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#12

Minutes of Executive Board Meeting 68/33

10:00 a.m., February 26, 1968

P.-P. Schweitzer, Chairman
F. A. Southard, Deputy Managing Director

Executive Directors	Alternate Executive Directors
W. B. Dale	J. S. Hooker
A. C. Diz	Y. S. Patrón
P. L. Faber	L. Williams
T. Friis	
J. González del Valle	A. Phillips O
S. J. Handfield-Jones	
	P. H. Pereira Lira
P. Lieftinck	H. M. H. A. van der Valk
B. K. Madan	
E. W. Maude	
A. Nikoi	
	C. P. Caranicas
G. Plescoff	
A. Z. Saad	A. Mansour
J. O. Stone	A. M. de Villiers
	E. Ozaki
B. Tann	C. L. Chow
	H. Biron
E. vom Hofe	
A. W. Yaméogo	

W. L. Hebbard, Secretary
P. C. Hole, Assistant

Also Present

Z. Zagar, Alternate Executive Director, International Bank for Reconstruction and Development. African Department: A. R. Bengur. Asian Department: C. C. Liang. European Department: P. Høst-Madsen, Deputy Director; R. Evensen, J. J. Hauvonen, S. Mícíc, A. G. Tyler, F. Woehrling. Exchange and Trade Relations Department: E. Sturc, Director; W. F. Hughes, S. Mookerjee, R. R. Selby, T. Sweeney. Fiscal Affairs Department: H. C. Murphy. Legal Department: A. S. Gerstein, Deputy General Counsel; P. Lachman. Middle Eastern Department: M. M. Hassanein. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; J. Adekunle, A. R. Braun, G. Dorrance, H. Ezekiel, K. Furuya, R. Johnstone, P. L. Venegas. Secretary's Department: R. V. Anderson, Deputy Secretary and Chief Editor; N. K. Humphreys. Treasurer's Department: O. L. Altman, Treasurer. Western Hemisphere Department: E. W. Robichek, Deputy Director; M. E. Bonangelino, J. J. Brooks, R. A. Radford, C. E. Sanson, E. V. Zayas. Information Office: L. R. Azócar. Technical Assistants to Executive Directors: R. H. Arriazu, J. M. Chona, D. Frommel, G. M. Gill, B. M. F. Hazenberg, E. Karlsson, C. T. MacDonald, G. Márquez, B. Nowzad, H. G. Schneider, T. Tanaka, J. R. Vallet.

1. NICARAGUA - 1967 ARTICLE VIII CONSULTATION AND STAND-BY ARRANGEMENT

The Executive Board took up the staff report on the 1967 Article VIII consultation with Nicaragua (SM/68/21, 2/2/68) and considered the request from Nicaragua for a one-year stand-by arrangement in an amount equivalent to US$19 million, together with the staff's analysis and recommendation that the Fund agree to the request, and grant the necessary waiver under Article V, Section 4 of the Articles of Agreement (EBS/68/11, 1/15/68, and Cor. 1, 1/29/68).

Mr. González del Valle made the following statement:

The Government and the Central Bank of Nicaragua welcome the 1967 Article VIII consultation as a timely opportunity to review Nicaragua's recent economic and financial performance and short-term outlook. The Nicaraguan authorities are in general agreement with the broad conclusions of the staff report. There are, however, three aspects of special importance which deserve further clarification and a deeper analysis.

First, the rather pessimistic appraisal of the Fund staff of the Plan for Immediate Action launched in 1966 and continued in 1967 appears to be unwarranted in the light of the concrete results which are already materializing in the diversification of agricultural and industrial production and exports. It is true that the Nicaraguan authorities ran into unexpected delays and difficulties in the implementation of the Plan, including unfavorable weather conditions (which affected the experimental stages of new crops) and marketing problems concerning the promotion of primary exports. However, such difficulties have now disappeared or are being systematically overcome, and brighter prospects for the diversification program are precisely the main source of the recovery of exports which the Fund staff has rightly predicted for 1968. Outstanding among the first concrete achievements of the diversification program are the new banana, rice, and tobacco crops, the selective coffee plant rehabilitation, and the modernization of the textile industry. On the whole, the targets of the Plan, which were always contemplated as medium- rather than short-term objectives, are being met.

Second, although the Nicaraguan authorities appreciate the Fund staff's opinion on the desirability of a further strengthening of the public finances vis-à-vis the domestic development effort in the future, they take a broader and rather different view concerning the appropriate solutions. In the opinion of the Government of Nicaragua, what matters essentially is to increase the level of public savings in order to support the expansion of public investment, and for such purposes a flexible and realistic approach is highly desirable. As pointed out in the staff report, the Nicaraguan authorities are undertaking both a reduction in the annual increase of current expenditures and a thorough improvement of the collection system without changing the basic tax structure. The former objective will be achieved mainly through a systematic rationalization of public expenditures and the extension of administrative efficiency in general. The latter objective is not merely a reflection of partial or piecemeal efforts in tax administration, but the result of an intensive and well-organized program in the development of which the Government has been engaged for about one year with the support of highly specialized U.S. AID technical assistance. This program is primarily directed to broaden the tax base, improve the control of and modernize the collection techniques of direct taxes, in particular income and property taxes. Once the cadastral project and the new taxation procedures become operative, the level of revenues based on the present tax structure is expected to rise substantially. In this connection, it should be noted that the present level of public sector current revenues as a ratio to GDP is higher in Nicaragua than in most comparable countries.

Third, the authorities share the Fund staff's views on the increasingly important role which credit policy is called to play in the context of Nicaragua's current economic policy and are happy to report that steady progress is already being made toward the consolidation of a coordinated strategy of internal and external stabilization. Since the Fund mission visited Managua in early December 1967, administrative improvements have been made in the National Bank, and its credit program for 1968 has been revised and adjusted to levels entirely consistent with the projected amounts of noninflationary resources. The Central Bank is now in a position to effectively coordinate the lending activities of both the National Bank and the National Development Institute with the orderly implementation of the over-all 1968 credit budget. The rest of the banking system will continue to be, as in the past, subject to the credit policy directives of the Central Bank of Nicaragua.

In connection with the last point, the monetary and fiscal authorities of Nicaragua have adopted a comprehensive financial program for 1968 in support of which a new stand-by arrangement with the Fund has been requested. In the last three years Nicaragua has consistently reconstituted its position in the Fund, but the need for a strong balance of payments policy now justifies the present request.

The financial program described in the letter of intent of December 14, 1967 fully meets the requirements which the Government and the Central Bank of Nicaragua deem appropriate in order to achieve the proposed objectives of the stabilization policy now being implemented. Nevertheless, the Nicaraguan authorities will follow with keen interest the discussions which are expected to take place in the Executive Board in connection with the policies and practices applied in the use of Fund resources.

Mr. Dale observed that there had been a sharp deterioration in the financial position of Nicaragua in 1966, and especially in 1967. This had been brought about in considerable measure by an export downturn which had been accompanied, as domestic demand leveled off, by the emergence of fiscal difficulty and then by a strong program of official countercyclical lending to the private sector. In this situation, the total expansion of net domestic credit had clearly been excessive and the external financial position had deteriorated critically. The program laid out for 1968 appeared adequately tight to achieve the objective of reversing this deterioration, and he supported it. In this connection, he pointed out that the reorganization and administrative improvements in the National Bank appeared to be highly important to the success of the program, and he hoped that they would work well. He wished the authorities well in their endeavors, and he supported the proposed stand-by arrangement.

Mr. Williams considered that the authorities had given every indication that the mistakes which had been made in the financial program would be corrected. He observed that the new emphasis in the development strategy which was being given to the policy on agricultural prices would be likely to contribute toward an improvement of the situation. He referred to page 12 of Part I of the consultation report and observed that one got the impression that the staff was somewhat pessimistic as to whether improved administrative performance in the revenue departments would increase the amount of revenue collected. He asked the staff to elaborate on its view in this regard. Given the intentions of the authorities as expressed in both the consultation and stand-by reports, he had no difficulty whatsoever in supporting the request for a stand-by arrangement.

Mr. van der Valk referred to page 3 of EBS/68/11 where it was stated that "money and quasi-money increased by less than 1 per cent in 1967 whereas the national product grew by about 4 per cent." This was then followed by the statement that "there is no clear statistical evidence of substantial capital flight." This prompted him to ask the staff where the money was; if there was no evidence of capital flight, it had to be in the domestic economy. He could see only two possibilities in this respect: either it had been hoarded, or there had been an increase in consumption. He wondered whether the staff could throw any light on this issue.

The staff representative from the Western Hemisphere Department responded first to Mr. Williams' question as to whether an increase in revenue would result from the improvements in tax administration. He pointed out that the Nicaraguan Government had been making efforts to improve the tax administration over the years, and they had been successful, especially during the period in which exports had increased. The Government felt that there was still room for improvement in the administration of the tax system, but the staff was somewhat skeptical about whether this would result in a very substantial increase in revenue; improvements in revenue collection would be a relatively gradual process. It was still the staff's view that an increase in taxes would be more important and more effective in this connection in the longer-term.

As to Mr. van der Valk's question relating to the disparity between the increase in the money and quasi-money supply and the growth in national product, the staff representative from the Western Hemisphere Department emphasized that the staff had found "no clear evidence" in the balance of payments records of substantial capital flight, and pointed out that it was very difficult accurately to record capital flight. In addition, the over-all picture was obscured in that some other financial institutions had been attracting savings, and the staff had not had a sufficiently clear picture of the economy's financial structure to make any precise statement relating to the issue raised by Mr. van der Valk.

Mr. González del Valle thanked Executive Directors for their remarks and said he had nothing to add to the staff representative's comments.

The discussion then turned to the text of the proposed stand-by arrangement.

The decision was:

The Government of Nicaragua has requested the Fund to agree to a stand-by arrangement. The Fund agrees to the request, approves the stand-by arrangement annexed to EBS/68/11, Sup. 1, and grants the necessary waiver under Article V, Section 4, of the Articles of Agreement.

Decision No. 2458-(68/33), adopted
February 26, 1968

2. ANNUAL REPORT, 1968 - DRAFT OUTLINE

The Executive Directors exchanged views on a draft outline of the Annual Report for 1968 (EBD/68/30, 2/9/68).

The decision was:

The staff should prepare a first draft of the 1968 Annual Report, taking into account the comments of the Executive Directors on the outline set forth in EBD/68/30 (2/9/68).

Adopted February 26, 1968

3. YUGOSLAVIA - 1967 ARTICLE XIV CONSULTATION

The Executive Board considered the staff report and proposed decision on the 1967 Article XIV consultation with Yugoslavia (SM/67/145, 12/21/67, Sup. 1, 2/20/68, and Cor. 1, 1/8/68).

Mr. Zoran Zagar, Alternate Executive Director of the IBRD, was present.

Mr. Lieftinck made the following statement:

The Yugoslav authorities have requested me to thank the staff for a very good report; they generally concur with its conclusions.

During the year under review Yugoslavia made further progress in the implementation of the economic reform embarked on in the summer of 1965. The objectives of this reform--which marks a radical change in the system determining the allocation of economic resources and the functioning of the economic organizations--are well summarized in the final paragraph of page 1 and the first paragraph of page 2 of Part I.

Considering the pervading institutional and policy changes that were introduced, it is not surprising that the economy was subjected to a difficult adjustment process which in 1966 and more pronounced in 1967 has slowed down the rate of growth, particularly in the industrial sector. The new price system making prices more responsive to market forces and the increased competition resulting from liberalization of imports, created conditions under which many manufacturing enterprises encountered marketing difficulties and declining profits; these factors, together with the new system of investment finance with more reliance on self-financing, a rather generous distribution of net earnings by the economic organizations at the expense of internal savings and over-all credit restraint, could hardly fail to reduce industrial investment activity. Moreover, external conditions were less propitious for industrial exports, especially to Western Europe owing to recessional trends and the rise of integrational barriers.

Notwithstanding the deceleration of industrial activity during the last two years, the Yugoslav authorities have the firm intention to carry out the economic reform, accepting temporarily a low economic growth rate as the price to be paid for a correction of internal and external price and production distortions, an increase in the efficiency in the use of resources, a strengthening of the country's competitive position and a stronger and sounder basis for reaching higher levels of real income under conditions of internal and external stability.

In the initial period after the introduction of the reform, price intervention either by federal decree or by decentralized regulations subject to federal guidelines was the rule, uncontrolled prices were the exception (agricultural prices remained free). Thus, most of the price adjustments that took place in that period were administered. During 1967 administrative price regulation has been gradually reduced. The Act on the formation and social control of prices, passed by the National Assembly in February 1967, is based on the principle of free determination of prices and defines the cases and conditions in which the Federal, Republican and local authorities are authorized to intervene. As the staff reports on page 6 of Part I, at the time of the consultations, 50 per cent of industrial output at the producers' level had been freed of price control and this trend should continue.

Substantial progress was also made with respect to the liberalization of the restrictive system. As of January 1, 1967, the surrender requirement was abolished for most foreign exchange receipts. A considerable proportion of imports from convertible currency countries was liberalized and so were many invisibles. The three main constraints to more rapid progress in this field are the inadequacy of Yugoslavia's foreign exchange reserves, the burden of debt servicing on the balance of payments and the necessity to avoid the accumulation of bilateral credit balances with the U.S.S.R. and other East European trading partners.

The effect on the price level of the measures taken so far has been quite favorable. Producers' prices of agricultural products, which before the middle of 1966 had risen considerably, entered into a downward trend under the impact of two good harvests and increasing marketing difficulties abroad. Industrial prices at the producers' level increased in 1967 only by 1 per cent as a result of a generally weaker demand and increased competition from imports. Prices of services, however, continued to rise and this, together with the increase in turnover taxes and the unfreezing of retail markups, caused an upward movement in the cost of living of about 5 per cent.

The new price policy has virtually eliminated the distortion between agricultural and industrial prices and has improved the capacity for self-financing of investment by the agricultural economic organizations. Continued efforts are being made to improve the productivity of Yugoslav agriculture, not only in the socialized sector but also, and increasingly, in the private sector by encouraging mechanization, the use of better seeds and fertilizer, and improved credit and marketing facilities. The modernization of industry should benefit from the new investment policies (more emphasis on self-financing and the channeling of surplus savings via investment banks which are guided in their lending decisions by profitability considerations), the contracting of foreign loans (with the World Bank) by the Yugoslav Investment Bank, and the permission for setting up "joint enterprises" with foreign partners.

In both the agricultural and industrial fields and adjustment of the quality of Yugoslav products to the requirements of the domestic and foreign markets is becoming increasingly manifest. A growing number of enterprises are becoming export minded. The catering industry is showing impressive progress reflecting itself in a rapidly growing income from foreign tourism. All these developments support the impression that the Yugoslav economy is steadily moving in the direction of greater efficiency and international integration, which are ranking high among the purposes of the reform.

According to provisional figures for the full year 1967, imports increased by 8.4 per cent to $1,708 million and exports by 2.7 per cent to $1,252 million, thus leaving a trade deficit of $456 million. Considering that the net income from invisibles over the first 10 months of the year amounted already to $311 million and assuming a net capital inflow in the same order of magnitude as originally forecast ($85 million), it seems reasonable to expect that the over-all balance of payments will again show a modest surplus comparable to that of last year.

Following the import liberalization, the change in the pattern of foreign trade in favor of trade with the convertible area which had appeared already in 1966, became more strongly marked. Imports from the EEC and EFTA countries increased in 1967 by almost 60 per cent and 22 per cent, respectively; exports to these countries increased by 10 per cent and 5 per cent, respectively. Fortunately, there was a growing surplus on the invisible account with the convertible area, but the increasing deficit on current account with this area and its counterpart--the steep rise of foreign trade balances with the bilateral area--is giving the authorities concern. In order to remedy this situation, they will endeavor to find more flexible forms of trade and payments with the U.S.S.R. and the East European countries. At the same time they are anxious to enter into arrangements with the EEC--where Yugoslav exporters are faced with a variety of protective measures and erratic market conditions--for establishing trade relations on a more lasting basis.

In the course of the year, significant success was achieved in further reducing excess demand which constituted potential inflationary pressures. Compared with a growth of real GNP by 1 per cent, as the result of a mildly contractionary fiscal performance and tight over-all credit policies, money supply decreased by 2 per cent and total liquidity (including restricted deposits) by 3 per cent. The fiscal and monetary measures taken served at the same time an important structural objective adopted as part of the economic reform, namely, a reduction in the proportion of national expenditure devoted to public consumption and fixed investment in favor of larger private consumption (after many years of austerity). The public sector realized considerable reserves; total investment in fixed assets decreased by 6 per cent in nominal terms. Personal incomes in the social sector increased by 16 per cent in nominal terms and by 8 per cent in real terms. It is true that the rise of personal income payments went beyond the official target, but not all this income was consumed. Savings deposits increased by 19 per cent while consumer credits decreased by 21 per cent. Growing confidence in the stability of the dinar is demonstrating itself throughout the economy.

It would appear that, although the economic reform has not yet been fully absorbed and needs further implementation, the stage has been set by and large for a resumption of a more satisfactory rate of economic growth in the new institutional environment and along the lines as intended. Economic policy for 1968 is based on the expectation of a growth in real product of about 3 to 4 per cent, with increased production for exports playing a leading role in the recovery. Supplement 1 to the consultation report (pages 5-8) gives an excellent summary of the orientation of the policies as adopted, over-all and more specifically with respect to the most important sectors. I do not see great inconsistencies between this policy outline and the recommendations expressed in the staff's appraisal. The proposed decision is acceptable.

Mr. Lieftinck said that more recent information indicated that the net income from invisibles over the whole of 1967 amounted to $375 million, and this, together with the import and export figures, left a current account deficit of $80 million which would be more than covered by net capital inflow. In addition, he had received data for January 1968 which indicated that in several respects there had been a marked improvement in economic performance: in January 1968 industrial production, which had declined by 1/2 per cent in 1967, had been 2.8 per cent above the level of January 1967; exports in January 1968 had increased by 18.7 per cent in comparison with January 1967; and imports for the same period had decreased by 7 per cent.

Mr. Dale observed that the depth and importance of the changes that had been taking place in Yugoslavia were really quite breathtaking. He was very pleased to see that, in general, the measures that had been taken had enjoyed a great deal of success. He thought that Mr. Lieftinck had aptly summed up what was so encouraging about these measures in his statement that "growing confidence is demonstrating itself throughout the economy." In Mr. Dale's view this was the consequence not only of the improved management of fiscal and monetary policy, but also of the structural and other reforms which had been undertaken and which were enjoying so much success. There had, of course, been a price--at least in the short term--for the success which was being demonstrated, in that 1967 had been characterized by economic stagnation, particularly in the industrial field. In this connection, he welcomed the additional information from Mr. Lieftinck to the effect that in January 1968 industrial production had shown signs of real growth; in addition, the figures supplied by Mr. Lieftinck on exports and imports in January 1968 were very encouraging and gave some real confidence that the external situation was improving, as one had hoped it would.

Mr. Dale considered that the policy measures undertaken in the balance of payments field, including the liberalization measures, had been reasonably successful so far, but there remained a very difficult problem arising out of the fact that the balance of payments surpluses in both 1966 and 1967 had been reflected almost entirely in a rise in net balances under bilateral payments agreements with Eastern European countries. However, in 1968, one could perhaps hope for an improvement in Yugoslavia's balance of payments with the convertible currency area, given the fact that economic activity in a number of Yugoslavia's major trading partners had now picked up in comparison with the previous year. One would also hope that the restrictions on Yugoslavia's exports in these countries could be reduced in a helpful manner.

Mr. Dale found it very encouraging that, in the light of the reform measures, price increases had been relatively moderate over the past year or so. In this connection, he observed that in Yugoslavia, as elsewhere, it might be difficult to make substantial progress in the field of incomes policy, but one got the impression that incomes policy would ultimately be of great importance to the success of the reforms. He added that although fiscal policy was being reinforced, the improvements contemplated were rather too timid and would still leave an excessive burden on monetary policies. He hoped that the authorities would find it possible to take further steps in this field in order that the excessive burden shouldered by monetary policy would not continue over a long period. In concluding, Mr. Dale wished the Yugoslav authorities well in their implementation of the very important reform program.

Mr. vom Hofe said that for many years he had watched with interest the attempts of Yugoslavia to change its economy from the Eastern European centralized and government-controlled type into one which was governed more by market principles. The Yugoslav example illustrated how very difficult this transformation could be, particularly in respect to the problems arising from the adjustment of prices to the level prevailing in countries of the Western World. It was obviously very difficult to transform the whole basis of industrial production in accordance with the movement to a different economic system. He congratulated the Yugoslav authorities for their not having been discouraged by previous failures, and he wished them growing success in their future endeavors.

Mr. vom Hofe observed that the staff's appraisal indicated a cautious optimism with regard to the possibilities of stabilization and the recovery of growth; to a certain extent this was identical with the assessment of the last OECD report on Yugoslavia in 1967. He shared the staff's concern about the rate of increase in personal incomes and the acceleration of private consumption, and he stressed the need for restraint on consumption and an increase in investment in order to enable the economy both to grow at a faster rate and to become internationally more competitive. He, therefore, welcomed the fact that the authorities were actively considering measures to restrain a further rise in personal incomes. He also welcomed the Government's intention to keep wage increase in line with over-all increases in productivity. In view of the balance of payments situation and the reform of the price structure which was under way, there ought to be no change in the restrictive policy at the present time. There was some indication that during the coming fiscal year, fiscal policy would play a larger role and, thereby, lessen the burden which had hitherto been placed on monetary policy, and he considered that a selective easing of credit could prove a useful means of assisting export industries. He noted that the improvement in Yugoslavia's balance of trade with convertible currency countries in 1966 had not been maintained in 1967, and he pointed out that the extent to which Yugoslavia would be able to participate in the economic upswing which was expected in Western Europe in the current year would depend upon the competitiveness of its economy. The economic recovery of the Western European countries would help Yugoslavia's balance of payments situation not only in respect of increased exports but also with regard to the employment of Yugoslav workers in Europe who sent remittances home. The growing deficit in Yugoslavia's trade balance was to a large extent the result of the liberalization measures that were being undertaken, and it was his view that more emphasis ought now to be placed on the promotion of investment and mechanization in industry, and less on further liberalization measures, especially those applying to consumer goods. He observed that Yugoslavia could not afford, for various economic and political reasons, to give up its bilateral trade agreements with Eastern European countries, but he also pointed out that it could not afford to finance foreign economies on any larger scale. In his view, therefore, the Yugoslav authorities ought to strive to reduce the surplus balances which had resulted from these bilateral transactions.

Mr. Friis considered that the reform measures undertaken in 1965 represented a bold step toward establishing a system in which the market mechanisms would play a more important role than it had hitherto done. This adjustment was a painful one requiring sacrifices in the short run if the long-term goals were to be achieved. He expressed the hope that Yugoslavia would eventually succeed in its endeavors.

Mr. Friis observed that Yugoslavia's situation between East and West was rather dramatically reflected in the structure of its trade and balance of payments. On the one hand, Yugoslavia had an increasing deficit on current account transactions with the convertible currency area; it was stated in SM/67/145, Sup. 1 that in 1967 "exports to the EEC and EFTA increased by 10 per cent and 5 per cent, respectively, and imports from these countries increased by almost 60 per cent and 22 per cent, respectively." On the other hand, it had an increasing surplus on current account transactions with its bilateral partners despite the fact that the authorities had been pursuing policies designed to reduce the credit balances on bilateral clearing accounts. The net result of these two developments was that, whereas Yugoslavia's convertible currency reserves were inadequate, the accumulated credit balances on bilateral clearing accounts were more than the country could afford. He noted that this situation was a matter of increasing concern to the Yugoslav authorities, and he sincerely hoped that some means would be found to rectify this state of imbalance, although he pointed out that this would doubtless take some time to accomplish.

Mr. Friis turned to consider the agricultural sector. He presumed that in Yugoslavia, as in a number of other countries, there was an urge further to industrialize the economy, but he drew attention to the statement in the staff paper (ibid., Part II, p. 2) that "at present the farm population accounts for nearly one-half of the total population of nearly 20 million." In his opinion, this seemed to indicate that agriculture would remain the core of the Yugoslav economy. A population in excess of 20 million would continue to constitute a very important home market for agricultural produce, and farmers would be encouraged to turn increasingly to mechanization and more modern techniques in order to meet the demands for higher standards of living. It was to be hoped, therefore, that the agricultural sector would be able to keep up with modern standards, and it would be especially gratifying if the country were to become permanently self-sufficient as far as agricultural products were concerned. He noted from the staff report (ibid., p. 3) that "the public resources invested in the development of agriculture continue to be mainly concentrated in the socialized sector." This might well be a consequence of the country's political and social attitudes, but it would be a matter of regret if public policy in the future continued to favor the socialized sector exclusively. The private farming sector supported the vast majority of the rural population and it was this sector that was most in need of encouragement and aid. Against this background, he was very pleased to read in Mr. Lieftinck's statement that "continued efforts are being made to improve the productivity of Yugoslav agriculture, not only in the socialized sector but also, and increasingly, in the private sector by encouraging mechanization, the use of better seeds and fertilizer, and improved credit and marketing facilities." In concluding, Mr. Friis wished the authorities every success in their future endeavors.

Mr. Madan observed that the Yugoslav economy was undergoing a process of adjustment as a result of the economic reforms introduced in 1965. The economic reforms had as their objective the growing decentralization of the economy and the assignment of a key role to the price mechanism with greater responsiveness to market forces in respect of the allocation of resources. This was to be accomplished through the instrumentalities of liberalized imports, increased emphasis on exports to convertible currency areas, and noninflationary fiscal, monetary, and incomes policies which were designed to subserve the over-all aim of moderate and feasible economic growth under conditions of price stability. He pointed out that the adaptation of an economy to a new system of priorities was not always a smooth process, as certain transitional imbalances and sectoral pressures were likely to emerge. Therefore, within the broad framework of the objectives of the reform measures, there had to be a careful review of the emphasis of policies from time to time in the light of emerging economic conditions. The balance sheet of the adjustment process in Yugoslavia had both an assets and a liabilities side, but on the whole, the phase of consolidation was well on the way toward achieving its aims.

Mr. Madan noted that commendable progress had been recorded with regard to the objective of price stability. However, the authorities' concentration on stabilization had now to be weighed against the larger need for economic growth. In this context, he welcomed the statement of Mr. Lieftinck that the Yugoslav authorities will accept a low rate of economic growth only temporarily as a price to be paid for an early stabilization of the economy. Mr. Madan also noted that, while the larger accumulation of inventories of finished goods that had occurred (for instance, in such items as cotton textiles) bore witness to the transitional difficulties associated with the process of adjustment and represented the slowness in adaptation to changing consumption patterns, it also raised a query regarding the possible role in relation to this phenomenon of the expansion of credit that had occurred.

Mr. Madan observed that a fall--though small--in the share of fixed investment in total output in the last few years had been associated with the stagnation of industrial production and an increase in the share of consumption. This very recent trend, which was to be viewed against the structural characteristic of a generally high rate of fixed investment, had apparently been related to an inadequacy of funds, owned as well as borrowed. The absence of adequate external--or nonowned--sources for investment finance might be traced to the generally restrictive character of the monetary policy with its stress on stability; this suggested the need to consider a new orientation of policy in the direction of encouraging financial institutions to participate, on a selective basis, in term lending to various economic organizations. As to the availability of internal funds, both the rise in personal incomes that had taken place and the diversion of a part of the internal funds to the holding of inventories appeared to have eroded the funds available to economic organizations to initiate an expansion of fixed investment. Regarding the rise in personal incomes in excess of the increase in productivity, the recent stress on a more purposive incomes policy linked to gains in productivity was a step in the right direction, and it was to be hoped that a way would be found of operating an effective incomes policy so as to set an adequate framework for stable growth.

Mr. Madan noted that the agricultural sector had recorded impressive gains and he felt that the efforts at consolidation and mechanization should contribute to further increases in production. As Mr. Friis had indicated, it would seem desirable, having regard to the importance for the economy of the private agricultural sector, to continue to pay special attention to the problems of agriculture in the private sector as well as those in the social sector. This should be particularly directed toward minimizing the degree of unemployment and underemployment in the private sector.

Mr. Madan said that financial restraint was a necessary ancillary for internal and external stability and the expressed intention of the authorities to pursue balanced budgets was in accord with this objective. He was inclined to agree with the staff, however, that a greater role should be played by the fiscal policy in order to curb the latent inflation of which one indication was an upward movement in the cost of living following the unfreezing of retail markups. The freer system of price formation, which was now being worked out, ought to lend urgency to the need for complementary measures on the fiscal front; this line of action also appeared to be appropriate in the light of the sharp rise in personal incomes. Although credit policy had generally been restrictive, the selective easing of credit to export industries had been a desirable feature. He added that there were numerous other aspects of the reform measures which augured well for the longer-term progress of the Yugoslav economy and for steady improvement in the competitive ability and quality of its goods, together with a progressive diversion of trade away from bilateral to multilateral channels and a greater exposure of its domestic industries to the bracing air of freer imports. The more liberal policy with regard to the repatriation of the profits earned by foreign companies on exports, which was being contemplated by the authorities to attract foreign investment and to foster the import of industrial know-how so as to improve Yugoslavia's access to export markets, could also be expected to make a contribution over time in the same direction.

In concluding, Mr. Madan wished the authorities well in their efforts, through equal emphasis on credit, fiscal, and incomes policies, to achieve the stabilization which would pave the way for an early resumption of growth. He supported the decision recommended by the staff.

Mr. Maude observed that in some respects 1967 had been a rather disappointing year for Yugoslavia; the economy had still been passing through a difficult phase of adjustment following the economic reform of 1965. Nevertheless, the policies which the authorities were pursuing with regard to the liberalization of imports and prices, the steps being taken to encourage an inflow of foreign capital, and the authorities' intention to place relatively more weight on fiscal policy were all to be welcomed.

Mr. Maude turned to consider the important subject of incomes policy in Yugoslavia. It was stated in the staff report (ibid., Part I, p. 12) that "a key question in the discussions was the need for measures to limit the increase in personal incomes to a rate compatible with internal and external balance"; in addition, the staff in its appraisal had agreed with "the emphasis that the authorities place on the adoption of an incomes policy" (ibid., p. 20)--a view that had been echoed by several Directors. In the light of this emphasis, he had found the staff report somewhat less informative in connection with the whole question of incomes policy than one might have ideally expected. He noted that the supplementary paper provided a little more information in that it quoted from the Federal Assembly resolution of December 27, 1967, part of which addressed itself to the question of incomes policy, and he recognized the possibility that the authorities were still engaged in finalizing their ideas in the incomes policy field and that it would, therefore, be premature at the present time to expect more concrete information about their intentions. However, he would have personally found it quite helpful to know rather more about the existing arrangements for the determination of personal incomes and rather less about the existing arrangements for fixing prices; the importance of the former arrangements would be likely to increase, whereas the importance of the latter arrangements, with the new policies directed toward a liberalization of prices, would presumably tend to decline.

As to the information contained in the staff report on the subject of incomes policy, Mr. Maude noted that the authorities made a distinction between so-called "noneconomic sectors" and so-called "economic sectors." He was not sure that an absolutely clearcut distinction of this type could usefully be made, but the distinction might be useful in serving to remind one that it was easier to measure productivity in some occupations than in others. He noted that in the so-called noneconomic sectors the criteria would be laid down by Parliament, and it was envisaged that the upper limit to the rate of increase in average incomes would be the rate of increase in average social product. He also noted from SM/67/145, Sup. 1 that the resolution passed by the Federal Assembly stated that "working organizations of social services should reach agreement...on the adoption of appropriate criteria and standards for the allocation of funds for personal incomes in accordance with the principle of distribution based on the results of work." In his view, this was a good illustration of the enormous difficulties involved in attempting to determine wage increases in occupations in which it was difficult to measure productivity. If the intention in respect of these occupations was that the Parliament would simply lay down statutory rates of pay, one would hope that some fairly objective guidelines might be established as a means of determining fair and appropriate wage differentials in the "noneconomic sector."

With regard to incomes policy in the "economic sector," Mr. Maude was a little surprised by the statement in the staff report that "the incomes policy as stated is that...[incomes in the social sector] should increase in each branch in line with productivity" (ibid., Part II, p. 19). He was not fully certain exactly what the word "branch" was intended to mean, but he found the inference a little disturbing. It had been the experience of most other countries which had tried to implement an effective incomes policy that it was inappropriate to base the wage increases of workers in any particular industry on the rate of increase in productivity in that particular industry because it was bound to be the case that productivity would be increasing at a much faster rate in some industries than it was in other industries. The experience of other countries suggested that the best approach would be to try and establish the principle that the basic criterion would not be the rates of productivity increase in individual industries, but the over-all or average rate of productivity increase in the economy as a whole.

Mr. Maude said that he agreed with the staff's appraisal of Yugoslavia's economic situation, and he agreed with the decision recommended by the staff. In particular, he stressed the fact that at the present juncture of the Yugoslav economy an effective incomes policy was of crucial importance.

Mr. Plescoff observed from the staff paper (ibid., Table 12, p. 23) that the breakdown of Yugoslavia's social product differed greatly from that in Western European economies. For instance, according to 1967 estimates, investment approximated to 29 per cent of the GNP, which was an unusually high figure; personal consumption, on the other hand, constituted a relatively very low share at 58 per cent of the GNP. However, he pointed out that a very important part of the high figure for investment was accounted for by inventories which in 1967 were estimated to amount to about 12 1/2 per cent of the GNP. In his opinion, this was a tremendously high percentage, and he observed that one of the main problems facing the Yugoslav authorities was how to dispose of these inventories. In this connection, he doubted the appropriateness of emphasizing a continued policy of restraint as such a policy would tend to result in an increased accumulation of inventories. He did not fully understand the rationale of pursuing a restrictive credit policy when it appeared that additional consumer credit would assist in the reduction of inventories. In his view, the continuation of restraints on consumer credit would only accentuate this major problem. He added that, if it was the case that a large proportion of the inventories were unsaleable, a different form of national accounting ought to be adopted which would write off the inventories in question.

Mr. Plescoff thought that specific mention might have been made in the proposed decision of the problem arising out of the excessive accumulation of inventories, because this was a situation which differed markedly from the experiences of other member countries. In addition, he was of the view that perhaps the decision ought not to approve a continued policy of restraint so decisively; the term "restraint" appeared three times in paragraph 3 of the proposed decision, and he believed that some qualification might be particularly appropriate in the sentence bearing on the restraint of personal incomes.

Mr. Biron agreed in general with the staff's appraisal of the Yugoslav economic situation and he supported the decision proposed by the staff. He thought that Mr. Maude had drawn attention to one of the major problems confronting the Yugoslav economy, and he observed that it would be interesting to see whether incomes policy proved to be more effective in the Yugoslav setting than it had been in the Western World. He thought that Mr. Plescoff had also put his finger on another very important problem, namely, the accumulation of inventories. Mr. Biron was rather inclined to attribute this development to the fact that, to a very large extent, the inventories in question comprised goods which were not saleable; if this was the case, he agreed with Mr. Plescoff in the view that a different form of balance sheet ought to be presented which would write off the values of the unsaleable inventories. He wondered whether the staff had any information on how the share of inventories in Yugoslavia's GNP compared with the shares of inventories in the GNP's of other Eastern European countries.

Mr. Ozaki observed that the process of economic reform begun in 1965--integral parts of which were the decentralization of investment decisions, greater reliance on the market mechanism, the pursuit of price stability, and the liberalization of imports--had been accompanied by a deep stagnation of industrial output. He noted that it was Mr. Lieftinck's view that this deceleration in the rate of growth was not surprising considering the pervading institutional and policy changes that had been introduced and the difficult adjustment process that they entailed. Mr. Ozaki thought that this might well be one factor, but he also had some doubts on the ability of so-called "worker-managed" economic enterprises to generate sufficient resources for investment through the retention of income; with a decentralization of the investment decision, he wondered whether there would not be a tendency on the part of these enterprises both to distribute a larger proportion of income than hitherto and to increase salaries and wages. He appreciated the difficulties involved in this process of adjustment and he suggested that one means of stimulating the economy might be to embark on "joint enterprises" through the attraction of foreign capital. In this connection, he thought that it might well be appropriate for Yugoslavia to try and issue bonds on the Euro-dollar market which was the only place where East and West met on a purely commercial basis.

Mr. Mansour observed that for a number of years before the economic reform in the summer of 1965, Yugoslavia's economy had been a centrally-controlled one. Although the former economic system had achieved certain positive gains, the inevitable shortcomings in the system of determining the allocation of resources and the functioning of economic organizations had led the authorities to embark on a courageous reform program in 1965 which endeavored to bring greater freedom and decentralization to the economy and to establish a link between internal and external prices. Since that time, steady progress had been made in different directions, and this was significant not only in itself but also as a demonstration to other centrally-controlled economies of what could be achieved. The reform program had involved a deceleration of economic growth, but the Yugoslav people had shown themselves willing to accept this as an unavoidable price in the short run.

Mr. Mansour agreed with the staff's appraisal of the balance of payments situation, and he hoped that the new emphasis that was to be given to improving the competitiveness of Yugoslav products in the world market would enable the country to increase its exports to the convertible area, raise the level of its foreign exchange reserves, and thereby reduce its dependence on foreign aid, and, at the same time, enable the country to continue providing credit to developing countries. Mr. Mansour added that the emphasis being placed on improving productivity in the agricultural sector was to be welcomed. He wished the authorities every success in their endeavors.

Mr. Caranicas observed that agriculture was still a very important element in the economy, that the private farming sector supported the vast majority of the rural population, and that private farms were by law limited in size to 10 hectares, but that the average holding was about 5 hectares. In the light of these facts, he wondered whether it would be possible, under the law, to increase the average size of private holdings and extend to them the same benefits enjoyed by the socialized sector in order to raise their level of productivity.

Mr. Caranicas noted from Mr. Lieftinck's statement that the three main constraints to more rapid progress in the field of liberalizing the restrictive system were the inadequacy of Yugoslavia's foreign exchange reserves, the burden of debt servicing on the balance of payments, and the necessity to avoid the accumulation of bilateral credit balances with East European trading partners. As to the removal of these bilateral credit balances, Mr. Caranicas noted that the staff report contained certain suggestions (ibid., Part I, pp. 15-16), but he pointed out that Yugoslavia was inevitably influenced both by high tariffs and protective measures in the EEC on some of its major export products and by the necessity to continue to trade with East European countries on a bilateral basis. He thought that the restrictions on its exports to the convertible area constituted a major problem, and he suggested that a generalized system of tariff preferences by the industrial countries might help Yugoslavia solve this difficulty.

Mr. Handfield-Jones said that he had been very impressed with the remarkable and imaginative efforts of the Yugoslav authorities to improve the basis of their economic management and to make more efficient the allocation of resources. In his view, Yugoslavia deserved the good fortune of a more favorable international environment, and particularly a strengthening of the demand of its principal trading partners for its products. He hoped that Yugoslavia would reap the fruits of its reform efforts in the form of rising output and rising standards of living in the near future.

The staff representative from the European Department responded to the points raised by Executive Directors. With regard to Mr. Maude's comments on incomes policy, he said that at the time the Fund mission visited Yugoslavia there was no firm incomes policy; there were some declarations of principles, but no instruments for implementing these principles. Accordingly, the staff had been unable to report on specific details of policy. As to Mr. Maude's question about the meaning of "economic" and "noneconomic" sectors, he said that in Yugoslavia the noneconomic sector comprised administrative, educational, and financial institutions; the problem of measuring productivity in these sectors was a very difficult one. It was the staff's understanding that in the first quarter of 1968 there would be legislation dealing with the so-called economic sectors and this would determine the proportion of increased productivity that would be distributed in the form of higher incomes in each sector of production. The staff hoped to report on this more fully in due course.

With regard to the problem of inventories, the staff representative from the European Department said that it was difficult fully to analyze the situation because of the inadequacy of statistics. One could not take the figures that were given for the accumulation of inventories at face value. However, it was clear that the accumulation of inventories posed a real problem and one that was very manifest in 1967.

The staff representative from the European Department observed that the abandonment of policies of restraint would be likely to lead to a serious deterioration in the balance of payments situation, and he pointed out that the level of Yugoslavia's foreign exchange reserves was already very low and the country had already drawn on the Fund in the third credit tranche. In this light, the staff had found it necessary to emphasize that the continuation of policies of restraint was indispensable.

Mr. Lieftinck thanked Executive Directors for the interest that they had shown in the Yugoslav economy, and for the very interesting observations that they had made. With regard to the agricultural sector, he pointed out that in the pre-reform period in Yugoslavia agriculture had been relatively underpaid compared to industrial products. The reform had brought about a marked change in this respect, and it now appeared that there were no real price distortions between the agricultural and the industrial sectors. This had enabled the agricultural sector not only to receive a higher income, but also to increase its savings and make an effort to raise the standard of agricultural production by increased investment; but, this was a process which would inevitably take some time to register its full effect. It was true that the improvement in agricultural prices had benefited all farming enterprises, but it had particularly benefited the socialized sector of agriculture because of the greater size of holdings in that sector. The investment requirements of the socialized sector had been given a high priority relative to the private sector, but in the past two years the authorities had been paying much more attention to the private sector; and they were making considerable efforts to raise productive standards in that sector. There had been a slight decrease in the number of private farm holdings and the socialized agricultural economic organizations were prepared to absorb less productive private holdings. Accordingly, one could expect an improvement in standards and an increase in productivity in both the private and the socialized sectors.

With regard to Mr. Plescoff's observation that the share of investment in the social product was relatively very high and the share of consumption relatively very low, Mr. Lieftinck pointed out that the high share of investment was largely influenced by investment in inventories, as was indicated by the data on page 23 of Part II of the staff report. If the level of inventories were a more normal one--between 5 per cent and 10 per cent of the social product--the share of investment would amount to 20 to 25 per cent, which was still rather high, but not excessively so for a country which had been undergoing rapid economic development. He endorsed the staff representative's view that the statistics were inadequate with respect to inventories, but it was certainly true that not all of the inventories were finished products which had simply remained unsold; there were also accumulated inventories of raw materials. Notwithstanding this fact, there had been an accumulation of unsold finished goods which was largely a legacy of the time when market forces had not exercised their full effects on the direction of production. The situation was now being improved, though it frequently entailed disposal of finished goods at greatly reduced prices. As to the share of consumption, Mr. Lieftinck pointed out that the figure to which Mr. Plescoff had referred represented only personal consumption. However, economic organizations and enterprises disposed of part of their net income by spending considerable amounts on social welfare projects. Therefore, in addition to personal consumption there was so-called social consumption, and if one took both of these together, total consumption would represent about 75 per cent of the social product.

On the question of incomes policy, Mr. Lieftinck pointed out that the personal incomes of workers in Yugoslavia comprised a basic wage and a bonus payment. Basic wages were not very high, and an important proportion of personal consumable income derived from the bonus payments or profit sharing. These bonus payments were an especially difficult item to restrain under an incomes policy. The economic organizations and enterprises were autonomous and the decision on how much of disposable income should be distributed in the form of payments to the workers was left entirely at their discretion; this was a privilege to which the economic enterprises were very closely attached and it constituted an area over which it was difficult for the authorities to exercise control. The way in which the authorities intended to deal with the problem was referred to on page 6 of SM/67/145, Sup. 1 where extracts from the Federal Assembly's resolution of December 27, 1967 were set out. Mr. Lieftinck explained that this resolution represented government policy but it was not a regulation; it was an appeal made by the Central Government to the effect that "...working organizations when distributing their income, should take into account both the principle of basing personal income payments on work performed and the needs of the policy aimed at maintaining a certain correlation between accumulation of savings and personal consumption in order to meet the country's development requirements. With this purpose in view, working organizations shall elaborate, within each sector, branch and group of activities, criteria and standards acceptable to the society as a whole, and based on mutual agreement among their self-management bodies." The authorities were here indicating a general guideline which they thought would be appropriate and which they hoped would be applied by the working organizations. It remained to be seen exactly how this approach would in fact work out. Mr. Lieftinck added that in the so-called noneconomic sectors where the level of income was not influenced by market conditions, the authorities intended directly to intervene and establish social standards for the level of income. The latest information that he had received in this connection indicated that the authorities had temporarily frozen personal incomes in the noneconomic sector.

Mr. Lieftinck turned to consider the steep rise of foreign trade balances with the bilateral area, and its counterpart--the increasing deficit on current account with the convertible area. He said that the Yugoslav authorities were fully aware of this problem and they intended to attack it from both sides. On the one side they would endeavor to find more flexible forms of trade and payments with the U.S.S.R. and the East European countries. At the same time they were anxious to enter into arrangements with the EEC--where Yugoslav exporters were faced with a variety of protective measures and erratic market conditions--for establishing trade relations on a more lasting basis. In his opinion, it was highly regrettable that Yugoslavia's export efforts in Western Europe, and particularly in the EEC countries, were meeting with very great difficulties. Agricultural exports, a great part of which were directed toward markets in the EEC countries, had first to cope with the EEC's ordinary tariff barriers which had increased very considerably. However, in addition to these barriers there were a number of measures of so-called variable import protection--levies which were imposed by the EEC countries whenever imports threatened the protective price levels for agricultural products. These latter barriers were extremely difficult obstacles to the agricultural exports of a country like Yugoslavia. He pointed out that variable import levies for pork, poultry, and eggs had been changed quarterly; for cattle and beef, weekly; and for cereal, including maize, almost daily. The protective levies had been particularly prohibitive in respect of Yugoslavia's beef and live cattle exports, yet this was an area in which Yugoslavia had made great efforts to adjust the quality of its produce to that in the EEC, and particularly the Italian, market. Tariffs in the EEC had also been increased on industrial exports, but, as soon as Yugoslav industrial exporters lowered their prices and increased their exports, they met antidumping measures. Mr. Lieftinck observed that if Yugoslavia was to reduce its accumulated surplus balances with the bilateral area and, at the same time improve its balance of trade with the convertible area, the adjustment could not come about simply by entering into new arrangements with the bilateral area; there would also need to be a more lasting basis for trade relations with the convertible area, and particularly the EEC.

Mr. Pereira Lira thanked Mr. Lieftinck for his extensive comments and particularly for his extremely pertinent information on the barriers to Yugoslavia's exports in the EEC countries. This latter issue had been raised on several previous occasions in the Board and he hoped that the staff would be able, at some future date, to pursue the problem more fully.

Mr. Friis joined with Mr. Pereira Lira in thanking Mr. Lieftinck for his lucid and forthright comments on the difficulties of access to the markets of the EEC countries.

Mr. Mansour also joined in thanking Mr. Lieftinck, and he pointed out that it was not only the tariff barriers and protective obstacles per se that handicapped Yugoslavia's exports, but also the uncertainty from one week to the next regarding the market conditions that would have to be faced. As to the matter of antidumping measures, he thought that this matter should be regulated by some international body, possibly GATT.

Mr. Caranicas observed that the issue raised by Mr. Lieftinck gave support to the view that without some form of trade preferences for developing countries, it would be very difficult for these countries to secure access to foreign markets, particularly the highly industrialized markets of Western Europe.

The discussion turned to the text of the draft decision. Three changes were suggested.

The decision was:

1. This decision is taken by the Executive Directors in concluding the 1967 consultation with Yugoslavia, pursuant to Article XIV of the Articles of Agreement.

2. Aggregate production in constant prices was 1 per cent higher in 1967 than in 1966, following a rise by 8 per cent from 1965 to 1966. While agricultural output showed a large increase in 1966, and 1967 was another good crop year, the growth in industrial production which had already slowed down in 1966 continued this trend in 1967 under the influence of policies of financial restraint and some weakening of foreign demand. The financial restraint has primarily affected fixed investment. A substantial increase in personal incomes led to a sharp rise in consumption. At the same time, there has been marked progress toward price stability and a freer system of price formation.

3. The authorities intend to continue the present policies of financial restraint while applying credit policy selectively to support export and other growth industries. They are also actively considering measures to limit a further rise in personal incomes to the expected

rise in productivity. They hope that a moderate revival of growth will occur in 1968 mainly as a result of an expected strengthening of foreign demand. The Fund agrees that continued financial restraint is indispensable for balance of payments purposes, and that a firm incomes policy is needed to bring about a redeployment of resources in the economy in order to reconcile the objective of adequate economic growth with internal and external stability.

4. In 1965 and 1966 the balance of payments was in over-all surplus reflected, for the most part, in an increase of $95 million in credit balances on bilateral clearing accounts. Reserves in gold and convertible currency rose only slightly more than the net use of Fund resources. In 1967, the authorities expect another over-all surplus of about $60 million, almost entirely reflected in the bilateral balances rather than in Yugoslavia's net convertible reserves. The Fund notes the concern of the Yugoslav authorities about the growth of these balances and urges that every endeavor be made to reduce the continued imbalance in bilateral transactions.

5. Significant import liberalization was introduced at the beginning of 1967 and already has had beneficial effects on the economy. The Fund considers it essential that efforts be made to extend to the maximum extent the range of payments that are free of restrictions. No progress has yet been made in the elimination of bilateral payments agreements with Fund members, and the Fund continues to urge that efforts to terminate these agreements should be pressed ahead strongly.

Decision No. 2459-(68/33), adopted
February 26, 1968

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Directors without meeting in the period between EBM/68/32 (2/22/68) and EBM/68/33 (2/26/68).

4. UNITED KINGDOM - NONMETROPOLITAN TERRITORIES - ARTICLE VIII RESTRICTIONS ON CURRENT PAYMENTS AND TRANSFERS

1. The Fund does not object to the application by Gibraltar through October 31, 1968 of the restrictions on payments and transfers for current international transactions as included in the memorandum dated February 14, 1968 to the Managing Director from the Executive Director appointed by the United Kingdom (SM/68/30, 2/20/68).

2. The Fund does not object, on a temporary basis, to the application by Mauritius of the restrictions on payments and transfers for current international transactions as included in the aforesaid memorandum.

Decision No. 2460-(68/33), adopted
February 23, 1968

APPROVED BY THE EXECUTIVE BOARD:
Meeting 68/85, May 6, 1968

PIERRE-PAUL SCHWEITZER
Chairman

ROGER V. ANDERSON
Acting Secretary