discussion with the Germans, I would myself doubt whether it would be wise to press them too hard at this stage to increase their share, except on the assumption that the level of replenishment will be much lower than the target figure of $1500 million. The strongest argument for an increase in the German contribution to IDA is the fact that their total ODA performance is not very good (.34% of GNP). On the other hand, this is about the average for the DAC countries, and they plan to increase their ODA by an average annual rate of 11%. We estimate that on this basis their ODA percentage would be .38 by 1975 and .50 by 1980, still well short of the 0.7% target recommended in the strategy for the Second Development Decade.

11. They may, however, point out that at 28% the percentage of their aid going through multilateral institutions is well above the target level of 20%.

12. The Germans have so far resisted pressure from the British to increase their share. We understand that M. Giscard d'Estaing is likely to suggest to Herr Schmidt that there should be an increase in the German share. It seems fairly clear that this will be done to discourage the Germans from coming out in favor of too high a level for the total replenishment. If so, we do not want to play into the hands of the French on this.

cc: Mr. Adler ✓

3.A.

CURRENCY CHANGES AND THE FOURTH IDA REPLENISHMENT

Two questions affecting IDA IV arise as a result of the currency changes this week:-

(i) Should the negotiating target be revised upwards by the full amount of the devaluation of the dollar;

(ii) What will the effect of the changes be on the willingness of the various contributors?

On the first point the alternatives are either:

(a) To continue to ask for \$1500 million recognizing that this is equivalent to \$1350 million in predevaluation dollars, or

(b) To increase the target by 11% to \$1650 million.

The answer to the second question is that since for the majority of the Part I countries their currencies have appreciated against the dollar by some 11%, the payment of any given amount in dollars will be that much easier than before. It is true that the appreciation of their currency against the dollar will ultimately lead to some worsening of their balance of payments. For the present, however, this should be outweighed by the fact that any given amount of their currency is now worth 11% more in dollars.

The main exceptions to this are the US and the UK and to some extent also the Italians.

In the long run the devaluation of the dollar should strengthen the US balance of payments. In the immediate future, however, they will have to make further maintenance-of-value payments to IDA on our existing dollar holdings, and if we raised the target from \$1500 million to \$1650 million they would say that this merely makes the target more unrealistic than ever.

For the British any given sum in dollars is now approximately 5% cheaper in sterling. They might not, therefore, be happy if we wrote up the target by 11%, the full extent of the dollar depreciation.

Finally, the Japanese will have to put up fewer yen to meet any given dollar amount and this should make them a more willing contributor. They may well urge, however, that the floating upwards of the yen is bound to affect their balance of payments adversely and that in any event they should be under less pressure from the United States to correct the imbalance in other ways - e.g. by exporting capital.

CONCLUSION

If the point is raised we might say:-

(a) That we have not had time yet to assess fully the implications of the new exchange rates for the IDA negotiations;

(b) That the immediate consequence would be that the amounts previously discussed would have to be raised by 11% to make them the same in new dollars as in the old;

(c) That for the majority of the contributors whose currencies have appreciated against the dollar this should not in itself lead to any change in their position;

(d) Some important donors, however, especially the US and perhaps also the UK may be in a different position. It will be for them to say how the changes which have taken place will affect their attitude to the amount both of the total and of their share in the replenishment.

4.

[redacted]
FXColaço:ja
February 9, 1973

NOTE ON THE STATUS OF THE SDR LINK FOR DISCUSSIONS WITH U.K. AUTHORITIES

Provision for the allocation of Special Drawing Rights (SDRs) was made in the amendment to the Fund's Articles of Agreement which became effective on July 28, 1969. There have so far been three SDR allocations -- on January 1, of 1970, 1971, and 1972 -- aggregating SDR 9.3 billion (US$ 10.1 billion equivalent), of which about 67% has been allocated to IDA Part 1 members. The Staff of the IMF explored with its members the possibility of an allocation of SDR 3 billion for calendar years 1973/74, with an "interim link" in which the developed countries (excluding the United States) would transfer their allocations to the Bank to be used for development purposes. The response to the informal staff initiative was negative. The idea of a link in this form was not pursued further when it was decided that no allocation would be made on January 1, 1973 because of the opposition of some major countries, including Germany, which argued that there was already an excess of international liquidity.

In his 1972 Annual Meeting Speech, Mr. Barber said:

> I have very considerable sympathy with the desire of those countries which advocate such a link. But I do feel that it needs extremely careful consideration in the context of a general reform of the system. The arrangements to provide such a link would have to be part of that wider reform and would have to be consistent with its objectives, not least because, if they were not, that would probably itself frustrated the prime purpose of providing extra real resources for developing countries. We would have to make sure that any such scheme was not inflationary; that it would not lead to pressures for the excessive creation of SDRs beyond what prudent, internationally agreed judgment regarded as appropriate to the prospects for world liquidity as a whole. But if these conditions can be met, then I say today that the United Kingdom will be in favor of providing in a reformed system for some form of link.

The reservations expressed by the U.K. Government regarding a "link" arrangement are based in large part on concern about its possible inflationary effects. Those who are concerned about the inflationary effects of a link arrangement argue along the following lines: since the objective of a "link" arrangement is to increase development spending, rather than to build-up reserves as in the case of a standard allocation, this sort of arrangement is more expansionary than the allocation of the same amount of SDRs to countries across the board. Even though this is true, the draft of a Report by the IMF Staff,[1/] which is to be submitted to the IMF Board shortly, states that "the amounts potentially involved, though varying somewhat according to country, would in general constitute an infinitesimal part of the aggregate demand for the products of the countries concerned: for example, a developmental allocation of $1 billion, spent in its entirety on the exports of developed countries, would be unlikely to add more than 1 per mille to the demand for the output of any one of them".

According to the IMF Staff the present status of thinking regarding the "link" is as follows: some kind of special treatment for LDCs in SDR allocations is likely; although neither the IMF Board, nor the Committee of 20, have focused on this issue, the best guess is that the outcome of the "link" discussions will be some form of direct allocation to LDCs in addition to the amounts determined by their present quotas and that the international financial institutions (IFIs) are also likely to get a share of SDR allocations. It is quite certain that any "link" allocation would initially increase IDA resources

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1/ IMF, "Allocation of SDRs and Financing of Economic Development," Draft 1/19/73.

by some amount and would not be a substitute for the present system of contributions to IDA. Moreover, it is virtually certain that any "link" arrangement would not become effective until 1976 at the earliest.

In recent discussions, the IMF Staff has enquired about what use the Bank would make of resources that may be available to it as the result of a "link". On the basis of preliminary analyses undertaken by the Bank Staff, it seems that the Bank could consider committing part of the resources on intermediate terms, and part on IDA terms, if the terms on which it receives "link" resources are appropriate. It would be desirable at this stage, particularly in order to secure the widest possible support for a "link" arrangement which provides resources to IFIs, to avoid saying that the Bank would commit all "link" resources on intermediate terms.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

5.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** February 14, 1973

FROM: Bernard R. Bell BRB

SUBJECT: Questions that Might Be Raised on Zambia, Kenya and Mauritius

1. This is in response to your request through Denis Rickett for memoranda on questions which Richard Wood might raise about Zambia, Kenya and Mauritius when you meet him in London.

2. I am attaching a memorandum from Bob Dean on the present status of the civil works contract on the Kariba North project in Zambia, and a memorandum from Roger Hornstein on Kenya. We do not anticipate any questions with regard to Mauritius.

3. On the Kariba North matter, I would add only that I do not believe we should ask the Zambians to go through the process of complete conventional international bidding but rather should follow the second course of action indicated in paragraph 6 of Mr. Dean's memorandum. We believe that a considerable amount of time could be saved in this way and that the losses which will result from delay in completion of the project will be significantly smaller. It would probably be even faster if the Zambians were simply to select a single firm but I do not believe they should follow this course of action for two main reasons. The first is that prices which a single selected firm would quote would probably be very high; the second reason is that we would be exposed to serious and valid criticism if Impregilo, which was not among the original bidders, was selected in the face of the fact that several of the firms which were among the five original bidders have already indicated an interest in undertaking to complete the work. We have communicated this view to the Zambians by telephone and plan to reiterate it in writing.

4. In connection with Zambia, Mr. Wood may also ask whether we have supplied any member of the six-man technical team which is assisting the special mission consisting of four members of the United Nations Security Council in assessing Zambia's needs in attempting to maintain the normal flow of traffic. You will recall that just before you left you told me that Mr. de Seynes of the UN had telephoned you asking that we supply one member of the six-man technical team, and you asked me to deal with the matter. We have supplied one member, Mr. Stanley Hayden, who is a transport specialist on our staff in Nairobi, and who is apparently an experienced and mature individual. For your information, I believe that there is some question in the minds of some people in the Bank as to the wisdom of our doing this. On balance, I believe it was right to do so although our action is not necessarily a precedent for the future.

BRBell:ea

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. B.R. Bell) DATE: February 13, 1973

FROM: Robert M. Dean, Acting Director, C.P. II, E.A. Region R.M.D.

SUBJECT: Zambia: Kariba North Project

1. This memorandum summarizes the events that have occurred since my last memorandum to you of December 1, 1972 and our discussions in Zambia in November.

2. On December 1, 1972 Mr. Morrell, the Chairman of Mitchell Construction, visited the Bank. Representatives of the Zambian Government were present during the discussions. Mr. Morrell repeated in general terms his earlier statements to the effect that costs were running higher than had been anticipated and causing financial difficulties for the company. In answer to his question we explained that the Bank could not make a loan to the Mitchell Company and we urged that the company and the Government proceed quickly to try to negotiate a modification of the original contract.

3. Between December 18 and 28, at the request of the Zambians, talks were held in London to revise the main civil works contract. The Bank attended at the invitation of the Zambians. The talks were inconclusive. On the basis of his internally audited statements, the contractor submitted claims for project costs incurred up to December 31, 1972 amounting to K16 million. After scrutiny, he agreed that his total costs for work up to December 31, 1972 were about K12 million. On December 27 the Zambians offered in writing to pay 100% of all costs actually incurred by the contractor up to December 31, 1972, and to proceed after December 31, 1972 essentially on the basis of the original contract with appropriate increases, on the basis of the judgment of the consultant, in unit prices. Under the terms of this offer the total cost of the contract would have risen to approximately K26 million (compared with the original cost of K20.5 million). The contractor neither accepted nor rejected this offer but presented a counter-proposal which would have increased the total contract cost to K32.5 million. This proposal was not accepted by the Zambians so that the talks ended without conclusion.

4. Further talks were held between the contractor and the Zambians in Lusaka on January 8 which produced no progress, and between the contractor and the Zambian High Commission in London on January 16. In those discussions the contractor offered another proposal which would have brought the total contract costs to approximately K29.5 million. This proposal was not accepted by the Government.

5. On February 1, 1973 the contractor (Mitchell Construction) went into receivership. We understand that the receiver does not plan to continue work on the contract. Although press reports have implied that the financial difficulties of the contractor stemmed principally from losses on the Kariba North project, there is some doubt that this is correct. The figures we have indicate that the contractor's outlays on the Kariba North contract through December 31, 1972

were approximately K12 million while his actual cash receipts on account of the contract were K10.8 million. This suggests that the contractor was very thinly financed and may have been suffering losses on other contracts as well.

6. Obviously there will be claims and counter claims to be settled as between the Mitchell Company and the Zambians. The immediate task, however, is to select a new contractor and conclude a new contract so that the project can go forward. We had for some months been urging the Zambians and the contractor to reach a new accommodation since it was our judgment that this would result in more expeditious and less costly completion of the job than if, at the initiative of either party, the work of the Mitchell Company was to be terminated. We had urged this more emphatically during January when the difference between the proposals of the two parties had narrowed to approximately K3 to K4 million. In January, after we received informal reports that the Zambians were talking with an Italian contractor, Impregilo, we wrote to KNBC indicating that we did not believe it would be in their best interests, or acceptable to us, that they simply select a single new firm and negotiate a new contract with that firm. We indicated that the two acceptable courses of action appeared to be either complete new international bidding or inquiry to the original unsuccessful bidders, and perhaps one or more firms not among the original bidders, and solicitation of offers from those firms which expressed interest. We also urged at that time, and since that time, that the Zambians consult with us about the course of action to be followed. They have not yet done so.

cc: Mr. Chandran, Engineer, P.U., E.A. Projects
Mr. Morse, Division Chief, P.U., E.A. Projects
Mr. H.N. Scott, Legal Department

DJordan:BRBell:ea

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Bernard R. Bell **DATE:** February 13, 1973

FROM: Roger A. Hornstein

SUBJECT: Kenya

1. You inquired yesterday as to what Kenya matters Mr. Richard Wood, Minister for Overseas Development of the UK, may raise in a forthcoming meeting with Mr. McNamara.

2. We are not aware of any major issues which might be pending between Kenya and the United Kingdom or between the UK and the Bank regarding Kenya. During a recent conversation in the Foreign and Commonwealth Office on East African matters, I had the impression that Kenya-UK relations are now in an extremely cordial phase. As you know, Britain is still, in an absolute sense, the largest donor, and, although its share of total external assistance to Kenya is declining, it is an important provider of capital aid and, even more particularly, of technical assistance.

3. We have two prospective operations in which the UK has an interest. The first is the Second Livestock Development Project, which would include almost the entire beef subsector development program for the next five years and which is estimated to cost about $50 million. The ODA have indicated that they might be interested in financing part of the program, particularly the livestock marketing aspects. We expect to follow this up in the near future. We have also appraised a Third Tea Development Project, in which the Commonwealth Development Corporation has indicated its intention to participate in the financing of both the field and factory aspects.

GSKaji/RAHornstein:nff

cc: Mr. Lejeune

Raht

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

6.

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3-6360 • Cable Address - INTBAFRAD

February 15, 1973

Sir Denis Rickett
c/o Kindness of Mr. S. Rangachar

Dear Denis,

I was a bit puzzled by our telephone conversation and think perhaps you got Ceylon and Pakistan muddled up. We intended proposing a program loan for Pakistan during this fiscal year; I would not at this moment of time wish to be precise about the amount. However, I have had several discussions with Pakistan about my ideas of how to proceed and apart from a routine suggestion that the allocation of IDA funds should be increased they seem quite content.

On the other hand, Ceylon has written to me (I received the letter the day before yesterday) asking for a $20 million program credit. Previously Critchley had rung me up with the same proposal and I suspect that ODA had made this suggestion to the Ceylonese Delegation when it visited London ten days ago. Unless we are to depart radically from the principles according to which we made program credits there would be no justification for one for Ceylon. Critchley who had seen the report we circulated to the aid group made this point himself and should have by this time given London my reaction. I am enclosing a copy of the paper which McNamara might wish to glance at.

Best wishes.

Yours sincerely,

Peter

I. P. M. Cargill

Attachment

Memorandum to Sri Lanka Aid Group

1. The Report "The 1973 Economic Outlook for Sri Lanka" (47a-CE) dated January 23, 1973, is circulated for your information. A first draft of this report was already circulated to the members of the Group on December 26, 1972. The focus of the report is on the budget for 1973, and on the outlook for the balance of payments.

2. As regards the budget, the report draws attention to the fact that substantial new revenue measures were taken, yielding about Rs. 400 million on a net basis which is about three percent of GNP. In major part, these additional revenues will, however, be absorbed by the expansion of current expenditures, so that only a modest amount of public savings will be available for investment. Furthermore, the realization of these savings is contingent on very favorable assumptions regarding both capital inflow and international commodity prices in 1973. As regards the latter, a substantial upward revision has now become necessary. The balance of payments aspect of this new information is discussed below. The budgetary burden of these price rises is likely to be heavy, perhaps in the order of Rs. 200 million. As a consequence, unless external assistance on the scale indicated below is made available, even the level of capital expenditures proposed in the budget for 1973 may not be realized.

3. Since the report was prepared, the Government of Sri Lanka has taken the following additional measures to raise revenues: (a) an increase in the price of flour by five cents, expected to yield about Rs. 45 million, (b) increases in the prices of petroleum products, and (c) reduction in the sugar ration from 2 lbs. to 1 lb. per head per month. In combination, the Government expects these measures to yield about Rs. 100 million of additional revenues. Some offsetting factors might somewhat reduce the favorable impact of these measures on the overall budgetary position, but they constitute an element of improvement in fiscal policy and domestic resource mobilization.

4. Since the report was prepared, additional information has also become available that makes it possible to evaluate with greater accuracy the impact of rising international prices for major commodities on Sri Lanka's balance of payments in 1973, and to indicate the level of aid that will be called for to avoid substantial disruption of the economy.

5. Average CIF prices prevailing in 1972 for rice, flour, wheat and sugar are compared below with present forecasts for 1973 prices, based in part on new contracts recently concluded. The quantity of import requirements is also shown; they involve only few changes compared with 1972, such as a reduction by seven percent in the case of rice, and an increase by eight percent for flour. The difference in the dollar cost of 1973 imports of these commodities at 1973 prices compared with 1972 prices now turns out to be much more substantial than was thought to be the case when the import allocations, shown on page 15 of the economic report, were prepared.

	Imports (000 tons)	c.i.f. Prices ($ per ton)		1973 Cost of Imports (US$ million)		
	1973	1972	1973	1972 Prices	1973 Prices	Difference
Rice	246	86.34	134.04	21.2	32.9	11.7
Flour	300	106.84	148.00	32.1	44.4	12.3
Wheat	93	62.00	108.96	7.6	13.3	5.7
Sugar	200	174.83	256.80	34.9	51.3	16.4
Total				95.8	141.9	46.1

6. The cost increases for the four major food items result in an additional charge on the balance of payments of about $46 million in 1973, resulting in a total cost of about $142 million. A minimum total allocation of $50 million is to be added for all other essential food items. This is the same amount as during the last several years, although the composition has changed. Items such as onions, chillies, green grams and canned fish were put on a banned list, whereas other items such as dairy products, pulses, dried fish, etc., increased in quantity because of population growth, as well as in prices.

7. The total cost of imported foodstuffs will thus be about $192 million compared with an original allocation, shown in the economic report, of $155 million.

8. Original import allocations for other essential items (textiles, drugs, fuels and fertilizers) will not be affected in a major way by new price developments. Given the extreme shortage of foreign exchange that can be foreseen the Government is cutting the allocation for textiles by almost half, leaving only $5 million compared with an annual average of $22 million in the last five years.

9. All other imports, including machinery and equipment, averaged about $156 million in the last five years. The original allocation of $137 million for 1973 thus constitutes a minimum to sustain the operation of manufacturing industry and maintenance of activity in service and other sectors, particularly since the 1972 allocation had already been severely compressed, and import prices have been going up as well. The resulting total import requirement is shown below:

	Imports 1972-1973 (US$ million)			
	1971 (Actuals)	1972 (Estimates)	1973 (Original Estimate)	1973 (Revised Estimate)
Foodstuffs	139	164	155	192
Textiles	17	10	9	5
Drugs	7	8	8	8
Fuels	32	34	37	37
Fertilizers	15	17	24	24
Total Essential Imports	210	233	233	266
Other Imports	166	133	137	137
Total	376	366	370	403

10. The implications of this for the balance of payments are very substantial. On the basis of all other assumptions being unchanged from the Government's balance of payments projections (no change in the export outlook, project aid disbursements, and a positive transfer from IMF) the requirement of commodity aid disbursements has to be increased from $59 million, as shown in the economic report, to $92 million. Assuming, as was done in the report, that the major part, perhaps $28 million, of the end-of-year pipeline of about $33 million will be available for disbursement in 1973, the amount of additional disbursements to be generated by new commitments will be in the order of $64 million. With traditional techniques of commodity aid financing, such a level of new disbursements will be possible only with immediate new commodity aid commitments well over $100 million.

11. Sri Lanka's balance of payments problem thus is reaching in 1973 crisis proportions more severe than appeared to be the case at the time of the Bank mission's visit. There are no alternatives except to ask the members of the Aid Group to very substantially step up commodity aid from past levels on an emergency basis. Additional aid from non-members of the Group is not in sight; exchange reserves are negative; and possibilities for expanding the scope of suppliers' and trade credits are limited.

12. As noted in the report, the Government's fiscal efforts at mobilizing resources for economic development have been quite limited in relation to the magnitude of the problem Sri Lanka faces. Yet it needs to be pointed out that the adversities arising in the external sector, under the impact of cumulative price developments in the outside world, have hit the country on an unprecedented scale. While Sri Lanka's major exports continue on a long-term declining price trend, her import prices already went up substantially in 1972, and the additional loss in excess of $50 million arising in 1973, on account of these terms of trade movements, is worsening the country's financial position sufficiently to make it extremely difficult at this stage for the Government to do much more than has been done in the field of resource mobilization. The amount of resources lost through international price movements in two consecutive years probably has far exceeded the total resources that the Bank economic mission one year ago thought should be mobilized domestically with a drastic fiscal effort to be undertaken by the Government. In the light of this, a reasonable development effort by the Government could now be expected only if emergency balance of payments support would be forthcoming on a sufficient scale to offset the steep deterioration in the terms of trade. Of the total new commodity aid requirement calculated above for 1973, a major part could in effect be considered to represent compensatory financing.

I. P. M. Cargill
Vice President, Asia

January 25, 1973

DOCUMENT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Report No. 47a-CE

THE 1973 ECONOMIC OUTLOOK FOR SRI LANKA

January 23, 1973

South Asia Department

Currency Equivalents

1972	US$1.00	=	Rs 6.40
	Rs 1.00	=	US$0.16
	Rs 1 mil.	=	US$156,000
1973	US$1.00	=	Rs 6.78
	Rs 1.00	=	US$0.15
	Rs 1 mil.	=	US$147,000

Foreign Exchange Entitlement Certificate (FEEC) Rate

1972	US$1.00	=	Rs 9.92 (55% FEEC)
1973	US$1.00	=	Rs 11.19 (65% FEEC)

This report is based on the findings of a mission which visited Sri Lanka from November 15 to 25, 1972. The mission consisted of Mr. R. Hablutzel (Chief) and Mr. A. Premchand (IMF).

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BASIC DATA

Area:	65,607 km^2	
Population: 1972	13.1 million	
Rate of growth (1965-72)	2.3% p.a.	
Population density: (per sq. km.) to total area	200	
to arable land (1964)	3,033	
	Official Estimates 1/	Mission Estimate
Gross National Product: (1971) (at current market prices)	Rs. 12,677 million	..
Rate of growth at constant prices (1971)	0.9%	..
Rate of growth at constant prices (1968-1971)	3.2%	..
GNP per capita (US$ equivalent) (1971)	$162	$110
Gross Domestic Product at Factor Cost (1970)	Rs. 9,856 million	
Of which (%): Agriculture	34	
Manufacturing	15	
Construction	6	
Transport and Communication	9	
Trade	13	
Other Services	23	

% of GNP at Market Prices (Official Estimates) 1/	1971	(Average) 1961-70
Gross investment	17.2	15.4
Gross savings	16.1	12.9
Balance of payments current account deficit	1.1 2/	2.5 2/
Investment income payments	1.1	0.6
Government revenue	21.1	21.5

	July 1, 1972 Rs. million	Average Annual Change (%) 1961-1971
Total money supply	2,111	5.3
Time and savings deposits	1,313	13.4
Bank credit to public sector (net)	2,171	11.3
Commercial Bank credit to private sector (gross)	1,910	10.0

Public Sector Operations	Rev. Estimates 1971-72 (Rs. million)	Average Annual Change (%) 1960/61-71/72
Government current receipts	3,070	6.6
Government current expenditure	3,053	7.3
Surplus/Deficit	17	Irregular
Government capital expenditure	910	5.3
Total external assistance to public sector (net)	317	25.0

External Public Debt (US$ million)	June 1972	January 1968
Total debt outstanding (including IMF drawings) US$ million	618	304
Debt service ratio to export earnings (excluding IMF repurchases	1972 (est.) 18%	1968 8%
Short-term Debt (less than 1 year) US$ million	71	2

Balance of Payments (US$ million)	1972 (est.)	1971	1970	1969
Total exports	321	330	335	321
Total imports	366	376	392	446
Current invisibles (net)	-13	-7	-20	-17
Net current account balance	-52	-59	-77	-142
Increase in exchange reserves (-)	-4	-24	-5	54

Commodity Concentration of Exports	1972	1961-66 (Average)
Tea, rubber, coconut products (3 major exports)	85%	93%

Exchange Reserves (US$ million)	1972 (June)	1971	1970	1969	1961-66 (Average)
Liquid Balances Abroad	1.9	2.7	4.4	2.6	14
IMF drawings outstanding	99	85	88	105	29

External Financial Assistance (US$ million)	1972 (est.)	1971	1970	1969	1968
Total gross disbursements	58	86 3/	63	69	56

1/ Due to inconsistent use of exchange rates in national accounts, exports are undervalued, and the share of imports, investment, and savings in GNP are overstated.
2/ For 1971 about 4 percent after correction for exchange rates, and about 6 percent for earlier years.
3/ Including $25 million free foreign exchange loan from China.

SUMMARY AND CONCLUSIONS

i. The economy of Sri Lanka had been profoundly affected by the insurgency in calendar year 1971; production of major crops declined, and investment activity reached a low point, particularly in the government sector. Real income per head declined by about 1.5 percent.

ii. In 1972 some recovery of production would have been possible, but drought conditions affected the output of paddy as well as tea and coconut, and hence exports. This was offset only in small part by production gains in onions and chillies (whose imports had been banned) and other minor crops. In industry, considerable improvement in the operation of some public sector firms (textiles and tires, notably) was in large part offset by decline in others, and in the private sector.

iii. Activity in the private sector remained depressed. The Government has no nationalization program but the level of confidence remains low under the cumulative impact of the Business Acquisition Act of 1970, the Estate Control (Transfer and Acquisition) Act, and new measures to impose ceilings on personal incomes.

iv. Overall investment in 1972 has not yet recovered to the pre-insurgency level, and is still lower in real terms than in 1969 both in the private and public sector. Private consumption has also declined in real terms during this period; only public consumption expanded at a rate of about 4 percent a year. Part of this took the form of military expenditure.

v. One of the most pressing problems is open unemployemnt which was about 13 percent in 1969, and as much as two-thirds for young people under 24. The situation has deteriorated since then, and the number of new jobs created in 1972 was even less than in each of the two preceding years.

vi. Given the poor prospects for revival of private investment, the key to development in Sri Lanka is capital formation in the government sector. To raise sufficient investible resources, it is imperative for the government to generate public savings, which have been negative in the last few years.

vii. There was some improvement in fiscal performance in 1972 compared with 1971, but not sufficiently to arrest or reverse the declining trend in public capital formation. Projections for 1973, prior to the presentation of new budget proposals, indicate a renewed sharp expansion of current expenditures by about 15 percent or more than 3 percent of GNP. The main elements in this increase are (a) debt service, (b) large compensation for losses in public corporations, and (c) an increase in the cost of the food subsidy. Revenues, however, on the existing tax base, would increase only 2 percent, with a resulting enlargement of the deficit from Rs 114 million in 1972 to about Rs 350 million.

viii. The 1973 Budget was presented on November 10, 1972. It contains new tax measures to increase revenues as well as expenditures; on a net basis, the new measures will yield about Rs 400 million of new resources; the result is expected to be a small current surplus of about Rs 56 million. The principal new revenue measure is a change in the rate as well as in the coverage of the Foreign Exchange Entitlement Certificate (FEEC) - a form of general import surcharge. The gross yield of this is Rs 382 million. Another step is the withdrawal of the free rice ration from income tax payers, yielding Rs 25 million. The remainder consists of various changes in excise duty, other indirect taxes, and profits from the sugar monopoly. Additional expenditures arise from wage increases, and from minor tax adjustments and price support measures for export crops.

ix. The new budget measures for 1973, although substantial in appearance, are insufficient as a basis for a new effort to generate economic development. Public investment in real terms will not only remain well below the peak of 1968, but barely recover from the low point reached in the last two years. The budget measures also will tend to worsen the disadvantages borne by producers of export crops by further widening the differential between the effective exchange rate applied to exports and imports. New tax concessions for tea however will attenuate the impact for tea producers.

x. Furthermore, the budget estimates are based on extremely optimistic assumptions with regard to (a) capital inflow, and (b) prices of the main food imports, i.e. wheat, rice and sugar. More realistic price assumptions would imply a reduction in import capacity for dutiable items, and hence, in revenues through FEEC's, import duties, and turnover tax, etc. The same effect would result from a lower level of capital inflow. In all likelihood, therefore, the actual outturn in 1973 will again be a current budget deficit instead of the Rs 56 million surplus, and this would mean no increase in public investment over the level of 1972. The consequence is that the 1973 budget offers no scope for improving the outlook for the economy. One problem, of course, still is the political inability of the government to remove the food subsidy, which represents a net charge on the budget of Rs 600 million annually.

xi. On the balance of payments side, exports declined in 1972 by 2.7 percent and are likely to decline further by perhaps 2 percent in 1973 to about US$314 million. This outlook is based on the assumption of a renewed slight decline in the price of tea, and a reduction in the volume of coconut exports, affected by the drought; this will only partly be offset by an increase in rubber exports.

xii. There is likely to be a considerable increase in the cost of food imports which are now running at the equivalent of 12 percent of GNP or some $160 million. Even with the proposed increase in foreign aid disbursements, this would still mean a further compression of raw materials, intermediary and capital goods imports.

xiii. Gross disbursements of project aid in 1973 are projected at $26 million compared with $16 million in 1972, whereas commodity aid disbursements are put at $59 million, slightly less than in 1972; but even this level will be difficult to achieve because hardly more than half of this will be available from the existing pipeline. To generate about $31 million from new commitments appears difficult even if large new commitments of at least $60 million are made very early in the year. Finally, the government also assumes that new drawings from the IMF of $25 million will more than offset repurchase obligations of $20 million; this is still be negotiated.

xiv. The current debt service ratio is about 18 percent; given the poor balance of payments and economic development outlook, foreign aid to prop a relatively desperate situation should be on very lenient terms.

INTRODUCTION

1. On the political front Sri Lanka has been relatively quiet since the disturbances of April 1971. A number of the youths involved in the insurgency are still under detention, but there have been no flare-ups of activism since. In order to bring about a greater degree of confidence in the Government's intentions to promote economic development, the budget for 1972 had originally included proposals to generate sufficient public savings to enable the public sector to assume a greater role in capital formation and employment generation; the budget proposals were, however, watered down in response to political pressures. Even though the current budget deficit in the event was reduced quite significantly in 1972, public capital formation remained well under the level of the year preceeding the insurgency.

2. The government is presently trying to improve its position by calling on the high income groups to make sacrifices and attempting to insulate the working population from adverse economic developments. This is in spite of the fact that the amount of private wealth that can be squeezed is not significant enough to make much of a difference in the economy, and that, from the point of view of economic development, the choice is between a big effort involving a collective sacrifice by all sections of the community and no development.

3. The attitude just described of emphasizing sympathy with the masses is causing the government to take, or propose, measures that will tend to further reduce incentives for higher income groups to work productively, while continuing to provide free or subsidized food to the population, the cost of which to the government keeps increasing, thereby preventing sufficient resource transfers from consumption into public investment. The new budget for 1973 expresses this attitude and this result.

TRENDS IN PRODUCTION AND GROWTH

4. Real GNP advanced by less than 1 percent in 1971. In major part this is attributed to disruptions caused by the insurgency, but in agriculture the setback was further amplified by the effects of falling prices of export crops. Taking account of the deterioration of the terms of trade, there was a decline in real income per head in 1971 by about 1.5%.

5. Value added in agriculture shrank by 0.6% in 1971, mainly because of a 17% decline in rice production and a decline in the output of rubber by about 10%. The contribution of the construction sector to GNP also declined by 8%, and the slowdown in manufacturing, already noticeable in the previous year, continued, with a rate of growth of only 3.3%. Wholesale and retail trade also declined in 1971, while other services, including military, increased by about 9%.

6. After the reestablishment of law and order, conditions for crop production were restored and agricultural GNP in 1972 would probably have increased appreciably were it not for the drought that affected main crops

such as tea, coconut and paddy. The increase in production of rice is likely to be rather modest from 64 million bushels in 1971 to 67 million bushels in 1972. This compares with the 1970 record crop of 77 million bushels, and a target to produce 87 million bushels in 1973.

Export Crops

7. Production of tea is likely to decline by about 5% in 1972 from the level of 480 million lbs in 1971, which had been a good year both in terms of weather and in the sense that tea had not been significantly affected by the civil disturbances. This year's decline is entirely due to the drought; in terms of exports, the volume decline will be offset by an improvement in price, caused, in part, by increased offtake by Pakistan and lower supplies from Bangladesh. It is not expected, however, that the current high average price of Rs 2.76 per lb will be maintained in 1973. Export earnings from tea in Rupee terms should be slightly higher in 1972 compared with 1971, at about Rs 1,200 million, but owing to the downward trend of Sterling, they will be somewhat less than in 1971 in Dollar terms.

8. The decline in the price of rubber has had the effect of depressing the growth rate of total output that should have been expected from the coming into tapping of high-yielding varieties planted earlier, because of reduced tapping of marginal trees. Nevertheless, exports in 1972 should be perhaps 10% higher in volume compared with 1971, but with approximately the same Rupee value of Rs 300 million owing to the lower price, and with a lower value in terms of dollars.

9. Coconuts, the third major export commodity, is also affected by the drought, and earnings from exports are expected to decline. Detailed estimates for export crops and projections for 1973 are given further on page 14.

Gross Domestic Product in 1972

10. With the setback in major crops through adverse weather, agriculture as a whole is not likely to grow by much more than 3% in 1972, in spite of considerable advances in minor crops, such as cinnamon, fruits, onions and chillies. Imports of the latter two were banned, causing extreme price increases, and the effect on domestic production is beginning to show.

Estimates of GDP 1969-1972
(million Rs constant 1959 factor cost)

	1969	1970	1971	1972 /1
Agriculture	3,276	3,395	3,375	3,480
Mining	55	65	67	70
Manufacturing	1,260	1,335	1,379	1,400
Construction	520	598	550	595
Other	4,273	4,388	4,485	4,605
Total GDP /2	9,384	9,781	9,856	10,150
% change from previous year	4.7	4.1	0.9	3.0

/1 Tentative Mission estimates based partly on information from the Ministry of Planning and Employment.

/2 GDP data as shown tend to understate the contribution of export crops because their value is converted into domestic currency at the par rate which is substantially different from the effective exchange rate. Hence, the GDP growth rate is overstated whenever exports stagnate or decline, and vice versa. If the corresponding adjustments were made, GDP growth in most years would be less than shown above.

11. Construction activity in 1972 is likely to recover, at best, to the 1970 level, after the decline last year that had been due to the civil disturbances which caused disruption of investment activities of both the Government and the private sector. Consumption of cement has increased this year, of course, but the stagnation of the construction sector between 1970 and 1972 is consistent with the fact that total capital expenditure from the Government budget is at the same level, in nominal terms, in 1972 as in FY 1969/1970, and much less in real terms. At the same time, there is no change in the tendency, already noted last year, for private investment to decline, due to the generally unfavorable investment climate and continued uncertainty about the Government's attitude towards private investment.

12. The continued decline in the growth of the manufacturing sector to a rate of only 2% in 1972 conceals a recovery and considerable expansion of output in some of the public corporations in 1972, i.e. in the case of textiles, tires, tiles and chemicals, while production declined in some others, as well as in the private manufacturing sector. No progress is apparent in domestic sugar production in spite of large excess capacity.

13. If GNP growth in 1972 turns out to have been only about 3% in real terms, as seems possible at this point, it would imply that it had still not recovered to the 1970 level on a per capita basis; and given the deterioration in the terms of trade, per capita real income will have further declined in 1972. The situation would have been better if the year of civil disturbances had not been followed by a year of bad weather. One can conclude that if the weather is better in 1973 there would be room for some tangible improvement, particularly in agriculture, so that real income per head would again begin to increase somewhat. However, there are no signs of massive improvements in rice production, partly because of the drought, along the lines of the rice self-sufficiency program: and, if private investment continues to stagnate in agriculture and shrink in non-agricultural activities, no basis can be seen for the economy to enter a phase of significant expansion, unless capital formation in the public sector reaches an entirely new level both in terms of quality and of quantity.

Savings and Investment

14. It appears from the estimates of national expenditures that total gross capital formation in 1972 has not yet recovered, in current prices, to the 1970 level, and in real terms has hardly increased from the depressed level of the previous year. In terms of net average change between 1969 and 1972 in current prices, investment increased 1.5% a year, and private consumption by as little as 3.3% a year while public consumption expanded by as much as 9% a year.

15. Total national savings appear to have increased slightly in 1972. The investment rate in 1972 appears to remain lower than in the three years prior to the insurgency. The resource gap has come down, if one may judge from net foreign borrowings, to the vicinity of 4% of GNP compared with 6% in earlier years.

16. As will become evident in the discussion of the budget in the next chapter, the pattern of national expenditures should not be expected to change much in 1973. Capital formation by the government is planned in the new budget to expand somewhat from the 1972 level, the increase amounting to, perhaps, 0.5% of GNP; the whole amount of this increase is equal to the amount proposed to be generated by additional foreign capital inflow.

17. As regards private investment, estimates are not available yet for 1972 but there is evidence that it continues to stagnate. Recent legislation, including the Business Acquisition Act of 1970, the Estates Transfer and Control Act, and the Land Reform Act of June 1972, have had a cumulatively depressing effect on private enterprise. A few Government takeovers of business companies have discouraged private investment in this sector, and investment funds turned towards residential building construction. Another scheme has since been worked out by the Government to impose ceilings on disposable personal income. This measure is likely again to act as a limit to the productive use of private savings or as a deterrent to their generation. Recent proposals advanced in Parliament to nationalize some

of the remaining private foreign companies act as a counterpoise to attempts by the Government to define areas where private foreign investment would be welcome. New private foreign investment, to the extent that it is forthcoming, may increasingly take the form of partnerships with the Government sector, as in the case of a recent Japanese project to produce ceramic ware for export. Domestic private capital, however, as noted earlier, remains under severe constraints.

Employment

18. Unemployment is one of the most pressing problems facing the Government of Sri Lanka; open unemployment in 1969/70 was estimated to have been over 560,000 or 13 percent of the labor force. Given the even much higher rate of unemployment of 65% in the 15-24 age bracket with 10 years of education, it is clear that unemployed educated youths have come to be a major political problem in the country.

19. In 1970 the Government had formulated a crash employment program to create 200,000 new jobs at a cost of Rs 200 million; however, owing in part to lack of practical implementation, and partly to the insurgency, not more than 4% of the target could be achieved, and the program was given up.

Annual Increments in the Number of Employed ('000)

	Average /1 1963-69	1970	1971	Estimate 1972
Agriculture	37	23	23	22
Manufacturing	13	25	25	15
Construction	11	10	-4	8
Other	17	49	50	45
Total	78	107	94	90

/1 For the 1963-69 period the item "other" may be understated (and agriculture possibly overstated) because of a large item "Not Elsewhere Classified" that appears only for 1963 and which in the above computation was included in "other" (See Appendix Table 1.2).

20. As can be seen from the above figures, not much progress is being made in any part of the economy towards greater employment, the least in manufacturing industry, and with an estimated net annual accrual of new job seekers of 120,000 the unemployment rate continues to increase.

Economic Development

21. For reasons of internal politics, as well as pledges made to the electorate, the Government is very largely preoccupied with distributive issues. It was hoped that given the downward drift of the economy and the

actual shrinkage, in the last few years, of the total income per head that was available for distribution, that the Government would feel compelled towards a concerted effort to bring about a reversal of this trend.

22. While there are various possible courses of action to bring about such a change, the political structure and orientation of the Government limit such action very largely to the Government sector and make public investment the key to economic development in Sri Lanka, although in the medium and long term agricultural development could be greatly improved also by appropriate changes in price policies. On both these points, last year's economic report made some extensive comments; in particular, the report outlined a type of fiscal effort which, if undertaken in the coming year, could be considered adequate to lay the basis for improved future development.

23. Basically, the fact would have to be accepted that with the staggering proportions of the country's unemployment problem, those who are employed have to be considered a privileged class and should be called upon to make a degree of sacrifice in terms of immediate real income for the sake of an immediate increase in overall production and employment. In effect, of course, the unemployed are today a real burden on those employed in one way or another, and to the extent that a savings and investment effort was successfully undertaken, the sacrifices would have the effect of generating development and employment beneficial to all, rather than carrying the unproductive task of tending the unemployed.

24. In terms of magnitude of a fiscal effort that would constitute significant progress, it was suggested in last year's report that in addition to covering the gap between the Government's revenue and current expenditures, an improvement in public savings in the order of Rs 600 million should be contemplated. One way of achieving this would be the removal of food subsidies - total net subsidies on rice, wheat flour and other food items cost the Government Rs 600 a year, but other possibilities would also exist.

25. It is clear that the major impetus to development will have to come from the Government, and the primary precondition for the Government's ability to generate such an impetus is the ability to raise sufficient investible resources. Hence, the great importance, one again, of the Budget.

GOVERNMENT FINANCE

Developments in 1972

26. As shown on page 8, fiscal performance turned out somewhat better in 1972 than had been projected by the budget. On a twelve month basis, revenues have probably increased about Rs 280 million (roughly 10 percent) over their FY 1970/71 level. This favorable revenue performance was mostly the result of improved collection machinery, e.g., for the Business Turnover Tax.

27. Current expenditures by the Government increased by a modest 4% over last year (including advance account payments), after they had gone up by 10% in 1970/71. The slowdown was achieved through greater control exercised by the Treasury, a slight reduction in military expenditures from the previous year's record level, and by a shift in the procurement of rice from domestic supplies to imports as a result of a domestic crop shortfall. As is well known, given the exemption of rice from the FEEC, the nominal price of imported rice is well below that of domestically procured rice.

28. Overall, this made for a marked improvement over 1970/71, with the current account deficit being reduced from Rs 284 million to about Rs 114 million. A large part of the improvement is, of course, due to recovery from the year of insurgency; yet this recovery was at best partial. Public savings remained negative, and 1972 capital expenditures were lower than in the two years prior to the insurgency, even in current prices (Appendix Table 5.1). They were, of course, much lower still in real terms.

29. The overall budget deficit (current deficit plus capital outlays) is somewhat smaller than last year, totalling about Rs 990 million. As shown below, the reduction in the overall deficit is more than offset by the combined fall in foreign and non-bank domestic loans, and by the end of the year will probably cause domestic bank borrowing to rise by about Rs 60 million to about Rs 156 million.

30. The conclusion can be reached from the financial results in 1972 that fiscal performance has somewhat improved if compared with the previous year, but not nearly enough to mobilize any public savings for investment - with the result that the Government has not been in a position to arrest or reverse the declining trend since 1969/70 in public capital formation. This result could already have been expected when e.g. the original 1972 budget proposal to increase the price of wheat flour was immediately withdrawn in the face of opposition in Parliament.

Summary of Government Finance, 1970/71-73
(in million Ceylon Rupees)

	1970-71 (Actuals)	1972 Bank Estimates /1	1973 Budget Estimates /3
Total receipts	2657.9	2939.0	3599.8
Current expenditure	2833.0	2901.0	3444.0
Advance account operations	108.6	152.0	100.0
Current account deficit (-) or surplus (+) (1-2+3)	-283.7	-114.0	+55.8
Capital expenditures	799.6	875.0	973.1
Total deficit (net) (1-2+3+5)	1083.3	989.0	917.3
Financing of the deficit (net)			
Foreign finance /2	346.4	317.3	342.3
Domestic non-market borrowing	140.5	40.0	50.0
Domestic borrowing from nonbank sources	491.7	475.5	425.0
Cash balances	11.1	-	-
Domestic borrowing from the banking system			
Central Bank	-160.9	156.3	100.0
Commercial banks	254.5		

/1 These estimates take into account the delay in collection of revenues to a tune of Rs 95 million arising from the self assessment of income tax which have been assumed to accrue in 1972 but would now be available in 1973.

/2 Includes Rs 112 million which are shown by Sri Lanka authorities as cash balances but which are in effect commodity counterpart funds.

/3 If the delayed collections referred in footnote 1 are added, revenues would be correspondingly increased; but this is likely to be offset in major part by additional expenditures not taken into consideration in the budget.

The Setting for the New 1973 Budget

31. The most striking feature of the Government's projections of its 1973 revenues and expenditures made prior to any new fiscal measures is the renewed rapid expansion of current expenditures. They were projected to rise by Rs 437 million or 15 percent. At the same time, revenues were projected to increase by less than 2%; of course, given the state of the economy, a near stagnation of revenue from the existing tax base is not a surprise.

32. The "normal" trend increase in wages and related factors accounts for about a third of the projected increment in expenditures. Most of the balance is related to three factors: (a) Interest payments on public debt are estimated at over Rs 500 million, compared with about Rs 390

million in 1972; this reflects mostly the past few years' reliance on high domestic borrowings; (b) larger transfers to public corporations to cover their losses, in the amount of over Rs 70 million compared with Rs 20 million in 1972; and (c) an increase in the cost of food subsidies, mainly caused by a shift back to more domestic rice procurement. These projections do not adequately take into account recent increases in import prices.

33. The pre-budget official projection of the current deficit at Rs 351 million should be adjusted for the likely shift of Rs 95 million of income tax receipts from 1972 into 1973; this gain for 1973 will be partly offset by an adjustment in the estimate for advance accounts. With these adjustments, the 1973 deficit on current account would still be well in excess of Rs 300 million if no new measures were taken to increase revenues or reduce expenditures.

The 1973 Budget Estimates

34. The budget was presented on November 10 and it has passed through the second reading in Parliament. It contains proposals for raising substantial additional resources, as well as some additional expenditures. The new measures involve about Rs 513 million of gross additional revenues (see table on page 10). After taking into account reductions in certain taxes and additional expenditures, in part directly related to the revenue measures, the budget is to generate net additional resources of about Rs 400 million, or close to 3% of GNP.

35. By far the most important step is the change in the rate of Foreign Exchange Entitlement Certificates (FEEC) from 55% to 65%, accompanied by a broadening in the FEEC coverage of imports. 1/ On a gross basis this would bring additional revenue of Rs 382 million, according to the budget estimates; since part of this is paid by the Government itself for its own imports, an amount of Rs 65 million (not including Rs 22 million on account of sugar imports) is to be deducted to arrive at net additional FEEC revenue of Rs 317 million.

1/ All imports are henceforth subject to FEECs; with the following exceptions: rice, wheat grain and flour, infant milk foods, fertilizer, pulses, dried fish, coriander, cummin seed, books, newspapers and periodicals, two-wheel tractors, implements and spares, and packing materials for exempted items. These items account for approximately 33% of total merchandise imports; of this more than half is for rice and flour. (On January 1, 1973 drugs were moved back to the exempted list also; the expected revenue loss is Rs 9 million.)

Sri Lanka: New Budget Proposals, 1973

Revenue	(Rs Million)	Reductions in Expenditures	(Rs Million)
Foreign exchange entitlement scheme	382.0	Economies in capital program	-100.0/1
Excise duties		Withdrawal of ration books from taxpayers	- 25.0
- on cigarettes	35.0		
- on malt liquor	6.0		
		Increase in Expenditures	
Sale of arrack or alcoholic beverages	4.0	Rebate on tea	8.0
Improved enforcement of income tax	17.0	Guaranteed price on rubber	10.0
Business turnover tax		Guaranteed price on coconut oil	18.0
- new proposals	24.0		
- improved enforcement	18.0	Increase in wages for government employees	30.0
Levy on motor cars	10.0	FEEC payments by government departments	65.0
Profits from the sale of sugar	33.0		
Loss of Revenue		Total new Expenditures	106.0
Tea ad valorem tax adjustments	-16.0		
Total New Revenue	513.0		

/1 This amount is reckoned as an element of underexpenditure in capital expenditures and as such is not taken up for computation of the net mobilization effort.

36. The second important step is the withdrawal of the free rice ration from income taxpayers; the importance of this measure is not so much from income savings that will result from it - the number of income taxpayers is less than 200,000, probably half of whom are "borderline" taxpayers who will be allowed to continue to draw the ration, and the resulting budgetary savings are estimated at only Rs 25 million - but rather the fact that it represents a first, if easiest step towards withdrawal of free and subsidized food supplies generally, an absolute imperative on which, from an economic point of view, there is no disagreement.

37. In addition to these two principal steps, a number of additional measures are taken in the field of both revenues and expenditures, as shown in the table on page 10. Some of the additional measures are self-explanatory such as changes in excise duties and in turnover taxes. Tax relief is provided for export crops like rubber and coconuts. The levies on motor cars is a once-for-all charge. Finally, the increase in the profit on sugar is to result from the Government's freeing of its sales of white sugar while raising the price from Rs 1.50 to Rs 2.50 per pound. 1/

38. The Government has also announced a scheme to increase the price of paddy per bushel by Rs 1, but this amount is to be utilized by the farmers on a mandatory basis for deposit in a superannuation program; the operational aspects of this program have not yet been worked out, but could lead to an increase by at least Rs 20 million in expenditures in 1973. Such an amount is not, however, included in the budget estimates; in principle it could be borrowed back by the Government in the same way as borrowings from the Employees Provident Fund.

39. The net total effect of the 1973 budget proposals is in the amount of Rs 400 million, resulting in a putative current surplus of Rs 56 million. Creditable as the new resource mobilization effort appears, the result will in major part be absorbed in increased current expenditures by the Government.

40. As far as the capital budget is concerned, a reduction in the financial cost of public investment is postulated to be achieved of Rs 100 million from the initial projection of capital expenditures of Rs 1073 million, by soliciting local political participation in local infrastructure undertakings in the form of voluntary labor; this proposal is seen as part of a plan for decentralization of some of the public investments. Capital expenditures for 1973 are thus put at Rs 973 million and the overall budget deficit at Rs 917 million, slightly smaller than 1972. In summary, the 1973 budget as presented purports to achieve a modest measure of public savings for the first time since 1969, and to increase capital expenditures by about Rs 100 million or 11% in current prices (excluding non-monetized capital formation) which would mean a modest increase also in real terms.

Assessment of the 1973 Budget

41. Considering that economic development in Sri Lanka, as noted, depends to an exceptional degree on the performance of the public sector, and that a reversal of the downward drift of the economy would have called for a rather massive shift from public consumption to public investment, the 1973 budget is clearly insufficient. Public investment in real terms will not only remain below the peak of 1968/69 but barely exceed the average of the last three years; it is therefore difficult to see how a new impulse for growth should originate from public expenditures in 1973, and in terms of attacking the awesome problem of unemployment, the budget does not suggest much hope.

1/ It is reported that the price was lowered again on December 18 to Rs 2.00, cutting the revenue effect by half.

42. The budget also affects resource allocation. The increase in the FEEC rate somewhat reduces the imbalance between the demand for imports and the availability of foreign exchange. At the same time, however, it increases the imbalance in price incentives as between production for the domestic market on the one hand, and the treatment of tea, rubber and coconut on the other. The FEEC is a tax borne in significant part by the producers of the three main export commodities. This tax has now been raised, and this is bound to further weaken the position of these three sectors, on which Sri Lanka still depends for 90% of its exports.

43. In assessing the 1973 budget some reservations have to be made also on the realism of achieving the estimated revenue level and current surplus. One might mention in passing that the budget makes no allocation for the cost of the land reform, probably on the expectation (perhaps realistic) that its execution will not commence in 1973. More importantly, the budget has been built on very optimistic assuptions concerning overall imports, particularly overall non-food imports, and also concerning the cost of food imports.

44. The overall value of imports is assumed to rise very slightly in dollar terms from \$366 to \$370 million, and more in rupee terms (the rupee having depreciated vis-a-vis the US dollar, by about 14 percent since July 1972). Projections of customs duties and of FEEC revenues are dependent on this rise. Given the priority granted to food items exempt from FEECs, any compression of the overall import volume is bound to fall entirely on dutiable imports and to affect budget revenues disproportionately through import duties, FEEC receipts, sales tax, turnover tax, etc. A similar effect would result from an increase in the actual cost of food imports within a given total import figure. Yet the overall import volume appears to have been projected quite optimistically, notably assuming not only a 60% increase in disbursements of project aid, but also a Rs 400 million (\$59 million) disbursement of commodity aid, which would be difficult to achieve in the best of circumstances since not more than \$33 million are scheduled to remain in the pipeline at the end of 1972. Of course, these aid assumptions are also reflected in the capital budget. The import program on which the current budget is based also assumes a net drawing of \$5 million from the IMF, as against the now scheduled repayment of \$20 million equivalent.

45. Even if total imports reached the \$370 million level as foreseen in the foreign exchange budget, which is doubtful, the portion to be spent on food may be higher, thus leaving less for items subject to FEECs and customs duties, and thus reducing the revenue base. This is because the rise in the price of foodgrains, which occurred over the past few months has not been adequately taken into account in the budget. While it is conceivable that the international price of rice might decline again somewhat in the latter part of 1973, the price of wheat and flour is likely to remain at an exceptionally high level. A 20% rise in the dollar prices of cereals - and this is much less than what has already occurred - would raise the cost of these imports by about Rs 90 million, thus raising the cost of food subsidies by an equivalent amount, and also, by imposing an equal compression

of non-food imports, reducing FEEC revenues by over Rs 60 million. Furthermore, the price of imported sugar is also much higher than estimated, which is bound to adversely affect the budget.

46. In short, the budget postulate of a Rs 56 million current surplus is contingent on very favorable developments in the area of foreign aid, and on almost impossibly favorable ones in the area of import prices. Without such developments, the fiscal situation is bound to turn out much worse than estimated in the budget.

47. Yet the budget is far from lacking merit. The task of mobilizing public savings in Sri Lanka is a staggering one; even to prevent a widening of the deficit is a remarkable performance. The real problem is that there is no further scope for revenue measures which do not touch the living standards of the "masses", while current expenditures seem set for further rapid expansion. Revenues have long been chasing expenditures with a lag, therefore their potential benefit in terms of savings, investment, and development is always lost. At the pace at which expenditures are growing, even the eventual removal of the food subsidy, which in any case will be inevitable sooner or later when resources are exhausted, will then no longer lay the ground for future improvement; this will hardly make it more acceptable politically. It is worth reflecting on the fact that, had each of the past few years' new revenue measures been taken a year or two earlier, or been accompanied by a stabilization of current expenditures, they would have raised savings instead of just cutting deficits, and would have led to renewed investment and ultimate recovery.

BALANCE OF PAYMENTS OUTLOOK

Exports

48. Total merchandise exports, expressed in U.S. dollar values, are expected to decline in 1972 by 2.7%, and in 1973 by another 2%. This is entirely due to unfavorable price movements for major export crops, except that in the case of tea, prices reached a high point in 1972 (offset by drought-induced supply shortages) from which they are expected to decline again in 1973 with increased supply of tea from Bangladesh, and that a reduction in the volume of coconut exports is forecast for 1973. A summary of export projections is shown below; export values are expressed in Rupees and are slightly increasing in both 1972 and 1973; this apparent discrepancy is explained by movement in the Sterling/Dollar cross rate.

Exports 1971-73
(Million US$)

	1971 Actual	1972 Estimate	1973 Forecast
Tea	191.6	190.6	178.5
Rubber	51.8	46.9	47.6
Coconut	46.1	34.4	32.4
Other	49.2	49.2	55.3
Total	338.7	321.1	313.9
Volume (million lb.):			
Tea	456	440	465
Rubber	285	320	340
Coconut	1004	1100	1000

49. The continued adverse movement in the terms of trade is, of course, at the root of Sri Lanka's economic predicament. A measure of the problem is given by the fact that both exports and imports in 1972 are smaller in Dollar values than ten years ago, and, of course, even smaller in real terms. Not only does the stagnation of export earnings make for a severe limitation on the country's import capacity, and, hence, its economic development, but the underlying price movements also act as a disincentive for expansion of output of major export crops, unless new incentives are created by Government. Some incentives are, in fact, being provided by the Government but they are small if viewed in the light of Sri Lanka's substantial currency overvaluation and the fact that most imports are now priced into the economy at an effective exchange rate of over Rs 11/US$ compared with the export rate of Rs 6.78 1/. The effect of this on exports is obvious as exemplified in the above table.

Imports

50. Imports of food have averaged about $160 million p.a. in the last five years. About $80 to $100 million of this was normally for wheat (including flour) and rice and another $15 to $30 million for sugar. Food, on average, was 41% of total merchandise imports. In 1972, the percentage appears to be somewhat higher than in the preceding years, mainly because of higher levels and prices of wheat flour and sugar imports. For 1973, the Government expects a higher level of domestic rice output and a reduction, consequently, in imports with the result that total estimated food import requirements will be $155 million, or slightly less than the past average. It appears, however, that difficulties in procurement of rice imports in 1972 caused the Food Commissioner to almost entirely run

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1/ Since the visit of the mission, green tea has been moved in to the FEEC market, but given the smallness of the quantity involved, the effect will be insignificant.

down existing stocks, and that if these stocks are to be replenished, imports of rice in 1973 might, in fact, have to be higher than in 1972. Furthermore, the recent rise in foodgrain prices does not seem to be adequately reflected in the estimates. 1/ Given these price rises, foodgrain imports might rise to about \$90 million, and total food imports to over \$180 million, unless domestic consumption is reduced.

Import Projections
(U. S. \$ million)

	1968	1969	1970	1971	Allocations 1972	1973
Foodstuffs	164	152	181	139	164	155
Textiles	25	35	25	17	10	9
Drugs	5	6	5	7	8	8
Fuels	21	29	46	32	34	37
Fertilizers	18	18	17	15	17	24
Total Essential Imports	233	240	274	210	233	233
Other Imports	160	206	117	166	133	137
(Machinery/Equipment)	(44)	(60)	(66)	(57)	(n.a.)	(n.a.)
Total Imports	393	446	391	376	366	370

Source: Based on Data from Central Bank of Ceylon and Foreign Exchange Budgets for 1972 and 1973.

51. Such a rise in food imports would leave only about \$190 million for all other imports together. This would be the lowest amount in more than a decade (particularly if the real volume of imports is considered). As shown in the table, textile imports are already scheduled to be running well below half the level of a few years ago; machinery and equipment imports are likely to be similarly reduced. This may, however, not be enough, and it might no longer be possible to avoid drastic cuts in imports needed for current production. This would in turn restrain production, create new unemployment, and also enhance the scarcity of consumption goods. Yet, the overall import level of \$370 million in turn is dependent on quite optimistic balance of payments forecasts, particularly concerning the capital account, as noted below.

52. For a country like Sri Lanka to be compelled to import food to the tune of 12% of G.N.P. is an extraordinary phenomenon, particularly if it is observed that for some of the imported commodities the country would

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1/ Rice is now being imported under a new contract with Mainland China for a price of £ 50.5/ton compared with £ 30/ton in 1972; raw sugar is now imported at £ 96/ton compared with an average price of £ 80/ton in 1972; the price of wheat flour is now about £ 48/ton compared with an average of £ 27/ton last year. ("Daily News", December 27, 1972) have a comparative advantage in producing them domestically, as in the case of rice, sugar, fish and spices (the foreign exchange spent on the imports of currystuffs alone over the past years has been more than that for iron and steel plus cement combined), and, what is more, domestic sugar mills are operating at 20% of capacity, because, given the price that is being paid, sugarcane is not being produced in adequate quantity. There is no doubt that, in the longer term, there would be scope for significant improvement in the balance of payments given the right investment policies, and, much more importantly, removal of existing price distortions that inhibit import substitution in agriculture and fisheries. In this connection, there is no doubt that some of the steps taken during 1972 are in the right direction, such as the banning of imports of chillies and onions. These measures are not, however, on a scale sufficient to set in motion the import substitution process just referred to in a significant enough manner, and the reduction of the country's dependency on essential food imports will continue, with the present policy setting, to be a very slow process.

Overall Balance of Payments for 1973

53. The forecast for the overall balance of payments position in 1973, as prepared by the Ministry of Planning, is shown below. The net current account position is assumed to deteriorate with an expansion of the deficit from $53 million in 1972 to about $62 million. This change corresponds with the assumption that in the capital account, net official long-term capital inflow would increase from $59 to $67 million.

Balance of Payments Summary
($ million)

	1972 Forecast			1973 Forecast		
	Credit	Debit	Net	Credit	Debit	Net
Current Account						
Merchandise	321	366	-45	314	372	-58
Services	48	56	- 8	48	52	- 4
Current account balance			-53			-62
Capital Account						
IMF transactions	25	25	-	25	20	5
Commodity loans/grants	61	9	52	59	9	50
Project loans/grants	16	9	7	26	9	17
Suppliers' credits	97	97	-	92	97	- 5
Other, net			- 6			- 5

54. As far as commodity aid is concerned, current estimates indicate that there will be only about $33 million of undisbursed commitments in the pipeline at the beginning of 1973. Of this amount, perhaps $28 million will be disbursed during the year. To generate an additional flow of disbursements of about $31 million as implied in the above table, it is believed that commitments of at least $60 million would be necessary, and

that even with that amount, the gross disbursement target could probably not be met unless a major part of new commitments would be made very early in the year.

55. In the case of project aid, the projection implies a considerable increase in disbursements over 1972; it appears that all of this result is to come from accelerated use of existing loans. On the whole, it would not appear that such an acceleration of externally-financed projects by 63 percent would be generally consonant with the modest 11 percent increase in the Government's capital expenditure program; however, there is no basis for offhand dismissing the possibility of such a selected drive.

56. Suppliers' credits and others (mainly repayments on Sri Lanka's rescheduled obligations to foreign banks) are expected to absorb about $10 million net. This is probably realistic; gradual reduction of outstanding medium- and short-term debt is not only part of prudent management, it is also likely to be imposed by the difficulty of obtaining new loans. Whether Sri Lanka will be able to continue with that policy is, of course, another matter, in part dependent on its ability to obtain the expected new commodity loans.

57. As already noted, the Government's forecast for the balance of payments also assumes new drawings from the IMF that would more than offset repurchase obligations falling due during the year and generate $5 million of free foreign exchange. This is still to be negotiated.

58. It might be said in conclusion, that the above projections for the capital account in 1973 incorporate very favorable assumptions with respect to official capital inflow. Any shortfall from these assumptions would make it necessary for the Government to make a choice between further cutting "non-essential" imports (which would no doubt again reduce the investment program, curtail current operations of many enterprises, and add to existing scarcities as well as unemployment) and taking new, immediate and more drastic measures towards agricultural import substitution.

59. Little scope exists for using foreign exchange reserves, even though they appear to have slightly improved; net foreign assets increased from minus $69 million at the end of 1971 to minus $51 million at the end of July 1972; more recent data could not be obtained owing to the banking strike which was still in progress when the mission left.

60. The ratio of foreign debt service payments (excluding credits of under one year and IMF) to total foreign exchange earnings is 18 percent at present. Given the poor outlook for the balance of payments, as well as for economic development, foreign assistance will serve the purpose of propping a relatively desperate situation, and should be on very lenient terms.

Statistical Appendix

Table 1.1

Population Estimates

End of Year	Population
1871	2,400,380
1881	2,759,758
1891	3,007,789
1901	3,565,954
1911	4,106,350
1921	4,498,605
1931	5,306,871
1946	6,657,339
1953	8,097,895
1963	10,590,060
1964	10,965,000
1965	11,228,000
1966	11,439,000
1967	11,701,000
1968	11,976,000
1969	12,270,300
1970	12,571,900
1971	12,848,500
1972	13,131,200

Sources: 1871 to 1963 and 1971 Department of Census and Statistics Population Census.

1964 to 1971 Estimates of the Ministry of Planning and Employment.

Table 1.2

Growth of Employment by Sectors 1946-1972
(Numbers in thousands)

	1963		1969		1970		1971		1972 Estimate	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Agriculture, Forestry & Fishing	1,692	52.9	1,916.2	52.3	1,939.5	51.4	1,962.3	50.7	1,984.0	50.1
Mining & Quarrying	10	0.3	17.6	0.5	19.3	0.5	21.9	0.6	23.7	0.6
Manufacturing 1/	312	9.8	386.6	10.5	411.7	10.9	436.7	11.3	451.7	11.4
Construction	80	2.5	148.0	4.0	157.5	4.2	153.9	4.0	162.3	4.1
Transport & Communication	132	4.1	209.0	5.7	212.0	5.6	220.7	5.7)		
Banking, Trade & Commerce	287	9.0	402.5	11.0	423.0	11.2	410.6	10.6)	1,335.0	33.8
Services Including Utilities	510	16.0	585.9	16.0	610.3	16.2	661.0	17.1)		
Not Elsewhere Classified	174	5.4	-	-	-	-	-	-)	-	-
Total - All Sectors	3,197	100.0	3,665.8	100.0	3,773.3	100.0	3,867.1	100.0	3,956.7	100.0
% Increase			2.3		2.9		2.5		2.3	

1/ Consist of factory industries, cottage industries and the processing of tea, rubber and coconut products.

Source: 1946-1963 Department of Census and Statistics, Census Data.
1969-1972 Ministry of Planning and Employment

Table 2.1

Gross Domestic Product by Industrial Origin at Current Factor Cost
(Rs. Million)

Sectors	1968	1969	1970	1971	Percentage Change 1969	1970	1971
Agriculture, Forestry, Hunting and Fishing	3,691.1	3,731.8	3,948.7	3,892.9	+ 1.1	+ 5.8	- 1.4
Mining and Quarrying	46.8	69.0	84.1	91.0	+47.4	+21.9	+ 8.2
Manufacturing	1,120.7	1,311.5	1,434.2	1,503.8	+17.0	+ 9.4	+ 4.9
Construction	522.3	645.7	771.1	751.1	+23.6	+19.4	- 2.6
Electricity, Gas , Water and Sanitary Services	16.4	18.4	26.3	38.5	+12.2	+42.9	+46.4
Transport, Storage and Communication	939.2	1,058.4	1,175.9	1,203.8	+12.7	+11.1	+ 2.4
Wholesale and Retail Trade	1,420.5	1,698.8	1,793.5	1,814.4	+19.6	+ 5.6	+ 1.2
Banking Insurance and Real Estate	138.6	142.7	152.2	165.8	+ 3.0	+ 6.7	+ 8.9
Ownership of Dwellings	332.9	388.6	398.9	406.7	+16.7	+ 2.6	+ 2.0
Public Administration and Defence	474.3	469.2	516.5	549.6	- 1.1	+10.1	+ 6.4
Services	1,227.4	1,322.6	1,458.5	1,548.6	+ 7.8	+10.3	+ 6.2
Gross Domestic Product	9,930.2	10,856.7	11,759.9	11,966.2	+ 9.3	+ 8.3	+ 1.8

Source: Central Bank of Sri Lanka.

Table 2.2

Gross Domestic Product by Industrial Origin at Constant (1959) Factor Cost
(Rs. million)

	1968	1969	1970	1971	% change over previous yr. 1969	1970	1971
Agriculture, Forestry, Hunting & Fishing	3,239.7	3,276.4	3,395.2	3,375.2	+ 1.1	+ 3.6	- 0.6
Mining & Quarrying	37.3	55.0	65.2	66.6	+47.5	+18.5	+ 2.1
Manufacturing	1,154.0	1,260.5	1,334.9	1,378.9	+ 9.2	+ 5.9	+ 3.3
Construction	457.8	519.5	598.2	549.5	+13.5	+15.1	- 8.1
Electricity, Gas, Water & Sanitary Services	15.0	17.6	21.3	28.6	+17.3	+21.0	+34.3
Transport, Storage & Communications	848.5	899.1	912.5	920.3	+ 6.0	+ 1.5	+ 0.9
Wholesale & Retail Trade	1,245.0	1,366.7	1,391.4	1,315.7	+ 9.8	+ 1.8	- 5.4
Banking, Insurance & Real Estate	110.4	113.7	118.0	128.5	+ 3.0	+ 3.8	+ 8.9
Ownership of Dwellings	291.8	290.9	301.5	307.4	- 0.3	+ 3.6	+ 2.0
Public Administration & Defence	432.4	445.4	458.8	488.1	+ 3.0	+ 3.0	+ 6.4
Services	1,104.8	1,138.9	1,183.7	1,297.0	+ 3.1	+ 3.9	+ 9.6
Gross Domestic Product	8,936.7	9,383.7	9,780.7	9,855.6	+ 5.0	+ 4.2	+ 0.8

Source: Central Bank of Sri Lanka.

Table 2.3

Expenditure on Gross National Product at Current Market Prices

	1968		1969		1970		1971		1972*	
	Rs. Mil.	%	Rs. Mil.	%	Rs. Mil.	%	Rs. Mil.	%	Rs. Mil.	%
Consumption	9,104.5	85.4	9,883.5	85.5	10,377.0	82.4	10,421.4	82.2	10,941	84.3
Private	7,696.7	72.2	8,412.4	72.7	8,728.3	69.3	8,631.7	68.1	9,037	69.6
Public	1,407.8	13.2	1,471.1	12.7	1,648.7	13.1	1,789.7	14.1	1,904	14.7
Gross Domestic Capital Formation	1,699.2	15.9	2,253.2	19.5	2,463.2	19.6	2,186.2	17.2	2,355	18.1
Private & Public Enterprises	1,168.3	11.0	1,747.9	15.1	1,793.8	14.2	1,660.8	13.1	n.a.	-
Govt. & Public Enterprises	530.9	5.0	505.3	4.4	669.4	5.3	525.4	4.1	n.a.	-
Net Exports of Goods & Services	-317.6	-3.0	-727.3	-6.3	-311.3	-2.5	-144.4	-1.1	-184	1.4
Exports	2,210.0	20.7	2,151.5	18.6	2,237.4	17.8	2,220.1	17.5	2,327	17.9
Imports	-2,527.6	-23.7	-2,878.8	-24.9	-2,548.7	-20.2	-2,364.5	-18.7	-2,511	-19.3
Net Factor Income from Abroad	-54.2	-0.5	-109.0	-0.9	-142.1	-1.1	-138.2	-1.1	-131	1.0
Unidentified Changes in Stocks and Statistical Discrepancy	+229.5	+2.2	+264.4	+2.3	+210.7	+1.7	+352.2	+2.8	-	-
Expenditure on Gross National Product at Market Prices	10,661.4	100.0	11,564.8	100.0	12,597.5	100.0	12,677.2	100.0	12,982	100.0
(Percentage Change)			(+8.5%)		(+8.9%)		(+0.6%)		(+2.4%)	

* Based on a forecast prepared by the Ministry of Planning.

Estimates for 1972 are at 1971 prices.

Sources: Central Bank of Sri Lanka for 1968-71.
Ministry of Planning and Employment for 1972.

Table 3.1

Balance of Payments
(U.S.$ Million) 1/

	1969	1970	1971	1972 (est.)	1973 (forecast)
Current Account					
Receipts	366	380	377	370	362
Merchandise, Exports, f.o.b	321	338	330	321	314
Port Expenditure, Transport and Insurance	21	19	15	16	15
Foreign Travel	3	4	3	5	7
Investment Income	2	2	2	2	2
Government Expenditure	5	5	6	6	5
Other Services	12	11	18	16	15
Private Remittances	3	3	3	4	4
Payments	508	459	436	422	424
Merchandise, Imports, c.i.f.	446	392	376	366	371
Port Expenditure, Transport and Insurance	6	6	3	4	4
Foreign Travel	4	3	3	3	3
Investment Income	20	26	24	22	21
Government Expenditure	5	5	4	4	4
Other Services	24	22	19	16	15
Private Remittances	4	5	7	7	6
NET CURRENT ACCOUNT	-142	-79	-59	-52	-62
Capital Account					
Net Private Capital Movements	-3	-1	4	-	-
Direct Investment	-2	-	-1	-	-
Other Long-term Capital	-	-	-	-	-
Other Short-term Capital	-2	-1	5	-	-
Net Official Capital Movements	88	56	82	56	66
Grants	8	13)	18)	58	67
Loans received by Central Govt.	48	31)	68		
Short-term Liabilities of Central Govt.	31	26	6	-1	-5
I.M.F. Transactions	1	-14	-10	-1	4
Net External Assets (Minus = increase)	54	21	-24	-4	-3
Central Bank Assets	12	-5	-6	-	-
Central Bank Liabilities	42	14	-23	-4	-3
Central Govt. Assets/Liabilities	-1	-2	-3	-	-
Commercial Bank Assets	3	-2	-6	-	-
Commercial Bank Liabilities	-2	-1	3	-	-
S.D.R.'s	-	13	11	-	-
NET CAPITAL ACCOUNT	139	77	62	52	63
Errors and Omissions	3	2	-3	--	-1

1/ Up to the end of 1967 all figures have been converted into dollars at the rate of \$1 = Rs4.76. For 1968 - 1971 the exchange rate of \$1 = Rs5.95 has been used. Then onwards the rate of exchange is as follows:

1972 \$1 = Rs6.40
1973 \$1 = Rs6.78

Due to rounding the sum of individual figures may differ from totals.

Source: Central Bank of Sri Lanka for 1971 figures.
Ministry of Planning and Employment for 1972 and 1973 estimates.

Table 3.2

Composition of Exports
(US$ Million)1/

	1960	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972 (Est.)
Tea	230.3	241.4	239.7	239.9	254.2	215.8	219.0	195.1	178.3	188.0	191.5	190.2
Rubber	79.4	60.9	54.0	60.9	63.9	70.8	58.3	55.6	72.4	74.0	51.7	46.5
Major Coconut Products	38.6	47.7	41.6	57.4	57.8	41.2	34.4	55.5	37.2	40.0	46.0	34.3
Other Exports2/	24.6	21.0	23.1	28.8	26.7	24.4	25.0	25.7	27.2	38.0	49.2	49.6
Total Exports	372.9	371.0	358.4	387.0	402.5	352.1	336.7	331.9	315.1	340.0	338.4	320.6
Percentage of Exports												
Tea	61.7	65.1	66.9	62.0	63.2	61.3	65.0	58.8	56.6	55.3	56.6	59.3
Rubber	21.3	16.4	15.1	15.7	15.9	20.1	17.3	16.8	23.0	21.8	15.3	14.5
Major Coconut Products	10.4	12.8	11.6	14.9	14.4	11.7	10.2	16.7	11.8	11.8	13.6	10.7
Sub Total	93.4	94.3	93.6	92.6	93.4	93.1	92.6	92.3	91.4	88.9	88.5	84.5
Other Exports	6.6	5.7	6.4	7.4	6.6	6.9	7.4	7.7	8.6	11.1	14.5	15.5
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Up to the end of November 1967 all export figures have been converted into dollars at the rate of US$1 = Rs.4.76. From December 1967 to December 1971 the figures have been converted at the rate of US$1 = Rs.5.95. The conversion rate for 1972 is US$ 1 = Rs.6.40.

2/ The following commodities have been included under "Other Exports" - Coir Fibre, Coconut Shell Charcoal, Coconuts (Fresh) Cinnamon, Pepper, Cardamoms, Cloves, Graphite, Ilmenite, Cocoa, Tobacco, Citronella, Glycerin, Leather, Precious Stones, Jewelry, Clothing; Footwear, Bunker oil.

Source: Sri Lanka Customs and Ministry of Planning and Employment.

Table 3.3

Composition of Imports 1/

(U.S. $ Million)

	1963	1964	1965	1966	1967	1968	1969	1970	1971
Rice	50.0	47.1	58.2	56.3	47.2	52.2	43.2	57.2	28.2
Flour	19.3	20.6	29.8	28.9	48.0	38.4	40.8	42.9	34.0
Sugar	29.6	33.8	15.8	14.7	15.7	13.7	19.3	29.6	35.5
Dairy Products	16.2	19.6	22.0	15.4	18.6	14.9	9.2	10.0	7.9
Fish & Fish preparations	10.0	12.4	9.6	13.7	13.0	13.0	12.3	14.9	9.8
Currystuffs	18.6	23.9	19.1	19.6	14.6	12.6	27.9	26.8	23.7
Other foods	16.4	13.9	17.5	19.8	15.7	19.5			
Tobacco & Beverages	3.9	3.9	6.7	2.1	1.8	2.2	1.7	1.3	0.4
Textiles	31.2	41.2	34.2	38.4	23.3	24.6	34.5	24.8	17.1
Medical & Pharmaceutical	5.1	5.9	6.3	7.0	4.5	4.7	6.0	4.8	6.9
Paper & Cardboard	4.5	7.4	6.4	8.0	5.9	4.7	8.0	6.5	6.2
Petroleum Products	24.4	25.8	25.0	23.6	27.5	21.3	28.6	45.6	31.8
Fertilizer	6.7	11.4	14.8	17.7	19.1	18.4	17.6	16.9	15.0
Other Chemicals	9.4	11.1	10.9	13.4	14.6	16.6	20.8	5.3	4.6
Cement	3.8	3.9	2.2	6.0	3.3	3.7	3.7	0.8	-
Iron & Steel	31.8	18.5	11.2	11.1	11.5	10.9	12.2	16.1	17.6
Machinery & Equipment	33.8	45.8	41.0	36.6	53.4	43.5	59.9	65.6	57.3
Transport & Equipment	13.1	11.1	13.9	18.9	23.0	17.7	47.5	29.5	18.9
Other	56.4	44.5	47.1	61.4	43.5	50.0	43.1	55.9	52.5
Total (excluding mainly Government Freight)	384.2	401.8	391.7	412.6	404.2	382.6	436.3	383.4	367.4
Total Imports c.i.f.	(392.0)	(411.0)	(404.0)	(424.0)	(417.0)	(393.0)	(445.7)	(391.0) 2/	(376.0)

1/ On payments basis.

2/ Net of short term and Suppliers' Credit payments amounting to U.S.$ 62.5 million.

Source: Central Bank of Sri Lanka.

Table 3.4

Status of Aid Group Assistance [1/]

(U.S.$ Million)

As of September 30, 1972

	Australia	Canada	Denmark	France	Germany	India	Italy	Sweden	Japan	U.K.	U.S.A.	EEC	IDA	ADB	Total
First Programme - 1965															
Commitments 2/	1.46	4.16 (1.06)	-	-	14.00 (6.00)	2.67	-	-	4.99	10.00	11.67	-	-	-	48.95 (7.06)
Disbursements	1.46	4.16 (1.06)	-	-	14.00 (6.00)	2.67	-	-	4.99	10.00	11.67	-	-	-	48.95 (7.06)
Amortization Payments	-	-	-	-	-	2.67	-	-	4.69	0.49	0.27	-	-	-	8.12
Interest & Commitment Payments	-	0.05	-	-	2.05	0.13	-	-	1.06	-	1.50	-	-	-	4.79
Second Programme - 1966															
Commitments 2/	1.07	4.16 (1.76)	-	7.70	6.25	-	-	-	4.99	9.88	15.02	-	-	-	49.07 (1.76)
Disbursements	1.07	4.16 (1.76)	-	7.40	6.25	-	-	-	4.95	9.88	15.02	-	-	-	48.73 (1.76)
Amortization Payments	-	-	-	6.26	-	-	-	-	4.19	0.41	0.55	-	-	-	11.39
Interest & Commitment Payments	-	0.06	-	1.41	1.07	-	-	-	1.04	-	1.60	-	-	-	5.24
Third Programme - 1967															
Commitments 2/	1.03	4.18 (1.17)	-	-	3.38 (0.88)	6.67	-	-	4.99	8.55	13.91	(2.32)	-	-	45.01 (4.37)
Disbursements	1.03	3.92 (0.89)	-	-	3.31 (0.81)	6.05	-	-	4.99	8.53	13.91	(2.32)	-	-	44.06 (4.02)
Amortization Payments	-	-	-	-	-	1.47	-	-	0.97	0.24	0.40	0.45	-	-	3.53
Interest & Commitment Payments	-	-	-	-	0.31	0.79	-	-	1.10	-	0.76	0.40	-	-	3.36
Fourth Programme - 1968															
Commitments 2/	1.75 (0.25)	4.18 (0.47)	-	7.04	3.02	-	4.09	-	4.99	8.37	21.17 (5.67)	-	(2.65)	(2.00)	59.26 (9.04)
Disbursements	1.75 (0.25)	4.18 (0.47)	-	6.92	3.02	-	3.11	-	4.89	8.37	17.32 (2.62)	-	(1.82)	(2.00)	53.38 (7.10)
Amortization Payments	-	-	-	2.07	-	-	0.32	-	-	0.05	0.30	-	-	1.21	3.95
Interest & Commitment Payments	-	-	-	0.69	0.25	-	0.40	-	0.83	-	0.62	0.07	0.02	0.33	3.21
Fifth Programme - 1969															
Commitments 2/	1.14 (0.22)	4.40	2.72	9.22	3.58	3.67	1.35	-	5.40	14.72 (1.52)	19.00	(34.0)	(17.00)	(8.60)	127.89 (61.54)
Disbursements	1.14 (0.22)	4.40	2.46	6.24	3.58	6.16	1.35	-	5.48	12.01	16.68	(6.26)	(5.06)	(2.40)	73.28 (13.96)
Amortization Payments	-	-	0.22	1.41	-	0.78	-	-	-	-	0.10	-	-	-	2.51
Interest & Commitment Payments	-	-	-	0.58	0.15	0.43	-	-	0.53	-	0.28	1.00	-	0.04	3.01
Sixth Programme - 1970															
Commitments 2/	1.23 (0.22)	10.24 (4.57)	-	0.50	5.77	-	-	-	8.60	13.87	-	-	-	(6.12)	46.33 (10.91)
Disbursements	1.23 (0.22)	5.38	-	0.50	4.20	-	-	-	8.38	12.95	-	-	-	(3.70)	36.34 (3.92)
Amortization Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest & Commitment Payments	-	-	-	-	-	-	-	-	0.35	-	-	-	-	0.23	0.58
Seventh Programme - 1971															
Commitments 2/	1.06	5.64	2.87	6.55	0.11	7.20	-	1.58	11.59	6.37	15.43	-	-	(7.97)	66.37 (7.97)
Disbursements	1.06	4.74	-	0.87	0.11	1.62	-	1.58	0.76	5.04	15.03	-	-	-	30.82
Amortization Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest & Commitment Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eighth Programme - 1972															
Commitments 2/	-	4.06	-	-	0.66	-	-	-	-	-	-	-	-	-	4.72
Disbursements	-	-	-	-	0.66	-	-	-	-	-	-	-	-	-	0.66
Amortization Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest & Commitment Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GRAND TOTAL															
Commitments 2/	8.74 (0.69)	41.02 (9.03)	5.59	31.01	36.77 (6.88)	25.21	5.44	1.58	45.64	71.74 (1.52)	96.20 (3.67)	(36.32)	(19.65)	(24.69)	446.94 (102.45)
Disbursements	8.74 (0.69)	30.94 (4.18)	2.46	21.93	35.13 (6.81)	16.53	4.46	1.58	34.44	66.78	89.63 (2.62)	(8.60)	(6.90)	(8.10)	336.22 (37.90)
Amortization Payments	-	-	0.22	9.74	-	4.92	0.32	-	9.85	1.19	1.60	0.45	-	1.21	29.50
Interest & Commitment Payments	-	0.11	-	2.68	3.83	1.35	0.40	-	4.91	-	4.84	1.47	0.02	0.60	20.21
Summary of Aid Group Commodity Assistance															
Commitments	7.9	32.0	5.6	31.0	29.9	25.2	5.4	1.6	45.6	70.2	92.5	-	-	-	344.9
Arrivals 3/	7.9	27.0	2.5	21.9	28.4	16.5	4.5	1.6	34.4	66.8	87.0	-	-	-	298.5
Of which 1965	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	1.5
1966	1.0	2.7	-	-	6.2	1.5	-	-	4.6	5.6	5.5	-	-	-	25.5
1967	0.7	4.9	-	4.6	5.9	1.1	-	-	4.2	10.6	11.6	-	-	-	43.6
1968	1.0	1.9	-	2.5	4.3	1.1	-	-	4.8	9.3	18.2	-	-	-	45.6
1969	0.8	2.0	0.7	3.0	3.2	3.7	-	-	6.2	9.6	20.1	-	-	-	50.3
1970	0.9	8.1	1.2	4.6	0.8	4.6	1.7	-	4.8	10.5	8.7	-	-	-	45.9
1971	1.0	5.5	0.4	2.6	2.0	2.1	0.9	1.6	7.2	14.4	8.6	-	-	-	46.5
1972	1.0	1.9	0.2	4.6	4.0	2.2	1.9	-	3.4	6.3	10.5	-	-	-	41.8

1/ Includes loans and grants in respect of Commodity Aid, Project Aid and Technical Assistance. Commitments and disbursements of Project Aid and Technical Assistance are shown in brackets. The figures for disbursements, amortization and interest payments are against each programme.

2/ Commitments refer to agreements signed.

3/ Based on counterpart fund records.

Source: Ministry of Planning & Employment.

Table 3.5

Status of Other Countries' Official Assistance 1/

(U.S. $ Million)

	Peoples' Republic of China	Dem. Republic of Germany	Poland	U.S.S.R.	Yugoslavia	Total
Prior to 1966						
Disbursements	7.9	-	0.7	17.8	1.2	27.6
Amortization Payments	0.4	-	0.1	0.1	0.2	0.8
Interest Payments	-	-	-	0.4	-	0.4
1966						
Disbursements	2.9	-	0.1	2.0	0.4	5.4
Amortization Payments	0.9	-	0.2	-	0.3	1.4
Interest Payments	-	-	-	0.4	-	0.4
1967						
Disbursements	-	0.3	0.2	0.3	0.2	1.0
Amortization Payments	1.0	-	0.1	2.4	0.3	3.8
Interest Payments	-	-	-	0.5	-	0.5
1968						
Disbursements	-	1.4	0.3	0.1	0.2	2.0
Amortization Payments	0.9	-	0.1	1.7	0.3	3.0
Interest Payments	-	-	-	0.5	-	0.5
1969						
Disbursements	-	9.7	-	-	0.1	9.8
Amortization Payments	0.9	0.1	0.2	1.6	0.3	3.1
Interest Payments	-	0.1	-	0.4	-	0.5
1970						
Disbursements	8.2	0.4	-	0.1	0.2	8.9
Amortization Payments	0.9	2.0	0.6	1.6	0.2	5.3
Interest Payments	-	0.3	-	0.4	-	0.7
1971						
Disbursements	31.2	0.3	-	0.1	-	31.6
Amortization Payments	1.7	2.0	0.1	0.7	0.1	4.6
Interest Payments	-	0.4	-	0.3	-	0.7
1972 2/						
Disbursements	6.1	-	-	0.1	-	6.2
Amortization Payments	0.1	0.5	0.1	1.6	0.1	2.4
Interest Payments	-	0.5	-	0.3	-	0.8
Total						
Disbursements	56.3	12.1	1.3	20.5	2.3	92.5
Amortization Payments	6.8	4.6	1.5	9.7	1.8	24.4
Interest Payments	-	1.3	-	3.2	-	4.5

1/ Includes Government to Government assistance (excluding grants) provided by countries other than Aid Group countries.
2/ Up to September 30.

Source: External Resources Division, Ministry of Planning and Employment.

Table 3.6

Short-Term Debts[1]
(In millions of U.S.$)

	Net Outstanding (end of period)					Net Change (during period)		
	Import Credit		Central Bank Borrowing[2]					
	One Year or less	Eighteen months	One Year or less	Upto 5 years[3]	Total	Import Credit	Central Bank Borrowing	Total
1967	18.1	-	9.6	-	27.7	-	-	-
1968	15.9	-	4.8	-	20.7	-2.2	-4.8	-7.0
1969	21.9	-	43.0	-	64.9	6.0	38.2	44.2
1970	45.9	-	67.2	-	113.1	24.0	24.2	48.2
1971	42.1	12.5	33.1	20.4	108.1	-22.9	13.5	-9.
1972 January	46.9	12.2	21.9	20.4	101.4	4.5	-11.2	-6.
February	50.7	13.0	13.5	20.4	97.6	4.6	-8.4	-3.
March	45.1	11.7	12.2	20.4	89.4	-6.9	-1.3	-8.
April	50.5	16.6	14.9	20.4	102.4	10.3	2.7	13.
May	53.7	15.1	17.1	20.4	106.3	1.7	2.2	3.
June	51.3	16.9	21.2	20.4	109.8	-0.6	4.1	3.
July	37.8	16.5	23.1	17.1	94.5	-13.9	-1.4	-15.
August	38.0	15.2	24.3	17.1	94.6	-1.1	-1.2	0.
September	32.4	15.9	29.2	17.1	94.6	-4.9	4.9	-

1/ Including 18 months trade credits and rescheduled Central Bank Short-term debts.

2/ Excluding **AsDB Loans.**

3/ Rescheduled.

Source: Central Bank of Sri Lanka.

Table 3.7

Sri Lanka: Net Foreign Exchange Assets
1956, 1960, and 1966-72

(In millions of U.S. dollars)

	End of Period									
	1956	1960	1966	1967	1968	1969	1970	1971	June 1972	July 1972
Gross Assets (A)										
Banking system 1/	190.4	73.7	53.6	63.9	66.0	51.1	57.9	71.1	77.0	68.8
Central Bank	156.6	50.2	30.0	43.7	39.6	27.8	32.6	40.0	51.2	45.1
SDR holding	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	13.6	12.6
Gold tranche position	(1.8)	(11.3)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Liquid balances abroad	(114.3)	(18.9)	(4.2)	(23.4)	(17.7)	(2.6)	(4.4)	(2.7)	2.5	1.9
Bilateral (credit) balances	( )	( )	(4.7)	(2.5)	(4.7)	(8.2)	(10.9)	(19.0)	16.3	13.1
Long-term foreign securities	(40.5)	(20.0)	(21.1)	(17.8)	(17.2)	(17.0)	(17.3)	(18.3)	18.8	17.5
Commercial banks	33.8	23.5	23.6	20.2	26.4	23.3	25.3	31.1	25.9	23.7
Government, etc.	79.3	50.3	13.0	11.5	11.8	12.3	9.7	12.5	20.1	21.6
Total	269.7	124.0	66.6	75.4	77.8	63.4	67.6	83.6	97.2	90.4
Gross Liabilities (B)										
Banking system 1/	4.9	18.7	81.5	102.7	126.5	160.0	167.6	149.1	151.0	137.9
Central Bank	0.4	12.5	72.1	94.0	114.3	149.3	157.6	136.1	139.9	128.3
Deposits of foreign institutions, etc.	(0.4)	(12.5)	(72.1)	(84.4)	(109.5)	(106.3)	(88.5)	(80.0)	95.1	84.9
Borrowings from abroad	(--)	(--)	(--)	(9.6)	(4.8)	(43.0)2/	(69.1)2/	(56.1)	44.8	43.4
Commercial banks	4.5	6.2	9.4	8.7	12.2	10.7	10.0	13.0	11.1	9.6
Government, etc.	--	--	0.1	1.5	20.6	25.7	9.7	3.3	3.3	3.5
Total	4.9	18.7	81.6	104.2	147.1	185.7	177.3	152.4	154.3	141.4
Net foreign exchange assets (A-B)	264.8	105.3	-15.0	-28.8	-69.3	-122.3	-109.7	-68.8	-57.1	-51.0

1/ Conforms to the concept of net foreign assets of the banking system as defined in IFS.
2/ Includes a small amount of AsDB long-term loans to the Central Bank outstanding amount of such loans was US$2.6 million at the end of January, 3.1 million at the end of March and 3.2 million at the end of June and July.

Source: Central Bank of Sri Lanka.

Table 4.1

Government Estimate of External Public Debt
Outstanding as of June 30, 1972[1]
Debt Repayable in Foreign Currency
(US$ thousands)

	Debt Outstanding 30.6.1972 Disbursed Only	Including Undisbursed
Total External Public Debt [2]	400,207	519,037
Privately Held Debt	65,773	69,475
Publicly Issued Bonds[3]	5,544	5,544
Suppliers	60,229	63,931
Australia	93	93
Austria	11	11
Bahamas	3,151	3,151
Belgium	5	5
Czechoslovakia	969	969
Hungary	5	5
France	6,133	7,236
Germany, Democratic Republic of	24	210
Germany, Federal Republic of	14,342	14,641
Italy	4,917	4,917
India	2,766	2,766
Japan	10,889	12,590
Kuwait	1,578	1,578
Switzerland	1,001	1,001
Rumania	2,554	2,738
United Kingdom	10,055	10,056
United States	100	328
USSR	172	172
Yugoslavia	1,464	1,464
Financial Institutions	2,118	3,362
Loans [4]		
Loans from International Organizations	30,943	74,220
IBRD	21,338	35,634
IDA	5,972	19,646
AsDB	3,633	18,940
Loans from Governments	301,373	371,980
Canada	13,560	23,356
Denmark	2,645	2,870
China, People's Republic of[5]	45,416	45,416
France	10,936	10,936
Germany, Federal Republic of	38,490	43,637
Germany, Democratic Republic of	17,849	18,266
India	11,141	18,981
Italy	2,105	4,275
Japan	29,200	41,183
Poland	220	220
United Kingdom	45,151	68,723
United States[6]	71,972	81,150
USSR	12,478	12,533
Yugoslavia	212	434

1/ Debt with an original or extended maturity of one year or more.
2/ Excludes the following unallocated portions of "frame agreements":

$11,674,000	from	Germany, Federal Republic of
22,908,000	"	Germany, Democratic Republic
7,415,000	"	Poland
10,834,000	"	USSR
12,616,000	"	Yugoslavia
11,374,000	"	France
2,306,000	"	China, People's Republic of
1,000,000	"	Korea, People's Republic of
5,241,000	"	Bulgaria, People's Republic of
7,862,000	"	Czechoslovak Socialist Republic
10,483,000	"	Hungarian People's Republic

3/ Net of accumulated sinking funds of $7,560,000.
4/ Includes only loans received by the Government of Sri Lanka.
5/ The loans from the People's Republic of China are repayable with Sri Lanka exports goods or convertible currency to be agreed upon by both parties.
6/ Includes $15,386,220 disbursed only and $15,386,220 including undisbursed which are payable in Sri Lanka rupees or US dollars at the option of the Government of Sri Lanka.

Table 4.2

Government Estimate of Future Service Payments on External Public Debt Outstanding Including Undisbursed as of 30, June 1972

Debt Repayable in Foreign Currency
(US$ thousands)

Year	Debt Outstanding (Beginning of Period) Including Undisbursed	Payments During Period Amortization	Interest	Total
	Total External Public Debt			
1972	519,037 1/	35,180	12,896	48,076
1973	498,021	37,231	13,503	50,824
1974	460,790	35,924	12,754	48,678
1975	424,866	35,528	11,534	47,062
1976	389,338	33,710	10,358	44,068
1977	355,628	33,381	9,335	42,716
1978	322,247	28,821	8,198	37,019
1979	293,426	27,321	7,290	34,611
1980	266,105	22,660	6,504	29,164
1981	243,445	21,844	5,851	27,695
1982	221,601	20,575	5,278	25,853
1983	201,026	20,748	4,911	25,659
1984	180,278	20,893	4,319	25,212
1985	159,385	20,377	3,770	24,147
1986	139,008	20,915	3,236	24,151

1/ Amount outstanding as of 30, June, 1972; payments are for the entire year.

Note: Includes services on all debt listed in Table 4.1.

Table 5.1

Summary of Government Accounts
1970/71 - 1973

Rs. Million

	1968/69	1969/70	1970/71	1971/72 (12 months) O.E.	1971/72 (12 months) R.E.	1973* Pre Budget	1973* Post Budget
Revenue	2,482	2,731	2,656	2,855	2,985	3,047	3,560
Current Expenditure	2,309	2,571	2,833	2,961	2,901	3,338	3,444
Surplus of Government Enterprises	7	-11	2	50	50	40	40
Extra Budgetary Revenue 1/	23	27	30	34	35	35	35
Current Surplus (1+3+4-2)	203	184	-145	-22	169	-216	191
Total Capital Expenditure 1/	937	911	830	1,010	910	1,108	1,008
Advance Payments (net)	54	209	109	100	152	100	100
Net Cash Deficit (6+7-5)	788	936	1,083	1,131	893	1,424	917

1/ Total capital expenditure in Item 6 includes outlays from extra-budgetary funds. Hence extra-budgetary funds have been included as revenue under Extra Budgetary Revenue.

2/ Advance Payments (net) as in Table II(F)3, Central Bank Annual Report 1969 plus advance payments on behalf of the Food Commissioner.

* On a pro-rata basis.

Table 5.2

Financing of the Deficit
(Rs. Million)

Financial Year Oct. 1 - Sept. 30	1968/69	1969/70	1970/71	1971/72 (12 months*) Original Estimates 1/	Revised Estimates	1973
Non-Expansionary						
Administrative Borrowing	52	22	141	-	40	50
Net Foreign Loans & Grants	354	220	234	396	317	342
Non-Bank Borrowing	203	266	492 2/	380	476	425
Sub-Total	609	508	867	776	833	817
Expansionary						
Borrowing from Central Bank & Commercial Banks	68	454	94 2/	356	61	100
Decline in Cash Balance	63	-31	- 3	-	-	-
Decline in Commodity Aid Counterpart Funds	48	5	126 3/	-	-	-
Decline in U.S. Aid Counterpart Funds	-	-	1	-	-	-
Sub-Total	179	428	218	356	61	100
Total	788	936	1,084	1,131	894	917

* On a pro-rata basis.
1/ As approved by Parliament.
2/ Tax Reserve Certificates amounting to Rs.13.2 million held by the banking system is now included under non-bank borrowings.
3/ Refer footnote of Page 155 of Central Bank Annual Report 1971.

Table 5.3

Revenue of the Government 1970-71 to 1973
(Rs. Million)

	1970/71 Actual Provi-sional	1971/72 (O.E.) 12 months*	1971/72 (R.E.) 12 months*	1973 (Est.) 1/ Pre-Budget	1973 (Est.) 1/ Budget
Current Receipts	2,603.2	2,836.8	2,965.2	3,020.3	3,533.3
Taxes from personal & corporate income	444.1	460.8	536.8 2/	365.4	382.4 2/
Income tax	443.4	460.8	536.8	365.4	382.4
Other	0.7	-	-	-	-
Taxes on production & expenditure	1,888.4	2,031.9	2,078.0	2,302.8	2,798.8
General sales & turnover taxes	341.1	382.0	366.4	394.3	436.3
Selective sales taxes	302.2	331.6	373.8	392.9	417.9
Tobacco tax	247.7	280.0	312.0	320.0	355.0
Tea tax	37.0	30.8	41.6	52.4	36.4
Other	17.5	20.8	20.2	20.5	26.5
Import duties	282.2	267.4	274.2	295.4	295.4
Receipts from sale of FEECs	395.8	426.4	493.6	561.3	943.3
Export duties	265.9	285.5	236.8	278.9	278.9
Tea	162.7	171.3	162.4	177.6	177.6
Rubber	13.7	14.2	9.3	28.6	28.6
Coconut	54.6	61.4	32.6	30.0	30.0
Others	34.9	38.6	32.5	42.7	42.7
License taxes	45.8	51.1	49.0	63.1	73.1
Property transfer taxes	10.1	20.6	21.9	27.0	27.0
Surplus of Government Monopolies	149.0	160.0	200.0	220.0	224.0
Profits from food sales	96.3	107.2	62.3	69.9	102.9
Interest & dividends received	81.0	108.6	97.0	121.1	121.1
Profits & dividends from state corporations	71.4	100.3	68.0	91.2	91.2
Other	9.6	8.3	29.0	29.9	29.9
Net receipts of trading enterprises	50.4	93.4	94.7	90.2	90.2
Other current receipts	139.2	142.2	158.7	140.8	140.8
National lottery	10.0	12.0	10.9	11.0	11.0
Other	129.2	130.0	147.8	129.8	129.8
Capital Receipts	54.7	69.1	69.0	66.5	66.5
Transfers from capital accounts of domestic sector	40.4	34.2	34.2	32.0	32.0
Estate duty	14.4	12.0	12.0	9.0	9.0
Personal tax	25.9	22.2	22.2	23.0	23.0
Other	0.1	-	-	-	-
Other capital receipts	14.3	34.9	34.8	34.5	34.5
Total Revenue	2,657.9	2,905.9	3,034.2	3,086.8	3,599.8

* On a pro-rata basis.

1/ The increase of Rs. 513 million over the Pre-Budget estimates constitutes the following Budget proposals:

Increase in receipts on account of	B.T.T. + Rs. 59.0 million of which Income Tax is Rs. 17.0 million
" " " " "	Excise Duties + Rs. 41.0 million
Decrease " " " "	Tea Tax - Rs. 16.0 million
Increase " " " "	FEECs + Rs. 382.0 million
" " " " "	levies on motor cars + Rs. 10.0 million
" " " " "	Sale of arrack + Rs. 4.0 million
" " " " "	Sale of white sugar + Rs. 33.0 million
	Total + Rs. 513.0 million

2/ Not adjusted for delay in accrual of self-assessment income tax (95 million Rs.).

Table 5.4

Government Current Expenditures
1968/69 to 1973
(Rs. Million)

	1970/71 Provisional	1971/72 Original Estimates (12 months' period)	1973 1/ Original Estimates
Administration	535.7	560.9	635.6
Civil Administration	329.2	411.2	485.3
Defense	175.6	149.7	150.3
Social Services	746.6	807.5	843.8
Education	483.4	526.3	547.7
Health	238.1	252.2	263.2
Housing	2.2	2.0	3.8
Special Welfare Services	13.9	17.0	18.4
Community Services	9.0	10.1	10.7
Economic Services	151.9	150.9	166.1
Agriculture and Irrigation	75.0	76.0	80.1
Fisheries	4.7	4.8	5.5
Manufacture and Mining	22.8	18.5	21.4
Trade	19.7	21.8	21.6
Communication	29.7	29.8	37.5
Gross Payments of Trading Enterprises	251.0	257.5	288.7
Unallocated FEEC Expenditures			71.0
Intra-Governmental Payments	4.7	4.0	6.5
Transfer Payments	1,409.0	1,523.4	1,840.4
To Private Current Account	1,264.3	1,398.0	1,606.3
Subsidies	652.2	728.6	782.8
of which: Food Subsidy	(601.4)	(658.2)	(707.5)
Interest on Public Debt	336.5	387.3	504.5
Pensions	224.8	227.8	250.0
Households	50.8	54.3	69.0
Other Transfers	144.7	125.4	234.1
Domestic	140.2	119.4	231.0
To local authorities	60.2	61.8	65.6
To public corporations	23.9	19.9	97.2
To other institutions	56.1	37.8	68.2
Abroad	4.5	5.9	3.1
Total Current Expenditures	3,084.0	3,328.3	3,852.1

1/ Provisional. These are gross figures and do not take into account under-expenditure provisions.

Source: Central Bank of Sri Lanka.

Table 5.5

Net Food Subsidy - 1970/71 to 1973
(Rs. Million)

	1970/71	1971/72		*	1973	1973
	Provisional	Original estimates as per approved estimates	Original estimates as per Food Commissioner	Revised estimates as per Food Commissioner	Draft estimates	Post budget estimates
Gross Food Subsidy						
Subsidy to the consumer on imported rice; Subsidy to the producer and consumer on locally produced rice	515.0	597.6	564.4	484.4	553.9	528.9 3/
Add: Distribution expenses and other charges	73.2	48.5	45.2	52.3	53.6	53.6
Subsidy on locally produced red onions	7.2	7.2	-	7.4 2/	-	-
Losses on sale of						
Dhall	6.3	5.2	6.4	14.0	13.4	13.4
Red onions	0.2	0.1	-	-		
Flour, including distribution expenses, etc.	-	-	11.0	30.5	110.7	110.7
Less: Miscellaneous receipts	0.5	0.4	0.4	0.4	0.5	0.5
Gross Food Subsidy	601.4	658.2	626.6	588.2	731.1	706.1
Profits from Sale of Foodstuffs						
Sugar (net of distribution expenses etc.) 1/	78.7	102.7	100.3	61.0	69.8	102.8 4/
Flour (net of distribution expenses etc.)	10.8	0.4	-	-	-	-
Maldive fish	4.1	4.1	6.7	1.3	-	-
Add: Rice subsidy tax	2.7	-	-	-	-	-
Profits	96.3	107.2	107.0	62.3	69.8	102.8
Net Food Subsidy	505.1	551.0	519.6	525.9	661.3	603.3

* On a pro rata basis.

1/ Includes the effect of FEECs payment on the import of sugar as follows:
1970/71 - Rs. 86.1 million (Original estimates); Rs. 135.0 million (Provisional)
1971/72-(15 months): Rs. 121.5 million (Original estimates as per Food Commissioner); Rs. 149.6 million (Original Estimates as per approved estimates and Rs. 141.3 (Revised estimates)
1973 - Rs. 136.9

2/ Subsidy on local chillies.

3/ Provides a reduction of Rs. 25.0 million in the subsidy consequent to the withdrawal of free rice from income taxpayers and their dependents.

4/ Increase of Rs. 33.0 million on sugar is arrived by the sales of 14,000 tons refined sugar at Rs. 5,460/- per ton.

Source: Food Commissioner.

Table 5.6

Net Surplus of Government Enterprises - 1970/71 to 1973

	1970/71	1971/72 1/ (O.E.) 12 Months*	1971/72 1/ (R.E.) 12 Months*	1973 1/
Port Commission				
Revenue	50.6	52.9	56.2	57.7
Current expenditure	26.0	26.5	26.5	27.2
Net surplus/deficit (-)	24.6	26.4	29.7	30.6
Post & Telecommunications Dept.				
Revenue	84.9	104.5	105.8	121.7
Current expenditure	106.8	108.4	108.4	129.8
Net surplus/deficit (-)	-21.9	- 3.9	- 2.6	- 8.1
Railway				
Revenue	139.8	165.8	162.5	165.9
Current Expenditure	118.2	114.9	114.9	123.2
Net surplus/deficit (-)	21.6	50.9	47.6	42.7
Profits from advance account activities	26.1	20.0	20.0	25.0
Total				
Revenue	301.4	343.2	344.5	370.3
Current expenditure	251.0	249.8	249.8	280.1
Net surplus/deficit (-)	50.4	93.4	94.7	90.2

* On a pro-rata basis

1/ The current expenditure figures for 1971/72 and 1973 are net figures, i.e. gross provisions in the Estimates adjusted for anticipated under-expenditure of 3%.

Source: Central Bank of Sri Lanka

Table 6.1

Analysis of Factors Affecting Money Supply
(Rs. million)

	Dec.'70	July '71	Change	Dec. '71	July '72	Change
Government Sector						
Central Bank advances	336.6	343.3	6.7	397.6	327.2	-70.4
Govt. Securities in Central Bank	1,882.8	1,796.3	-86.5	1,863.1	1,866.1	3.0
Govt. Securities in commercial banks	356.8	368.1	11.3	368.1	370.1	2.0
Treasury bills held by commercial banks	281.4	316.3	34.9	320.8	296.5	-24.3
Import bills & cash items on Govt. A/c. etc.	10.2	47.8	37.6	8.9	17.8	8.9
Gross bank credit	2,867.8	2,871.8	4.0	2,958.5	2,877.7	-80.8
Deductions	560.4	555.0	5.4	597.6	706.9	-109.3
Govt. rupee cash	257.8	245.1	12.7	236.7	271.4	-34.7
Counterpart funds	50.8	1.3	49.5	4.5	12.3	-7.8
Other liabilities (net) of	251.8	308.6	-56.8	356.4	423.2	-66.8
Central Bank	2,307.4	2,316.8	9.4	2,360.9	2,170.8	-190.1
Net credit to Gov.						
Private Sector						
Commercial bank credit to Gov. Corporations	297.0	341.7	44.7	359.3	365.7	6.4
Commercial bank credit to other private sector	1,319.6	1,338.7	19.1	1,400.4	1,544.0	143.6
Gross bank credit	1,616.6	1,680.4	63.8	1,759.7	1,909.7	150.0
Deductions	1,358.3	1,488.9	-130.6	1,572.7	1,582.0	-9.3
Time & savings deposits of Gov. Corp.	80.4	72.7	7.7	74.1	70.3	3.8
Time & savings deposits of other private sector	1,067.8	1,130.4	-62.6	1,211.7	1,243.4	-31.7
Other liabilities (net of commercial banks	209.6	281.7	-72.1	291.1	263.5	27.6
Adjustments for items in transit	0.5	4.1	-3.6	-4.2	4.8	-9.0
Net credit to private sector	258.3	191.5	-66.8	187.0	327.7	140.7
Net External Banking Assets	-5,992.0	-374.1	225.1	-398.7	-387.5	11.2
Total Money Supply	1,966.6	2,134.3	167.6	2,149.1	2,111.0	-38.1
Percentage change.			8.5			-1.8

Source: Central Bank of Sri Lanka.

Table 6.2

Cost of Living Index 1/
(1952 = 100)

	Weights	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	Sept. 1972
All Items	100.0	103.5	104.8	106.3	108.8	112.2	112.5	112.3	114.8	121.5	130.5	138.2	141.9	152.5
Food	61.9	100.8	99.8	100.9	103.0	106.4	107.3	109.1	112.7	121.2	127.9	136.6	139.1	148.9
Clothing	9.4	95.1	103.9	108.2	118.2	127.2	126.8	117.0	116.7	120.1	130.9	137.3	145.0	169.9
Rent	5.7	101.5	101.5	101.5	101.5	101.5	101.5	101.5	101.5	101.5	108.4	109.8	109.8	109.8
Fuel and Light	4.3	102.7	104.4	105.6	103.0	103.2	100.7	95.9	96.5	103.2	124.9	136.1	140.8	146.4
Miscellaneous	18.7	117.5	122.8	124.9	126.6	129.3	128.3	127.3	128.9	133.6	147.1	153.2	159.5	170.1
Domestic Group (a)	60.0	108.9	112.3	113.9	113.4	116.7	116.4	116.8	117.1	123.2	134.3	142.9	148.9	165.0
Import Group (b)	35.0	93.7	94.6	96.7	102.5	106.6	106.4	105.4	111.2	117.3	123.5	129.3	129.7	136.5
Export Group (c)	5.0	138.4	119.1	113.8	117.7	115.3	127.2	127.6	123.9	142.4	148.2	157.3	157.9	128.1

1/Index refers to Colombo Town. Figures represent 12-month averages unless otherwise noted. The index is based on surveys of household expenditures of low-income families in 1949/50. It gives heavy weight to goods whose prices until the November 1967 devaluation were held almost constant by the Government through subsidies, price controls or a combination of both. It is, therefore, not an accurate indicator of market price movements.

(a) Weight 60 per cent from 1968. Previous weight 51 per cent.
(b) Weight 35 per cent. Previous weight 44 per cent.
(c) Weight 5 per cent.

Source: Central Bank of Sri Lanka and Department of Census and Statistics.

Table 7.1

Major Export Crops: Production and Yields

Production	1965	1966	1967	1968	1969	1970	1971	Jan.- June 1971	Jan.- June 1972
Tea (m. lbs.)	503	490	487	496	484	468	480	252	238
Rubber (m. lbs.)	261	289	316	328	332	351	312	154	155
Coconut (m. nuts)	2,841	2,630	2,589	2,778	2,440	2,447	2,617	467	652
Yields									
Tea (lbs. per acre)	872	848	839	851	824	811	n.a.	n.a.	n.a.
Rubber (lbs. per acre)	590	618	643	671	673	707	n.a.	n.a.	n.a.

Source: Ministry of Plantation Industries.

Table 7.2

Exports of Minor Agricultural Products

		1967	1968	1969	1970	1971	Jan-July 1972
Coir Fibre Mattress	('000 cwts)	1,065	1,260	1,180	1,173	1,307	729
Coir Fibre Bristle	('000 cwts)	538	564	507	474	534	308
Tobacco unmfg.	('000 lbs.)	942	1,340	709	517	1,549	449
Citrenella Oil	('000 lbs.)	338	298	403	427	418	251
Cinnamon Oil	('000 lbs.)	45.0	80.6	95.1	112.9	126	88
Cinnamon Quills	('000 cwts)	52.8	61.8	65.9	70.0	73	46
Cocoa Beans	('000 cwts)	23.2	34.8	25.4	29.9	30	20
Cinnamon Chips	('000 cwts)	7.9	16.6	21.6	12.7	15	13
Pepper	('000 cwts)	2.0	16.2	17.9	16.9	1	2
Leather	('000 cwts)	10.2	13.4	11.9	13.3	15	7
Coir Yarn	('000 cwts)	7.0	5.7	8.9	9.0	10	7
Cloves	('000 cwts)	0.85	0.95	4.6	5.5	...	1
Chocolate and Cocoa prep.	('000 lbs.)	0.49	4.6	n.a.	-	n.a.	n.a.
Fruit Tinned or bottled	('000 cwts)	0.8	4.5	3.7	6.3	7	3
Cardamons	('000 cwts)	2.4	2.5	3.2	4.0	4	3
Fish	('000 cwts)	3.7	3.1	2.6	n.a.	n.a.	n.a.
Nutmeg	('000 cwts)	0.76	2.1	2.5	2.8	2	1

Source: Customs.

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 16, 1973

FROM: E. Peter Wright

SUBJECT: GHANA EXTERNAL DEBT

We understand from the U.K. Executive Director's Office that, when you see British Ministers on Monday they may again raise the question of Ghana's external debt and ask what the Bank is doing to get a response from Ghana to the Creditors' Proposal of last November. When Mr. Heath was in Washington recently, this matter appears to have come up in his discussions with the U.S. Government and we were subsequently pressed by the U.K. to peruse the matter further with the Ghanaian authorities. The U.K. apparently had the feeling that the Creditors' Proposal had never been properly presented to Colonel Acheampong and that therefore a further intervention by the Bank would be useful. This is definitely not our view. In fact, we had clear indications from Accra that the Proposal was being given full and careful consideration by the NRC, and that it would be counter-productive for us to be putting any further pressure on the Government now.

However, Mr. Broches happens to be in Accra at this moment on other business connected with the Bauxite/Aluminum negotiations, and we have asked him to see Colonel Acheampong and make sure that the Government does not want any further advice or assistance from the Bank in formulating its reply to the Creditors. You can mention this point to British Ministers as an indication of our readiness to be helpful in any way we can and of our concern to ensure that the Government makes a constructive response to the Creditors' Proposal as soon as possible. (The latest indication is that a reply will be forthcoming some time in March.)

Two further recent developments connected with the Ghana Debt issue which you may like to know about.

First, we have just been informed by the U.K. that Ghana has apparently opened bilateral discussions on the problem of short-term debt which was not dealt with in any detail in the Creditors' Proposal. ~~The U.K. from the beginning has tried to keep~~ the question of short-term debt separate from the approach to a settlement of the medium-term debt, whereas Ghana would obviously like to wrap up the whole thing together and will probably advance the need for repayment of short-term debt

creditors have insisted on keeping

as a reason for seeking a longer grace period and possibly further improvement in terms with respect to the Creditors' Proposal on medium-term debt. The Bank has never got directly involved in this issue, and since the Creditors' Proposal left the question of short-term debt largely on one side, we did not go into this matter in any detail in presenting the Proposal to the Ghanaian Government.1/

The second new development is an indication given us by the U.K. privately a few days ago to the effect that, in appropriate cases, the U.K. Government would be ready to have the disputed U.K. contracts referred to arbitration by ICSID if the Ghanaian Government so wished. Mr. Broches knows about this.

1/ Paragraph 7 of the Proposal states: "They (the Ghanaian Authorities) would also clear the arrears of short-term external debt as quickly as possible strictly on a non-discriminatory basis as between Creditors, and would for the future limit the amount of short-term external debt to be contracted."

(Dictated by Mr. Wright over the telephone and signed in his absence.)

EPWright/jc

NOTE ON THE CURRENT STATUS OF GHANA'S DEBT RESCHEDULING DISCUSSIONS

The Creditors' Proposal was submitted to the Government of Ghana on November 6. They have not yet responded to it, but have informed us that they are studying the proposal very carefully, and that they will respond in a positive manner soon. Indications are that an official response will be sent from Accra around mid-March.

Both the British and the US have recently informed us that the series of actions taken by the Government of Ghana in December and January, regarding government take-over of majority equity participation in certain foreign-owned enterprises, have lessened their willingness to help find a generous solution to Ghana's debt problem. ~~for~~ They argue that the government take-over of these firms, which are primarily in the fields of mining and wood products, are signs that the Government in Accra is not anxious to improve the climate in its relations with the creditor countries. They also point to apparent inconsistencies of having the Government assume extra budgetary outlays, and new balance of payments commitments arising from that action, at a time when Ghana's budgetary and external payments position is most precarious.

The Ghana Government on the other hand has continually stressed that it will offer full and fair compensation for the equity participation they have acquired in this manner, and also have stressed that they will take further action to correct the budgetary weaknesses which exist. As an example of their willingness to do so, they announced on February 1 that all subsidy programs on imported commodities, including food, had been abolished. This is in line with the policy recommendations which our economic mission made to them last summer. Furthermore, the Government stresses that the January 10 White Paper on Ghana's investment policy completed all action they intended to take in this field and also stresses the fact that the Government does ~~not~~ wish to continue cooperation with private foreign investors. This White Paper was intended to remove any uncertainty which private investors may have with respect to future government action and established clearly which sectors and the partnership arrangements under which private investors are encouraged to continue their involvement in Ghana's economy.

After the Dec. 21 Board mtg. on the Ghana Sugar Project ($15.6 mill.) we made contacts with the Gov. of Ghana – through the Ghanaian Alternate ED and our Resident Repr. in Accra – and stressed the need to make reasonable progress on the debt issue and to put into effect necessary corrective budget measures and economic policy adjustments. We are now in the middle of further representation with the Gov. on these matters.

LEChristoffersen:jo'd
February 9, 1973

Ghana-debt _ post Feb. 5

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 20, 1972

FROM: Leif E. Christoffersen

CONFIDENTIAL

SUBJECT: Summary of Ghana's Creditors' Meeting in London, October 9-11, 1972

Under the Chairmanship of C.M. Le Quesne, Deputy Under-secretary of State, Foreign and Commonwealth Office (U.K.), representatives of ten creditor countries met in London during October 9-11 to discuss the possibility of formulating a debt rescheduling proposal which could be offered jointly by them to the Government of Ghana. The governments represented were: Belgium, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland, the U.K. and the U.S.A. Both the IBRD and the IMF sent observers to the meeting (see Attachment 1 for list of delegates). The basic documentation for the meeting had been provided by the Bank's economic mission to Ghana last June/July, headed by Mr. McGibbon. Its report had been circulated to the creditor country governments in September and at the London meetings it was agreed that this report would provide the basis for formulating a joint debt rescheduling proposal.

The Bank delegation had been requested in advance by the Chairman to present the Bank's assessment of Ghana's economic situation and its capacity to meet debt service obligations in the future. In a private meeting with the Chairman before the opening of the joint session on Monday, October 9, I informed him that it was our intention, if he still considered it useful to have the Bank deliver a statement on Ghana's economic performance, to mention that in our judgment the Government of Ghana had now progressed far enough to justify presenting the sugar project to the Bank's Board of Directors. Mr. Le Quesne informed me that a reference to the Bank's position on the sugar project would fit in well with U.K. plans. After the opening of the joint session, I presented the Bank's statement to the meeting (for text of statement see Attachment 2).

After 2-1/2 days of deliberations, the conference concluded that the creditors should offer Ghana a debt rescheduling proposal which consisted of five years' grace period, 15 years amortization thereafter and a concessional interest rate of 2-1/2 percent p.a. covering all outstanding amounts of Ghana's medium-term debts incurred prior to February 1966. A statistical table showing outstanding amounts of Ghana's total indebtedness was distributed by the U.K. authorities at the meeting and is given in Attachment 3, Annex A. The meeting agreed upon the wording of a draft communiqué which spelled out the details of the joint creditor proposal (shown in Attachment 3, Annex B). In addition, the meeting formulated an Agreed Minute which would only be transmitted to the creditor country governments (see Attachment 3, Annex C).

The meeting unanimously requested the IBRD to transmit the debt proposal to the Government of Ghana. Since there was some uncertainty as to whether it would be possible for all of the governments represented at the conference to confirm the proposal which the London meetings had concluded, and, since it was agreed by the majority present that it was of utmost importance to transmit a creditor proposal to Ghana as quickly as possible, the conference agreed that the debt proposal would be submitted to Ghana by the IBRD by October 31 on behalf of those governments which, by that time, would have signified their full agreement to the proposal.

After the meetings, it was further agreed that the U.K. Government would communicate to the IBRD the final text of the debt proposal on behalf of the creditor country governments which had been able to signify their agreement to the proposal in time. It would be transmitted to the IBRD on October 30. The creditors expressed the hope that it would be possible for us to dispatch the documentation to Ghana about a day later.

Attachments

LEC:jo'd

cc: Messrs. Chaufournier
Wright
McGibbon
Nissenbaum

Attachment 1

GHANA CREDITORS' MEETING 9 OCTOBER 1972
ROOM 102, FOREIGN AND COMMONWEALTH OFFICE, LONDON

List of delegates:

Chairman	Mr C M Le Quesne
Belgium	M. van Hulst (MFA) M. Francotte (Ducroire) M. J P Arnoldi (Ministry of Finance)
France	Mlle. Moevus (Ministry of Finance) M. de Dianous (Quai d'Orsay)
Germany	Herr Wallner (Ministry of Finance) Herr Bartels (MFA) Herr Ehrig (Ministry of Finance) Herr Gehring (Ministry of Finance) Herr Schwaiger (Min. of Econ. Coopn.) Herr Dr. Kullak-Ublick (Embassy)
Italy	Signor T Lombardozzi (Embassy) Signor Rastrelli (MFA) Signor Clemente (Treasury) Signor Mercuri (Foreign Trade) Signor Tucciarone (Ufficio Italiano Cambi)
Japan	Mr Isetani (Embassy) Mr S Miyajima (Ministry of Finance) Mr I Sugawara (Ministry Trade & Industry) Mr Y Sudo (MFA) Mr S Maruyama (Embassy)
Netherlands	Herr Winchel (Ministry of Finance) M. Ledeboer (Ministry of Finance) M. Racké (Embassy)
Norway	Mr Lövold (Ministry of Commerce) Mr Glistrup (Credit Guarantee Dept.) Mr Dahl (Embassy)
Switzerland	Dr C H Bruggman (Embassy)
USA	Mr Robert Smith (State Dept.) Mr Athol Ellis (USAID) Mr Richard Benedick (State Dept.) Mr Frank Maresca (Treasury Dept.) Mr Jim Bishop (State Dept.)
+ 2 of	(Mr Tom Smith (Embassy) (Mr James Ammerman (Embassy) (Mr Brian Baas (Embassy) (Miss Susan Steiner (Embassy)

/IBRD

IBRD	Mr L Christoffersen	
	Mr J McGibbon	
	Mr P Reitter	
	Mr T Klein	
	Mr M F Chawdhri	
IMF	Mr Charles Merwin (Dep. Director Africa Dept.)	
	Mr David Finch (Dep. Director Exchange & Trade Relations Dept.)	
	M. Jaher Dajani (Africa Dept.)	
UNITED KINGDOM	Mrs Boothroyd	Treasury
	Mr Lee	"
	Mr J de C Ling	FCO
	Mr McQuiggan	"
	Mr Broadbent	"
	Mr Kerr	"
	Miss Stevens	Treasury
	Mr Mason	ECGD
	Mr Freeman	"
	Mr Bremner	"
	Mr Radford (AidPolicy)	ODA
	Mr Douglas	"
	Mr Stafford (Economists)	"
	Mr Tomkins	Bank of England
	Mr P Joyce	" " "
	Miss S Raynham	DTI

Attachment 2

BANK STATEMENT AT CREDITORS MEETING ON GHANA DEBT
IN LONDON - OCTOBER 9, 1972

The NRC has now been in power for about nine months. The magnitude of the economic problem which it took over and the extent of the economic reform and reorganization which it has to achieve to secure a more adequate and sustained pace of economic development have been discussed in detail in our recent economic reports. To a considerable extent these problems stemmed from serious economic mismanagement in the early 1960's. The policies followed during this period had done nothing to reduce Ghana's undue dependence on cocoa for foreign exchange and for budget revenues, had created a disproportionate dependence on imports for both production and consumption purposes and had left the country with a very heavy burden of foreign debt obligations. Successive governments have failed to make any substantial inroads on the basic structural problems. The severity of the foreign exchange constraint, while it may not always have been fully appreciated by Ghana governments, has given little flexibility for making the longer term adjustments and at the same time adapting to changes in shorter run developments. Thus the move to import liberalization in 1970 and 1971 which in the longer run could have achieved a more realistic use and allocation of foreign exchange foundered on the failure to contain imports in the short-run and created a serious balance of payments crisis in which Ghana's already meager reserves were further depleted, her external debts increased and her trade credit relations severely strained. Similarly the policies of the 1960's had extended the role of the government in the economy and created serious imbalance in the government budget and in public finances generally. Again the scope for rapid correction is limited by the narrowness and volatility of revenue sources, the difficulty of making sizeable and immediate cuts in government expenditure without creating serious employment problems and reducing investment levels and thereby jeopardizing development potential. In our judgment therefore lasting improvement in the external balance and in the public finance situation can only be attained gradually.

Some of the initial actions of the new Government, frankly, did not seem consistent with what was necessary to redress this economic and financial crisis. Since these initial policies, the new Government has proceeded along a much more encouraging path in its economic decision-making. The reformulation of the development strategy and economic program has given evidence of better sector priorities and provisions for better long-term economic growth. Sector programs are now for the first time being built up from carefully assessed project plans and within a framework of much improved program and project coordination. This is particularly significant in the key sector of Ghana's economy, agriculture, where the Government has clearly defined its priorities and where its objectives to

pages 3-6 unless otherwise indicated
(see notes below)

increase domestic food production and to decrease the dependence on imported food and raw materials have been translated into specific programs and projects. We find evidence of more systematic project preparation work, and much greater responsiveness to project advice on technical, financial and economic matters. Consequently, we find ourselves in a situation where there is a solid and strong pipeline of high priority projects---a situation which augurs well for Ghana's absorptive capacity to utilize aid promptly when aid is resumed. There is thus positive and encouraging evidence that Ghana is taking steps towards a more concerted and rational development effort.

The short-term financial management of the economy is of course also vital. It must be consistent with the longer-term development objectives and must assure proper action to tackle the serious short-term budgetary and balance of payments problem.

Encouraging progress has been achieved towards correcting the balance of payments problem, particularly in the ability to bring about a sharp curtailment and a restructuring of imports. This took place, parallel with a noticeable improvement in international cocoa prices, and contributed significantly to improvements in trade balances during the first half of this year.

With its Budget Speech of September 13, the Government announced it had reintroduced an export bonus system, together with new import taxes--an evidence of a willingness to begin to address the structural problem of better balances between external and domestic prices. The new Budget also tackles the long-standing problem of inadequate budgetary expenditure controls. By ordering a cut-back of current expenditures to annual increases of about 2 percent, compared to 6-7 percent p.a. in the past, the Government has made a bold and commendable move. As far as capital expenditures are concerned, there has been an encouraging move away from expenditures in the administrative sector. Furthermore, the Government has announced a new policy of financial self-sufficiency for government agencies rendering socio-economic services. Such agencies will now be detached from the budget and are expected to follow realistic commercial pricing policies from now on. As a first step in that direction, the Post and Telecommunications Authority was made financially autonomous last July.

While the measures mentioned show evidence of a good beginning towards sounder financial and economic management, the economic situation still remains serious. Among the most immediate problems is the threat of mounting inflationary pressures. Thus, while the new economic program of the Government, as outlined in the Budget, represents, in our judgment, substantial progress in the right direction, further measures will certainly be required if inflation of serious proportions is to be avoided. This the Government seems to recognize clearly. Colonel Acheampong stated in his Budget Statement of September 13 that his Government was breaking

Sources: [illegible]
pages 3-6 unless otherwise indicated
(see notes below)

with the past traditions of budget presentation. Instead of spelling out in the Budget a complete course of action for the full budget period, the new Government, has chosen to take a gradualist approach and it has explicitly stated that it is prepared to take new additional economic measures, if and whenever necessary, during the course of the year, to correct obvious deficiencies in the program.

Given the political realities, this may be a wide course. In any case it is clear to us that the very difficult economic situation which this Government has inherited from its predecessors, cannot be put right at one stroke. The measures announced in the Budget are only a beginning, but they represent a step in the right direction. The present situation requires further domestic measures. However, in our judgment it seems clear that the situation now justifies new external assistance for the solution of Ghana's difficulties and for achieving a more rapid pace of development. Such external support should entail both appropriate debt relief and expanded external aid. We do not want to minimize the risk which creditors and donors, including the Bank, will be facing if they follow this course but we firmly believe that the risks may be even greater if external assistance is not forthcoming relatively quickly. In our view the measures so far taken by Ghana represent sufficient progress to justify at least a moderate resumption of lending to Ghana, and we believe that a generous offer on the part of the creditors and donors will be equally important. We for our part will now be recommending to our Board of Directors that we proceed with our IDA credit to assist a sugar rehabilitation project, which was negotiated almost a year ago. Furthermore, Ghana's heavy debt service is an obstacle to development, and we believe it is generally recognized that Ghana cannot meet its legitimate development objectives without longer-term debt relief.

Since last June our dialogue with the Government on economic and financial matters has been continuing in a very cooperative and constructive manner, and we expect to maintain and even broaden it. The Government has been alerted to the need to take further corrective measures on several fronts, and we are reasonably hopeful that it will. But external assistance, we believe, will need to supplement domestic efforts in trying to restore a sound economic situation in Ghana--one that allows it to make some progress towards solving its structural problems and to resume economic growth after many years of relative stagnation. Such action would, in our judgment, have a catalytic and constructive impact upon the Government's willingness to proceed with sound and realistic economic policies.

Sources: IBRD Report ...
pages 3-6 unless otherwise indicated
(see notes below)

GHANA DEBT

ANNEX A

DEBT OUTSTANDING INCLUDING PRINCIPAL AND INTEREST[j] 1973-1991

(Best available figures)

	STD $Ms	MTD (pre-1966)[a] $Ms	MTD (post-1966) $Ms	LTD $Ms
Belgium	0.6[b]	1.5	NIL	NIL
Canada	N/A	NIL	NIL	3.5
Denmark	N/A	NIL	0.2	6.0
France	N/A[c]	16.3	1.8	NIL
W Germany	20-28[b]	48.3	4.4	53.6
Israel	N/A	0.6	NIL	NIL
Italy	N/A	18.5[b]	4.1[d]	NIL
Japan	N/A[e]	12.9	1.3	NIL
Netherlands	1.2[b]	24.6[b]	0.6[f]	NIL
Norway	9.0[b]	4.9[b]	NIL	NIL
Switzerland	8.0[b]	NIL	0.4[b]	NIL
UK	170.0[g]	105.8	4.2	59.6
USA	28.0[h]	0.5[b]	2.2[b]	128.8[illegible]
Yugoslavia	N/A	15.4	NIL	NIL
India	N/A	NIL	0.2	NIL
Spain	N/A	NIL	5.7	NIL
UAR	N/A	0.2	NIL	NIL
Other	N/A	NIL	0.8	NIL
Sub-total	N/A	249.5	25.9	251.5
IBRD (including IDA)	NIL	NIL	NIL	79.2
Total IBRD Creditors	N/A	249.5	25.9	330.7
Total non-IBRD Creditors (see Page 2)	N/A	62.3	Negligible	NIL
Total ALL Creditors	300.0[i]	311.8	25.9	330.7

Sources: IBRD Report Sept 1972 Vol II Table 2, pages 3-6 unless otherwise indicated (see notes below)

DEBT OUTSTANDING INCLUDING PRINCIPAL AND INTEREST[j] 1973-1991

(Best available figures)

	STD $Ms	MTD(pre-1966)[a] $Ms	MTD(post-1966) $Ms	LTD $Ms
Bulgaria	N/A	1.3	NIL	NIL
China	N/A	1.1	NIL	NIL
Czechoslovakia	N/A	12.3	NIL	NIL
East Germany	N/A	0.7	NIL	NIL
Hungary	N/A	2.3	NIL	NIL
Poland	N/A	10.9	Negligible	NIL
Romania	N/A	1.4	NIL	NIL
USSR	N/A	32.3	NIL	NIL
Total non-IBRD Creditors	N/A	62.3	Negligible	NIL

Sources: IBRD Sept 1972, Vol II, Table 2, pages 6-7

FOOTNOTES:

(a) assumes full implementation of 1966, 1968 and 1970 Agreements

(b) Delegate's estimate

(c) insured debts amount to less than $10m

(d) unconfirmed

(e) less than $18m

(f) uninsured

(g) latest estimate, including $87m insured debt and $50m arrears of interest, profits and dividends

(h) Bank of Ghana estimate, excluding arrears

(i) estimate in IBRD Report Sept. 1972 Vol I paragraph 138 (page 65), including $100m arrears of interest, profits and dividends)

(j) includes contractual interest and moratorium interest on rescheduled debt

DEFINITIONS:

N/A Not available

STD Short-term debt

MTD Medium-term debt

LTD Long-term debt

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Attachment 3

ANNEX B

Following the decision made at the end of the 1970 Ghana Debt Conference, the representatives of Belgium, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Switzerland, the United Kingdom and the United States of America have met again. They have studied with interest the IBRD Updating Memorandum on Ghana's Current Economic Situation and Prospects, and have reviewed developments in the economy since the beginning of the year, and including the recent budget statement.

2. They recognise the constraints imposed on Ghana as a result of economic policies in the past. They are sympathetic with the Ghanaian objective of growth through self-reliance, and are encouraged at the indications of progress in carrying out these intentions. They wish to reassure Ghana of their continuing goodwill towards her.

3. They note in particular the large volume of external debt accumulated by Ghana and the limited volume of prospective foreign exchange resources available for debt service, imports and other payments.

4. They are anxious to assist Ghana in dealing with her problems and in achieving an adequate rate of growth and an early restoration of normal external economic and commercial relations.

5. In the light of the above considerations the Governments of the countries concerned make the following proposals for a settlement of the problem of the medium-term debt incurred before 24 February 1966:

a) All payments, other than moratorium interest, due under medium-term contracts covered by the Agreed

/Minutes

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Minutes of the 1966, 1968 and 1970 Debt Conferences which fall due on or after 1 July 1972 shall be rescheduled and there shall be a grace period of 5 years from 1 July 1972 to 30 June 1977.

b) The rescheduled amounts would be paid in thirty equal semi-annual instalments starting on 1 July 1977 and ending on 1 January 1992.

c) Interest during the grace and repayment periods would be payable on the outstanding amounts thus rescheduled at the concessionary rate of 2½% per annum, and the higher moratorium interest rates provided for under the Agreed Minutes of the 1966, 1968 and 1970 Debt Conferences would no longer apply.

d) For the purpose of ensuring equity between medium-term creditors Ghana would as a matter of priority bring up to date until 30 June 1972 payments due under the Agreed Minutes arising out of the 1966, 1968 and 1970 Debt Conferences.

e) For administrative convenience and in accordance with customary practice in rescheduling arrangements, the creditor countries recommend that the Government of Ghana should not request measures of relief from countries for whom total payments due as defined in paragraph 5a) amount to less than $2m.

f) The creditor countries expect that, in accordance with customary practice, the Government of Ghana will not make rescheduling arrangements with other creditors at terms less favourable to Ghana than those set forth in this proposal.

/6.

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6. The Ghanaian authorities would for their part continue and intensify their efforts to improve the economic situation, thereby facilitating their access to the IMF's credit facilities.

7. They would also clear the arrears of short-term external debt as quickly as possible strictly on a non-discriminatory basis as between creditors, and would for the future limit the amount of short-term external debt to be contracted.

8. The creditor countries, noting the declared intention of the Government of Ghana to negotiate participation in foreign-owned industries, assume that prompt, fair and effective compensation will be offered to the nationals of the countries concerned.

9. The creditor countries believe that these measures should contribute to the restoration of normal aid relations. Ghana's need to attain a reasonable rate of economic growth and to improve her capacity to meet her international obligations over the longer run are recognised. The potential donors among them would welcome an early meeting to consider in the light of the debt settlement the provision of increased development aid, consistent with Ghana's self-help efforts.

10. The participants agreed to ask the IBRD to transmit these proposals on their behalf to the Government of Ghana and expressed the hope that the IBRD would continue to use its good offices in the search for a solution to this problem.

Attachment 3
ANNEX C

CONFIDENTIAL

LONDON CONFERENCE OF GHANA'S CREDITORS, October 9-11, 1972

Copy of Agreed Minute

The participants conducted their examination of the problem against the background of the IBRD's study of the current economic situation in Ghana. In particular they noted the view expressed by the representatives of the IBRD that the Ghanaian Government would be likely to consider seriously a reasonable and practical proposal put to them for the solution of their debt problem. The creditors hope that, if presented with such a proposal, they would be likely tacitly to drop the unacceptable features in Colonel Acheampong's statement of February 5, 1972.

2. The participants started by examining the amounts of different categories of debt owed to the various creditor countries. They found it extremely difficult to reach precise conclusions, but agreed that the figures at Annex A accurately indicate the order of magnitude. The meeting then went on to consider Ghana's capacity to pay in the light of the IBRD report dated 26 September.

3. A number of alternative programmes of re-scheduling were examined. There was general agreement that

(i) Ghana's general economic problem could not be solved by a programme of debt re-scheduling alone, however generous. A programme of aid would also be called for, as well as great efforts by Ghana herself:

(ii) Both a substantial grace period and a highly preferential rate of moratorium interest would be needed if the proposals put to the Ghanaians were to have any hope of being entertained.

4. After full discussion it was agreed, subject to paragraph 6 below, that a proposal for dealing with the medium-term debt on the following lines should be put to the Ghanaians:-

A five year grace period from 1.7.1972 and thereafter repayments evenly spread over a further period of 15 years at a moratorium interest rate of 2-1/2%.

5. The representatives of the IBRD considered that the Ghanaians would be likely to be willing to look seriously at proposals on these lines and indicated the IBRD's willingness in principle to transmit the creditors' proposals to the Ghanaians, provided that they were consistent with the conclusions of the IBRD's own studies.

6. The creditors therefore prepared the statement of their offer at Annex B for transmission to the Ghanaians. This statement was agreed ad referendum in the case of all the participants and subject to specific reservations in the case of some of them.

7. The meeting agreed that this offer should be put to the Ghanaian authorities by the World Bank not later than October 31, 1972 on behalf of

all creditor Governments who by then will have signified their full agreement. Further consultation among the creditor countries might take place should some Governments be unable to agree certain points contained in the document.

8. The creditors expressed the hope that the IBRD would continue to use its good offices in the search for a solution and that it would be possible in due course to arrange a meeting between the creditors and the Ghanaians. It was envisaged that, subject to the views of the Ghanaians, this might conveniently take place in ( ).

October 19, 1972

8

February 12, 1973

STATEMENT ON FOREIGN ECONOMIC POLICY
BY
SECRETARY OF THE TREASURY GEORGE P. SHULTZ

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation -- while sharing in the mutual benefits of trade -- to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971 clearly signaled our recognition of the need for decisive change.

- -- Intense negotiations established an important fact in December 1971: mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the United States dollar, in order to promote the agreed goal of a better balance in international trade and payments.

- -- Monetary negotiations have been started by the "Committee of Twenty" on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

- -- The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972 the President told the financial leaders of the world that "The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future -- all these not only injure our economies, they also create political tensions that subvert the cause of peace."

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations -- large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

(a) to speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10 percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets. The dollar will decline in value by about 10 percent in terms of those currencies for which there is an effective par value, for example the Deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian Agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed, together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which -- taken together with appropriate measures for the removal of existing trade and investment restraints -- will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

This legislation, among other things, should furnish the tools we need to:

(i) provide for lowering tariff and non-tariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

(ii) provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;

(iii) provide safeguards against the disruption of particular markets and production from rapid changes in foreign trade; and

(iv) protect our external position from large and persistent deficits.

In preparing this legislation, the President is particularly concerned that, however efficient our workers and businesses, and however exchange rates might be altered, American producers be treated fairly and that they have equitable access to foreign markets. Too often, we have been shut out by a web of administrative barriers and controls. Moreover, the rules governing trading relationships have, in many instances, become obsolete and, like our international monetary rules, need extensive reform.

We cannot be faced with insuperable barriers to our exports and yet simultaneously be expected to end our deficit.

At the same time, we must recognize that in some areas the United States, too, can be cited for its barriers to trade. The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end. I am convinced the American workers and the American consumer will be the beneficiaries.

In proposing this legislation, the President recognizes that the choice we face will not lie between greater freedom and the status quo. Our trade position must be improved. If we cannot accomplish that objective in a framework of freer and fairer trade, the pressures to retreat inward will be intense.

We must avoid that risk, for it is the road to international recrimination, isolation, and autarky.

Third, in coordination with the Secretary of Commerce, we shall phase out the Interest Equalization Tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their Voluntary Foreign Credit Restraint Program.

The phasing out of these restraints is appropriate in view of the improvement which will be brought to our underlying payments position by the cumulative effect of the exchange rate changes, by continued success in curbing inflationary tendencies, and by the attractiveness of the U.S. economy for investors from abroad. The termination of the restraints on capital flows is appropriate in the light of our broad objective of reducing governmental controls on private transactions.

The measures I have announced today -- the realignment of currency values, the proposed new trade legislation, and the termination of U.S. controls on capital movements -- will serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform.

They are not intended to, and cannot, substitute for effective management of our domestic economy. The discipline of budgetary and monetary restraint and effective wage-price stabilization must and will be pursued with full vigor. We have proposed a budget which will avoid a revival of inflationary pressure in the United States. We again call upon the Congress, because of our international financial requirement as well as for the sake of economic stability at home, to assist in keeping Federal expenditures within the limits of the President's budget. We are continuing a strong system of price and wage controls. Recent international economic developments reemphasize the need to administer these controls in a way that will further reduce the rate of inflation. We are determined to do that.

The cooperation of our principal trading and financial partners in developing a joint solution to the acute difficulties of the last few days has been heartening. We now call upon them to join with us in moving more rapidly to a more efficient international monetary system and to a more equitable and freer world trading system so that we can make adjustments in the future without crises and so that all of our people can enjoy the maximum benefits of exchange among us.

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