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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

QUARTERLY ECONOMIC REVIEW

NO. 4

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Department of Operations
Asia and Middle East

EXCHANGE RATES IN TERMS OF U.S. DOLLARS

ETHIOPIA	- dollar	= \$0.4025
EGYPT	- pound	= \$2.87
LEBANON	- pound	= \$0.31
SYRIA	- pound	= \$0.28
PAKISTAN	- rupee	= \$0.21
INDIA	- rupee	= \$0.21
CEYLON	- rupee	= \$0.21
BURMA	- kyat	= \$0.21
THAILAND	- baht	= \$0.049
JAPAN	- yen	= \$0.0028

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ETHIOPIA

In 1955, economic conditions in Ethiopia continued to be stable, although there were deteriorations in its balance of payments on current account and in the Government's fiscal position.

Ethiopia's exports in 1955 continued at a high level, despite a drop by one-third in the average price of coffee, the country's principal export. This was achieved mainly by a 35% larger volume of coffee exports, 42,000 tons in 1955 as against 31,000 tons in 1954. As a result, Ethiopia's foreign trade in 1955 showed an export surplus of Eth. \$24 million, only slightly lower than in 1954.

Nevertheless, the balance of payments on current account in 1955 registered a small deficit of Eth. \$5 million, as against a surplus of Eth. \$8 million in the previous year. The 1955 deficit was mainly due to larger deficit on service account. Notwithstanding the balance of payments deficit on current account, the State Bank's foreign assets (gold, silver and foreign exchange) rose by Eth. \$11 million in 1955 and by Eth. \$12 million in the first quarter of 1956. The latter was largely seasonal, since the first part of a year is the main export season. On March 31, 1956, the State Bank's foreign assets totaled Eth. \$163 million (US \$65 million).

A preliminary estimate of Government revenue and expenditures for 1954/55 (fiscal year ending September 10) indicates a deficit of Eth. \$30 million as against a small deficit of Eth. \$2 million in the previous fiscal year. The large budget deficit for 1954/55 resulted mainly from the various expenditures incurred for the celebration of the 25th anniversary of the Emperor's coronation. The deficit was doubtless partly met by drawings on Government balance with the State Bank which was reduced by Eth. \$15 million in 1955 to Eth. \$66 million at the year's end. This also indicates that the actual deficit may have been smaller than originally estimated. Recently the Government is reported to be considering certain tax reform measures with a view to increasing revenue for development. Details of these measures are not yet available.

Currency in circulation (which comprises the greater part of money supply) rose by about Eth. \$10 million in 1955 and further by Eth. \$13 million in the first quarter of 1956. These increases correspond closely with those in the State Bank's foreign assets. The rise in the first quarter of 1956 was seasonal because of the export season. The price level continued to be stable throughout 1955 and the first quarter of 1956, except that export prices of coffee in the latter period were some 20% higher than the average in 1955.

ETHIOPIA

	1951	1952	1953	1954	1955	1954				1955				1956
						I	II	III	IV	I	II	III	IV	I
POPULATION	About 15 million (No census has ever been taken)													
<u>BUDGET (millions Eth.\$) 1/</u>	Actual		Rev.	Prel.	Prel.									
Revenue	77	84	100	108	100									
Expenditure	98	84	95	110	130									
	22	0	5	-2	-30									
<u>GOVERNMENT BALANCE at State Bank (million Eth.\$)</u>	22	31	65	81	66	82	70	81	69	78	72	66	93	
<u>GOVERNMENT DEBT (million Eth.\$)</u>														
Internal	68	83	102	103	99	97		103		98			99	
External	36	40	32	31	34	32		31		32		34		
	104	123	134	134	133	129		134		130		133		
<u>MONEY SUPPLY (million Eth.\$)</u>														
Currency Circulation	87	93	115	119	129	130	118	119	137	130	124	129	142	
Demand Deposits	19	26	30	27										
	106	119	145	146										
<u>PRIVATE CREDIT (million Eth.\$) 2/</u>	11	17	17	23	22			23				22		
<u>PRICES (Indexes of wholesale prices Addis Ababa, 1951=100)</u>														
Coffee	100	108	97	133	89	132	154	132	113	78	80	96	107	
General Exports	100	85	77	91	73	90	99	91	82	67	68	78	80	
General Imports	100	94	79	76	76	79	76	76	75	76	78	74	72	
<u>BALANCE OF PAYMENTS, Current account (million Eth.\$)</u>					Prel.									
Exports f.o.b. 3/	125	115	178	167	170	53	57	30	20	47	49	37		
Imports f.o.b. 3/	87	99	120	140	146	39	43	42	36	43	40	43		
Trade Balance	38	16	58	27	24	15	14	-12	-16	4	9	-6		
Invisibles	-26	-20	-26	-19	-29									
Surplus or Deficit (-)	13	-4	33	8	-5									
<u>COFFEE EXPORTS (million Eth.\$)</u>	63	50	100	99	91	35	40	16	8	25	30	22	14	
<u>GOLD, SILVER & FOREIGN EXCHANGE HOLDINGS OF STATE BANK (million Eth.\$)</u>	63	77	120	140	151	147	155	144	140	159	162	153	151	
(million U.S. \$ equiv.)	(25)	(31)	(48)	(56)	(60)	(59)	(62)	(58)	(56)	(64)	(65)	(61)	(60)	

1/ Fiscal year ending September 10. 2/ Credit extended by the State Bank and the Development Bank.
 3/ Quarterly trade data are based on customs statistics and not strictly comparable to annual balance of payments data.

EGYPT

Thus far in 1956 substantial budget and balance of payments deficits are continuing. The cotton crop is slightly smaller than in the 1954-55 crop year but cotton exports may be larger than in 1955 and prices are higher. The trade deficit was LE 5.8 million in the first quarter of 1956 as compared with LE 3 million in the first quarter of 1955, despite an increase of LE 13.5 million in exports. Large capital goods requirements for public investment projects and heavier defense expenditures are mainly responsible for both the budget and balance of payments deficits.

In 1955, foreign exchange reserves fell about \$86 million, or over 12%, and in 1956 through April by about \$58 million. This reduction has been largely in sterling. Present foreign exchange balances and gold holdings are about 103% of the note issue and roughly equal to a year's imports. Thus the reserve position is still fairly strong. Gold and dollar holdings were about \$206 million on April 21, 1956 and sterling and other currencies \$342 million equivalent. The availability of sterling is based on a recent agreement with the UK for the release of Egypt's blocked sterling balances (now probably \$310-\$320 million equivalent) at the rate of L20 million a year to 1960, and L10 million a year thereafter till all are released by 1963.

75% to 80% of Egypt's exports are raw cotton. Although the final estimate of cotton production for the 1955-56 crop year is about 4% under 1954-55, stocks were higher on September 1, 1955 (start of the crop year), than a year before, and total availabilities for export will be a little larger this year. Preliminary reports indicate that from January through May over 42% more raw cotton was exported than in the corresponding period last year. The price of Egyptian cotton on the Liverpool and Alexandria exchanges has risen sharply in recent months. The Liverpool price on May 15 for long staple was nearly 50% higher than in December, whereas only a minor rise has occurred in American cotton on that market. It is reported that nearly one third of Egyptian cotton is now going to Eastern Europe, as compared with about 20% last year and only 6.3% in 1953-54. Six to nine month's credits, in part guaranteed by the Government, are being extended on cotton exports to Soviet bloc countries. Egypt may have difficulty in maintaining her cotton exports to dollar and sterling markets under these price and credit conditions.

Other Egyptian exports, particularly rice, increased about 11% in 1955. Textile machinery, automotive equipment, other machinery and building materials accounted for most of the 11% increase in Egyptian imports last year. Increase in local production of textile products, and fertilizer is reducing imports of these items.

The policy of the Egyptian Government is to balance its ordinary budget and meet capital expenditures by borrowing. On balance, this has been nearly accomplished in recent years. For the fiscal year ending June 30, 1956, the total expenditures of the National and local governments are estimated at LE 345 million, about 25% higher than the previous year. The development expenditures of the National Government are estimated at LE 54 million.

Government debt held by the National Bank has increased about LE 49 million since January 1955, or over 100%. Out of a total of approximately LE 258 million the National Bank now holds about LE 95 million. The Government has announced that the recent bond issues for LE 25 million were all taken up outside the National Bank. However, all, except LE 4 million, was subscribed by banks, insurance companies, and larger business concerns. These issues include a LE 5 million, five year loan at $2\frac{1}{2}\%$, a LE 10 million, 10 year loan at 3% , and a LE 10 million, 15 year loan at $3\frac{1}{2}\%$. The issues are tax free on capital and interest except for the inheritance tax.

Following the recent bond issues the Government had cash balances of about LE 33 million, as compared with LE 11.7 million at the end of 1955 and LE 16.7 million at the end of 1954. The net claims on the Government (debt less cash holdings) have increased roughly LE 56 million, or 33%, during the current fiscal year (since June 30, 1955). Since Egyptian foreign exchange assets declined about LE 68 million and bank credit expansion was moderate, little change occurred in money supply and prices.

As for future prospects, Government capital expenditures will undoubtedly remain high and a substantial part will continue to be in foreign exchange. A small 1955-56 wheat crop is expected to stimulate imports. In partial compensation, further purchases of US surplus agricultural commodities are probable. Also exports other than cotton are showing a long-term tendency to rise and tourist receipts are growing. On balance, given present development policies, and considering the uncertainties in the cotton situation partly because of US export policies a continuing drain on the country's foreign exchange reserves must be expected.

EGYPT

	1952	1953	1954	1955	1954				1955				1956		
					I	II	III	IV	I	II	III	IV	I	II	
POPULATION (millions - mid-year)	21.4	21.9	22.6	23.2		22.6				23.2					
AGRICULTURAL PRODUCTION															
Index 1946-50 = 100	106	98	110												
Cotton (million kantars)	9.9	7.1	7.6	8.6 4/											
Wheat (million ardebs)	7.3	10.3	11.6	9.7											
INDUSTRIAL PRODUCTION															
Cotton yarn (thousand tons)	55.7	59.4	64.3		16.1	15.0	15.5	17.6	18.6	17.0	17.2				
Cement (thousand tons)	94.7	1,097	1,237		291.7	323.0	302.8	319.6	330.8	336.2	359.7				
Fertilizers (thousand tons)	206	216	268												
Petroleum (thousand tons)	2,383	2,268	1,972		488	502	494	494	687	432					
FOREIGN TRADE (million LE)															
Exports and Re-exports	145.1	137.4	138.3	140.1	45.7	34.5	22.5	35.6	38.0	29.2	29.0	43.9			
of which cotton	126.4	116.3	113.1												
Imports	223.5	174.4	160.2	194.1	34.2	36.7	40.8	48.1	41.1	43.9	44.2	65.0			
Balance	-78.4	-37.0	-21.9	54.0	11.5	-2.2	-18.3	-12.5	-3.1	-14.7	-15.2	-10.2			
BALANCE OF PAYMENTS - CURRENT ACCOUNT (million LE)															
Foreign Trade and Transit (net)	-64.1	-28.9	-11.7												
Invisibles (net)	10.7	21.0	15.3												
Balance	-53.4	-7.9	3.6												
GOLD AND FOREIGN ASSETS - NATIONAL BANK 1/ (million LE)															
	248.9	240.6	246.9	217.1	250.1	250.3	211.4	246.9	249.6	244.7	233.5	217.1	200.3		
GOVERNMENT BUDGET (million LE) 3/															
Ordinary															
Receipts	198.2	206.4	221.8 2/	238.3 2/											
Expenditures	208.4	199.7	227.8 2/	238.3 2/											
Balance	-10.2	6.7	-6.0	0											
Capital (Productive Projects)		41.8 2/	42.3 2/	54.3 2/											
GOVERNMENT DEBT 1/															
Total	173	172.5	173.5		164.5	160.0	171.8	173.5	198.3	217.5	213.6	214.6 5/			
To National Bank	57.4	55.3	46.4	87.3	39.5	43.3	71.2	46.4	55.1	73.1	74.3	87.3	97.2		
GOVERNMENT DEPOSITS (million LE) 1/															
National Bank	7.8	9.5	7.1	1.9	20.6	12.6	3.3	7.1	34.2	40.1	11.7	1.9	9.7 6/		
Other Banks	8.7	8.8	9.6	9.8	9.1	8.9	7.7	9.6	9.1	8.1	9.2	9.8	1.0 5/		
DOMESTIC LOANS AND INVESTMENTS - COMMERCIAL BANKS (million LE) 1/															
	118.1	118.6	151.1	153.4	121.3	106.8	112.3	151.1	140.1	125.2	128.1	153.4			
NATIONAL BANK CREDIT TO OTHER BANKS (million LE) 1/															
	4.4	4.1	12.9	13.2	5.7	1.6	3.2	12.9	10.7	7.8	5.1	13.2			
MONEY SUPPLY (million LE) 1/															
Currency	381.9	369.2	358.8	368.7	351.8	346.1	352.2	358.8	331.8	324.1	332.4	368.7	352.4 6/		
	205.7	190.4	188.6	186.1	178.5	172.7	169.5	188.6	180.2	171.2	165.9	186.1			
PRICES															
Wholesale: Index	343	354	342		354	339	339	342	349	346	362	350 5/			
Cost of Living: Index	296	294	283		288	282	282	283	284	282	284	283 5/			
Cotton (tallaris per kantar)															
Karnak G	62.00	59.75	76.00		65.00	66.50		76.00	71.50	69.50	76.33	74.30 5/			
Ashmound G	55.50	55.50	59.50		57.50	60.75	63.00	59.50	56.50	56.75	59.60	55.08 5/			

- 1/ End of Period
 2/ Estimate
 3/ Fiscal year beginning on the year indicated
 4/ Second estimate
 5/ End November
 6/ End February

LEBANON

No sign of slackening in the growth of the Lebanese economy has appeared since 1955 when the national income, estimated at 1,440 billion Lebanese pounds, was over 4% higher than 1954 and nearly 15% higher than in 1953. However, prices rose about 7% in the first two months of 1956 and the expansion of bank credit, combined with a tighter budget situation because of larger expenditure commitments, is of some concern.

All the major sectors of the national economy participated in the increase in national income in 1955. Agricultural and industrial production and marketing reached levels higher than in 1954; the opening of the local branch of another foreign bank (Dresdner Bank) and the inauguration of a new Lebanese banking firm (Banque de Beirut et des Pays Arabes) witnessed to ~~prosperous conditions~~. Transportation activities, another important sector, further developed; the 1955 traffic through the Port of Beirut was 25% higher than in 1954, when it had been 20% higher than in 1953. The situation with regard to air traffic was similar.

The deficit in the balance of trade, traditional in a country like Lebanon whose prosperity rests largely upon the supplying of services, continued in 1955, but the overall balance of payments showed again an estimated surplus of L£ 75 million. The surplus was estimated at L£ 60 million in 1954 and at L£ 99 million in 1953. Tourism traffic reached a new peak; foreign travelers reportedly spent about L£ 120 million of foreign currency in 1955, against L£ 110 million in 1954 and L£ 80 million in 1953.

Monetary reserves have increased further; the Lebanese pound is now backed 90% by gold and 10% by foreign exchange.

Budget receipts are growing along with the increasing economic prosperity; the 1956 budget provides L£ 145 million from taxation and other sources, against L£ 137 million of tax receipts in 1955 and L£ 120 million in 1954, and the budget showed a bookkeeping surplus of L£ 25 million in 1955. However, commitments for future expenditures increased more than that; among other reasons because of such additional outlays as town water, telecommunications and rural electrification projects. The cash balances of the Government, which were estimated at more than L£ 45 million one year before, dwindled in May 1956 to little more than L£ 7 million.

Its reduced cash position has prompted the Government not to exercise its 1955 option to take over from the Beirut Port Company its plants and facilities and to limit its participation in that project to the financing of the overdue expansion of the loading, unloading and handling facilities and of other works which are expected to produce substantial profits.

The damage caused by an earthquake in March 1956 (estimated to be up to L£ 100 million) did not directly affect the budget because a special L£ 30 million Relief Fund is being financed outside the regular budget by special taxation and by U.S. grant aid.

More income may be put at the disposition of the Government when the negotiations with the oil companies with a view to raising the pipeline transit royalties come to a conclusion, following similar agreements reached by Syria. But there is little likelihood of an early conclusion to these negotiations.

Monetary liabilities (currency and demand deposits) of the banking system went up to L~~£~~ 714 million in December 1955 against L~~£~~ 608 million in December 1954 and there is evidence of a further increase in 1956. The wholesale price index (1953 = 100) was 100 in February 1956 against 93 in December 1955; similarly, the cost of living index, on the same basis, went up in the same period from 96 to 102. It is difficult to say, with the limited information available, how grave the danger of inflation is, but the situation is already causing some concern in the business and public circles of Lebanon, especially because the Government has little or no institutional means of controlling the credit institutions and their activities.

LEBANON

							FEBRUARY	
	1951	1952	1953	1954	1955	1956	1955	1956
<u>POPULATION</u> (million)	1,304	1,338	1,417	1,447	1,483	-	-	-
<u>NET NATIONAL PRODUCT</u> (<u>£L million</u>)	1,071	1,090	1,250	1,380	1,440	-	-	-
<u>NET CAPITAL INVESTMENT</u> (<u>£L million</u>)	131	150	154	165	-	-	-	-
<u>PRICES</u> (1953 = 100)								
Wholesale prices	122	111	100	92	93	-	93	99
Cost of living	107	107	100	95	96	-	95	102
<u>DEPOSITS</u> (Private and Public) (<u>£L million</u>)								
Sight	253	301	324	362	444	-	-	-
Time	6	12	19	27	39	-	-	-
Total	259	313	343	444	483	-	-	-
(of which public deposits)	32	68	108	112	-	-	-	-
<u>CURRENCY</u> (<u>£L million</u>)	208	200	205	242	270	-	246.1	266
<u>PUBLIC BUDGET</u> (<u>£L million</u>)								
Receipts	+105	+125	+141	+134	+137 ^{1/2}	+145 ^{1/2}	-	-
Expenditures	- 90	- 89	-117	-120	-137 ^{1/2}	-145 ^{1/2}	-	-
Balance	+ 15	+ 36	+ 24	+ 14	-	-	-	-
<u>NET INCREASE (+) OR DECREASE (-)</u> <u>IN RESERVE FUND</u> (<u>£L million</u>)	+15.256	+31.952	+11.384	+14.340	-	-	-	-
<u>BALANCE OF PAYMENTS</u> (<u>£L million</u>)								
Merchandise	-155	-190	-170	-	-	-	-	-
Invisibles	+173	+232	+279	-	-	-	-	-
Balance	+ 18	+ 42	+ 99	-	-	-	-	-
<u>GOLD COVER</u> (<u>£L million</u>)	93	109.2	126.7	219.0	245.0	-	-	-
<u>GOLD AND FOREIGN ASSETS</u> <u>B.S.L. AND GOVERNMENT</u> (<u>U.S.\$ million</u>)								
Gold	26.3	30.6	34.7	63.1	73.7	-	63.1	73.7
Foreign exchange	13.2	11.6	20.5	13.0	12.8	-	15.8	11.9
(of which French francs)	(12.0)	(10.9)	(12.8)	(11.6)	(10.1)	-	(11.4)	(9.3)
Total	39.5	42.2	55.2	76.1	86.5	-	78.9	85.6

^{1/} Estimates

SYRIA

By mid-1956 Syria seems to have overcome some of the difficulties which in 1955 threatened her monetary stability and weakened her international payments position. Internal credit restrictions, a larger cotton crop than had been anticipated, new arrangements providing for increased foreign exchange receipts from oil transit royalties and intensified import restrictions appear to have been the principal factors in bringing about this improvement.

Exports for 1955 are estimated at £S 532 million and imports at £S 647 million. This trade deficit of £S 115 million (£S 84 million in 1954) was manageable in view of other foreign exchange income. The new agreement on oil transit royalties is producing an extra £S 50 million per year in foreign currency, and in addition Syria has received a lump sum payment on account of arrears of oil revenues amounting to £S 70 million. These, together with a new loan of £S 35 million from Saudi Arabia, have resulted in an increase in Syria's foreign exchange reserves from £S 92.6 million in July 1955 to £S 193.9 million in January 1956. In 1955 a loss of cereal exports because of a crop failure was one of the principal difficulties. A good cereal crop, however, is expected in 1956; and cotton production also appears favorable. New trade agreements signed in 1955 with Poland, Saudi Arabia, Italy, USSR, Pakistan, mainland China and East Germany are expected to improve marketing prospects for Syrian products.

While there is not enough information to **verify** that the danger of inflation is over, it appears that inflationary pressures have been checked. The reduced purchasing power resulting from the crop failure has been instrumental in keeping internal demand down. A series of credit restrictions, enacted in mid-1955 with a view to curbing speculation without harming productive activities, also played an effective role. Through the newly established Credit & Money Council the Government may now have the basic tools to establish and enforce credit and monetary policy. In July 1956 the new National Bank of Syria will take over responsibility for the note issue, so far left to the Banque de Syrie et du Liban, a private, commercial, foreign bank which, since the time of the French Mandate, has been performing this function.

Under the impact of these combined factors, the currency in circulation fell from its peak of £S 336.8 million in May 1955 to £S 320.1 million in December. The total volume of bank credit, which during the course of 1954 had increased from £S 226.8 million to £S 398.8 million, was stable in 1955. Price indices, which had been mounting in 1955, remained stable in the first months of 1956.

The increase in oil royalties is expected to exceed the losses in public receipts due to a lower level of general economic activity; the 1956 revenue estimates have been put at about £S 321 million, as against £S 260 million in the previous year.

Syria might still have to face recurrent economic setbacks in the near future, due to occasional poor crops until a larger part of the farming is done under irrigation and to difficulties in exporting her industrial products. The IS 650 million Development Budget, approved in mid-1956, is being carried out and a larger proportion of the national income is expected to come from sources less vulnerable to the hazards of the weather.

S Y R I A

	1951	1952	1953	1954	1955	1956
<u>POPULATION</u> (settled) (million)	3,260	3,361	3,535	3,641	-	-
<u>NATIONAL INCOME</u> (LS million)	-	-	1,360	1,650	-	-
<u>PRODUCTION</u>						
Wheat (tons 000)	-	-	870	800	438	-
Barley (tons 000)	155	396	472	561	137	-
Cotton (tons 000) ginned	62	45	47	72	84	-
Rice (tons 000)	1	3	16	19	-	-
Cattle (heads 000)	-	-	440	475	-	-
Sheep and goats (heads 000)	4,519	5,085	5,360	5,607	-	-
Area cultivated (hectares 000)	3,227	3,420	3,668	3,845	-	-
Cement (tons 000)	39	107	224	249	-	-
<u>WHOLESALE & RETAIL PRICES</u> (Damascus, 1949 = 100)						
Food	121.2	118.0	107.0	96.3	102.7	-
Local raw materials	128.6	118.8	109.5	124.6	128.7	-
Retail	109.0	107.7	93.2	89.4	-	-
<u>MONEY & CREDIT</u> (LS million), end of period						
Notes and coins (net)	229.9	229.6	266.7	335.1	320.1	-
Total deposits	128.8	241.8	296.2	334.0	334.4	-
Private	60.4	76.3	91.8	125.3	135.6	-
Public	68.4	165.5	204.4	213.7	198.8	-
Discounts, loans and advances	115.1	145.9	226.8	396.8	408.9	-
<u>ORDINARY BUDGET</u> (LS million)						
Receipts	138.9	181.2	216.7	202.0	260.6 ^{1/}	321.0 ^{1/}
Expenditures	156.1	177.4	197.0	209.1	260.6 ^{1/}	321.0 ^{1/}
Balance	-17.2	+ 3.8	+19.7	- 7.1	0	0
<u>BALANCE OF PAYMENTS</u> (LS million)						
Imports	418.0	444.0	459.0	638.0	647.0	-
Exports	292.0	337.0	408.0	554.0	532.0	-
Services (net)	+64.0	+56.0	+27.0	- 4.0	-	-
Donations and capital movements (net)	+65.0	+20.0	+30.0	+77.0	-	-
Errors and Omissions	+ 6.0	+31.0	- 6.0	+10.0	-	-
<u>OFFICIAL HOLDINGS OF GOLD & FOREIGN ASSETS</u> (LS million)						
Total at free rate	82.5	107.6	157.0	165.0	176.8	-

^{1/} Estimates

PAKISTAN

A Bank mission is currently reassessing Pakistan's economic position and prospects. The following comments are, therefore, confined to an outline of the Five-Year Plan recently announced by the Government. However, it is noteworthy that Pakistan's gold, dollar and sterling reserves continued to increase through March to \$283 million equivalent, a rise of about \$40 million during the March quarter.

The Development Plan prepared by the Planning Board covers the five years ending March 31, 1960, and it is designed to achieve the following objectives: - (a) to raise the national income and standard of living; (b) to improve the balance of payments position by increasing exports and by production of substitutes for imports; (c) to increase the opportunities for useful employment; (d) to make steady progress in providing social services, housing, education, health, and social welfare; and (e) to increase rapidly the rate of development, especially in East Pakistan and other relatively less-developed areas. A 20% increase in Pakistan's national income by 1960 is envisaged and, allowing for an anticipated $7\frac{1}{2}\%$ increase in population, the per capita income is expected to rise by 12%.

Implementation of the Plan is estimated to cost the equivalent of \$2,436 million, expenditure in the public sector being estimated at \$1,680 million, and in the private sector at about \$756 million. This public sector expenditure averaging \$336 million a year is about 24% above the level of 1955/56. To finance the Plan, the Planning Board estimates that during the five year period domestic savings can be mobilized to the extent of \$1,554 million; \$315 million as public savings and \$1,239 million as private savings. Included in the latter there appears to be \$147 million of contemplated borrowings from the State Bank. Of the remaining \$882 million, some \$84 million are expected to be covered by foreign investment and the Board hopes that foreign loans and aid will be available to cover the balance of \$798 million.

Approximately one-third of planned public expenditures will be related in some way to agriculture through agricultural development, village AID, irrigation, reclamation and drainage programs; industry and power comprise over one-quarter; transport and communications about one-fifth; and social services one-fifth.

In the private sector, the Planning Board expects that over one-third of the total expenditure of \$756 million will be invested in industry. Allowing for the encouragement provided by the housing and settlements programs in the public sector, the Board expects that private investment in construction will also increase and may require perhaps one-quarter of the resources available for private investment. The remaining resources are expected to be used for transport equipment, development of mineral resources, and in agriculture, the trades and commerce.

In addition to the expenditures in the public and private sectors, there is expected to be an investment of labor and local materials, which would not necessarily involve any expenditure of money, for private and communal purposes, such as construction of houses, small irrigation and reclamation works, building of

schools and roads by rural communities for collective use. Such expenditure may be equivalent to \$315 million to \$420 million during the Plan period but no estimate of such investment has been included in the Plan. However, it may have a substantial effect on raising living standards, particularly in rural areas.

The requirements of foreign exchange for implementation of the Plan are estimated at \$1,113 million; \$714 million for the public sector and \$399 million for the private sector. During the five year period, Pakistan's total foreign exchange earnings are expected to be about \$2,130 million and the minimum foreign exchange requirements for consumer goods, raw materials, defense and other non-development imports are estimated at about \$1,920 million, leaving about \$210 million available for development. The Board expects foreign investments will be available to the extent of \$105 million gross. Foreign loans and aid will be needed for the balance of \$798 million.

Pakistan's export earnings are expected to rise by about \$84 million annually during the Plan period. At the same time, requirements for imports of essential consumer goods, raw materials and fuels will drop with the expansion of local production, and the requirements for non-development imports are expected to drop by \$21 million. During the Plan period, therefore, the country's foreign exchange position will improve substantially, and by 1960 it is hoped that about \$105 million per year will be available for development from the country's own earnings.

In the development of agriculture the basic target of the Plan is that by 1960 there should be an adequate continuing food supply within the country for the growing population, and to make a substantial beginning, through research and extension programs and use of fertilizers, etc., towards more diversified agricultural output. Targets recommended in the Plan include a 13% increase in food grains, and larger increases in cotton, oil seeds, sugar-cane, and fruits and vegetables.

Under the Plan, the extensive program of irrigation development in West Pakistan is to be continued. By 1960 it is expected that 2.5 million acres of new land will be brought under irrigation, improved water supply provided for another 2.7 million acres, and about 560,000 acres of saline and water-logged lands reclaimed. In East Pakistan, another 400,000 acres of land will be brought under winter irrigation and about 1.5 million acres improved by drainage and flood regulation.

Power development projects are estimated to cost \$113.7 million and are expected to increase installed capacity from 280,000 kw at the beginning of the Plan period to about 860,000 kw in 1960.

Industrial development under the Plan is expected to consolidate progress already made and to lead to an estimated 70% increase in production and an increase in value from about \$1,576 million to about \$2,740 million. Important industrial targets include the raising of productive capacity of cement from 670,000 tons per year to 1,280,000 tons; fertilizers from nil to 162,000 tons; sugar from 115,000 tons to 235,000 tons; and the number of jute looms from 3,300 to 12,000.

The Plan makes provision for expenditures on rehabilitation and replacement of railway track and rolling stock, on construction and improvement of roads, on the development of inland water transport, shipping, and civil aviation, and on the expansion of telephone, telegraph and broadcasting facilities.

PAKISTAN

	1951	1952	1953	1954	1955	1954				1955				1956		
						I	II	III	IV	I	II	III	IV	I		
POPULATION (million)	75.8	78.5	79.3	80.2												
NATIONAL INCOME AT FACTOR COST (billion rupees) 1/	18.3	18.1	19.3													
AGRICULTURAL PRODUCTION (000 tons) 2/																
Rice	7749	8147	9151	8405												
Wheat	3014	2438	3683	3172												
Cotton	247	314	252	279												
Jute	1131	1218	447	484 4/	998 4/											
INDUSTRIAL PRODUCTION																
Cotton Cloth (million yds)	128	174	252	345		85	81	86	94	106	102	113				
Cotton Yarn (million lbs) 5/	19	20	53	100		19	22	27	32	32	38	40				
Jute Mfrs. (000 tons)	1 1/	18 1/	50 1/	61 1/		14	8	13	19	22	21	24				
GOVERNMENT BUDGET (million rupees) 1/																
Ordinary Revenue	1450	1286	1125	1155 3/												
Expenditure	1692	2093	1849	2055 3/												
(Development Outlay)	(297)	(378)	(482)	(753) 3/												
Excess of Expenditure	242	808	724	900 3/												
INTERNAL PUBLIC DEBT (million rupees) 6/	1615	1808	2125	2400		2189	2287	2406	2400	2422	2452					
GOVERNMENT BALANCE WITH STATE BANK (million rupees) 6/	582	377	216	173	152	325	172	260	173	258	107	237	152	178		
COMMERCIAL BANK PRIVATE CREDIT (million rupees) 6/	919	792	802	984	1183	846	809	811	984	1048	904	902	1183			
MONEY SUPPLY (million rupees) 6/	3761	3228	3577	3858	4542	3710	3688	3595	3858	3932	3980	4124	4542			
PRICES - KARACHI COST OF LIVING INDEX (1950 = 100) 7/	104	106	118	116	111	118	115	116	116	112	108	112	112	113		
BALANCE OF PAYMENTS, CURRENT ACCOUNT (million rupees)																
Receipts	2878	1916	1551	1275	1757	395	302	227	350	389	373	397	598			
Raw Jute	(1226)	(729)	(579)	(556)	(774)	(166)	(121)	(85)	(183)	(198)	(128)	(154)	(294)			
Raw Cotton	(1092)	(807)	(683)	(370)	(431)	(146)	(104)	(68)	(51)	(91)	(133)	(93)	(114)			
Payments	2361	2767	1428	1437	1460	378	400	335	323	322	322	381	435			
Surplus (+) or Deficit (-)	+517	-851	+123	-162	+297	+17	-98	-108	+27	+67	+51	+16	+163			
Errors and Omissions	42	-14	-2	0	0	0	0	n.a.	n.a.	0	0	0	0			
TERMS OF TRADE (April 1948-March 1949 = 100) 7/	125	103	75	82	76	75	86	80	86	86	80	75	62			
STATE BANK GOLD, DOLLAR AND STERLING RESERVES (million rupees) 6/ (million U.S. dollar equiv.)	1482 (448)	606 (185)	689 (208)	631 (191)	1156 (243)	720 (217)	630 (191)	561 (172)	631 (191)	677 (205)	696 (210)	1001 (210)	1156 (243)	1348 (283)		
1/ Year beginning April 1	2/ Crop years beginning in year indicated		3/ Provisional		4/ Estimate											
5/ Surplus to mills' own consumption	6/ End of period		7/ Average for period													

INDIA

A Bank mission is now in India investigating the country's economic situation.

The most significant development in the first quarter of 1956 was an increase of the money supply by Rs. 1.3 billion or 6.3%, largely as a result of the need for crop finance combined with other seasonal requirements for funds to settle tax and year-end obligations*. By March 31, 1956, bank credits outstanding exceeded Rs. 7 billion as compared to Rs. 6.4 billion at the end of 1955. Also the Government was in the market for funds and the amount of treasury bills outstanding reached Rs. 5.95 billion by the end of the quarter, an increase of more than Rs. 1.5 billion from the end of 1955. This expansion was absorbed by the public for the most part, but the Reserve Bank of India's holdings of Government securities rose during the same period by more than Rs. 500 million to Rs. 5.5 billion.

The upward trend in the overall wholesale price index continued. In particular, prices of agricultural staple commodities, such as rice, wheat and raw cotton, rose considerably; prices of industrial commodities remained relatively stable, either due to continuing price controls (steel, coal) or a saturation of the market, especially with textile goods. Consumer prices showed a slight decline.

Another manifestation of the pressure of the expanding money supply was an increase in imports in the first quarter, while exports were maintained at about the average monthly rate of 1955. While India's net foreign exchange reserves were on the whole rising throughout 1955, in the first quarter of 1956 they declined slightly.

The inflationary tendencies, which became apparent early this year after a period of monetary stability, may gain further strength due to the proposed deficit operations of the Government. Despite the levy of additional taxes (on personal and corporate income) which is expected to yield Rs. 342 million of ordinary revenue, budget estimates forecast an overall deficit of Rs. 3.56 billion to be financed by Government borrowings. The principal factor is a substantial increase, in connection with the Second Five-Year Plan, of Rs. 1.74 billion in public investment outlays.

* The Indian fiscal year ends on March 31.

INDIA

(All figures in Rs. billion except where otherwise stated)

	1950	1951	1952	1953	1954	1955	1954				1955				1956
							I	II	III	IV	I	II	III	IV	I
<u>Population</u> (million)	358	362	367	372	377	383									
<u>National Output</u>															
Net national product at factor cost															
- at current prices 1/	95.3	99.9	98.6	106.0	n.a.	n.a.									
- at 1948/49 prices 1/	88.5	91.6	95.2	99.5	n.a.	n.a.									
Agricultural production (1950=100) 2/	100	96	97	102	114	114									
Industrial production (1946=100)	105	117	129	135	146	160	138	143	150	156	158	159	159	162	n.a.
<u>Prices</u>															
Wholesale prices (1938/39=100)	401	439	387	394	388	355	396	393	382	375	360	343	355	363	380
Consumer prices (1949=100)	101	105	103	106	101	96*	102	101	101	99	95	93	96	98*	n.a.
<u>Currency and Banking</u> 3/															
Money supply with public	18.3	17.7	16.8	17.1	18.5	20.5	18.6	18.1	17.7	18.5	19.8	19.9	19.7	20.5	21.8
Treasury Bills outstanding	3.48	3.33	3.35	3.46	3.50	4.60	3.35	3.61	3.47	3.50	4.72	5.13	4.41	4.60	5.95
Central Gov't. deposits with Reserve Bank	1.64	2.10	1.75	1.10	0.55	0.54	0.66	1.16	1.41	0.55	0.59	0.58	0.58	0.54	0.58
Scheduled Bank credit to private sector 4/	4.45	5.55	4.85	4.74	5.54	6.41	5.48	5.66	5.40	5.54	6.34	6.30	6.16	6.41	n.a.
<u>Central Government Budget</u> 1/															
Revenue receipts	4.11	5.15	4.35	4.16	4.41	5.02*									
Current expenditures	3.51	3.87	3.96	4.07	4.02	4.89*									
Capital outlay and advances to States	1.37	2.06	1.68	1.97	4.62	4.97*									
<u>Overseas Trade and Payments</u>															
Imports (c.i.f.)	5.55	8.54	8.07	5.70	6.15	6.46	1.32	1.52	1.59	1.71	1.69	1.54	1.49	1.74	
Exports (f.o.b.)	5.46	7.67	6.17	5.32	5.63	5.94	1.32	1.13	1.43	1.74	1.53	1.32	1.60	1.49	
Terms of trade (1953=100) 5/	122	139	105	100	108	102	104	108	107	111	110	103	99	96	
Official foreign exchange reserves	8.34	7.81	7.06	7.23	7.31	7.35	7.53	7.44	7.31	7.31	7.30	7.16	7.20	7.35	

* Provisional estimates

1/ Financial year beginning April 1

2/ Crop year ending June 30 of year shown

3/ All figures for currency and banking relate to end of period indicated

4/ From November 1954 includes "foreign bills discounted"

5/ A rise indicates a favorable movement

CEYLON

The value of Ceylon's exports declined quite sharply during the first quarter of 1956 by about 24%, as compared with both the last quarter of 1955 and the first quarter of that year. Imports on the other hand were slightly higher than in the preceding quarter and 7% above the first quarter of 1955. Ceylon's trade surplus was only about \$6.5 million equivalent in the period under review, as compared with nearly five times this amount in the preceding quarter. A sharp decline in the export volume of rubber was chiefly responsible.

Ceylon's foreign exchange reserves rose about \$9 million equivalent or 4.4% in the first quarter of 1956. The rise of nearly 7% in the export price of tea between January and April reversed the downward tendency of the last quarter of 1955 and brought the price up to the average level of 1955. Contrary to experience elsewhere, Ceylon's export price for rubber also showed a small increase in the first few months of 1956.

No significant developments occurred in the internal finances of Ceylon during this period. Following a substantial rise of about 12% in the money supply in 1955 due mainly to accumulation of foreign exchange, currency and demand deposits decreased rather more than seasonally during the first three months of 1956. The cash holdings of the Government increased by 45.6 million rupees during the first two months of 1956, as compared with an increase of about 50 million rupees in the public debt (net of sinking funds), and of 15.6 million rupees in the debt held by the Central Bank. Fiscal operations resulted in a contraction of the money supply. Little change occurred in monetary and credit situation in the private sector.

CEYLON

	1951	1952	1953	1954	1955	1954				1955				1956	
						I	II	III	IV	I	II	III	IV	I	II
POPULATION (million)	7.7	7.9	8.2	8.4	8.7	-	-	-	-	-	-	-	-	-	-
<u>NATIONAL INCOME</u> (Rs. billion)															
Gross National Product at factor cost	4.62	4.51	4.49	4.77*	-	-	-	-	-	-	-	-	-	-	-
<u>AGRICULTURAL PRODUCTION</u>															
Index: 1951 = 100	100	107	97	110	-	-	-	-	-	-	-	-	-	-	-
<u>PRICES</u>															
Cost of Living: 1938-39 = 100	283	281	286	284	282	283	285	283	285	283	283	280	282	279	
<u>MONEY SUPPLY</u> (Rs. million) 1/															
(with the public)															
Currency	377	357	335	342	381*	325	334	350	342	343	349*	376	385*		
Demand Deposits	629	539	492	615	692*	485	522	532	615	611	570*	636	688*		
Time Deposits	361	392	390	431	472*	383	383	435	431	500	489	458	461*		
<u>GOVERNMENT BUDGET</u> (Rs. million) 2/ 3/															
Revenue	836	875	871	941	1,067*	243	231	319	262	310	290	-	-		
Expenditure	877	1,147	1,066	994	1,100*	184	236	300	202	230	280	-	-		
Balance	-41	-272	-195	-53	-33*	59	-5	19	60	70	10	-	-		
Cash Operating Surplus or Deficit	-48	-257	-232	34	129*	46	31	-68	76	84	32	-64	-10*		
<u>PUBLIC DEBT</u> (Rs. million) 1/ 2/															
(net of sinking funds)															
External	73	73	66	126	141	74	128	126	130	133	136	141	140		
Internal	502	729	926	826	753	851	782	826	755	791	765	753	737		
Held by Central Bank	3	130	216	84	19	127	48	84	27	18	20	19	18		
<u>GOVERNMENT CASH BALANCES</u> (Rs. million)	139	66	51	49	-	35	57	39	54	177	187	116	115*		
<u>COMMERCIAL BANKS CREDIT</u> (Rs. million) 1/ 4/	420	480	478	535	518	473	488	493	535	569	533	541	518		
<u>FOREIGN TRADE</u> (Rs. million)															
Imports	1,559	1,702	1,608	1,397	1,461	336	364	347	349	356	368	347	389	380	
Exports	1,904	1,502	1,568	1,809	1,940	429	416	506	460	534	417	448	540	411	
Balance	345	-200	-40	412	479	93	52	159	121	178	49	201	151	31	
Tea Exports	800	723	825	1,123	1,194	243	296	300	283	359	257	279	299		
<u>TERMS OF TRADE</u>															
1948 = 100	151	109	122	155	152*	125	131	138	164	179	146	139	-		
<u>FOREIGN EXCHANGE RESERVES</u> (Rs. million) 1/	1,133	783	547	828	1,082*	615	725	758	828	954	968	1,026	1,082*		

* Provisional estimate.

1/ End of period.

2/ Annual figures refer to fiscal year beginning October 1 of preceding year.

3/ Quarterly data not exactly comparable with yearly data.

4/ Domestic loans and investments.

BURMA

Since data thus far available on Burma for the first quarter of 1956 is incomplete, a general review of the economy is not included in this report. Tentative data on Burmese rice exports for this period indicate a possible increase in quantity as compared with the first quarter of 1955 and rice export prices have risen since February. An agreement with India provides for the delivery by Burma of half a million tons of rice per year.

In January the supply of money in Burma increased about 6% but the consumer's price index fell slightly owing to lower food prices. Bank credit expanded about 25% as compared with December 1955, about double the percentage increase that occurred in the same period in 1955. Import financing was an important factor in this expansion.

For the first two months of the Burmese fiscal year starting in October 1955, government receipts slightly exceeded expenditures in contrast to a very substantial deficit incurred in the same period last year. Capital expenditures of the government were reduced about 37% as between the two periods. Current revenues were also down because of reduced imports and consequently lower customs receipts.

Burma's foreign exchange reserves were \$142.7 million equivalent at the end of March 1956, an increase of \$18 million over December 1955. Included in this amount, however, was a \$15 million drawing from the IMF.

BURMA

	1951	1952	1953	1954	1955	1954				1955			
						I	II	III	IV	I	II	III	IV
POPULATION (million)	18.7	18.9	19.0	19.2	19.4	-	-	-	-	-	-	-	-
<u>NATIONAL INCOME (K billion) 1/</u>													
Gross National Product at market prices	3.68	4.08	4.62	4.58	4.84*	-	-	-	-	-	-	-	-
<u>RICE PRODUCTION (million tons)</u>													
Rice and Products	4.63	5.03	4.70	4.63	4.70*	-	-	-	-	-	-	-	-
<u>PRICES</u>													
Consumer's Price Index: 1941 = 100	354	338	334	311	320*	296	321	329	299	293	300	343	-
<u>MONEY SUPPLY 2/</u>													
With the Public (K million)	606	599	753	842	-	950	929	893	842	1,011	1,024	1,087	-
<u>GOVERNMENT BUDGET (K million) 1/</u>													
Tax Collections 3/	305	345	374	444	494*	101	130	122	109	125	123	137*	-
Other Receipts	362	358	520	552	549*	-	-	-	-	-	-	-	-
Expenditure 3/	506	642	964	1,300	1,307*	158	261	826	233	252	255	-	-
<u>GOVERNMENT CASH BALANCES (K million) 2/</u>													
(incl. State Boards)	432	572	478	336	-	239	335	209	336	171	265	176	-
<u>INTERNAL PUBLIC DEBT (K million) 2/</u>													
Total	218	257	299	707	1,035*	348	385	529	707	840	948	928	1,035*
Held by Union Bank	156	162	150	389	652	150	245	291	389	452	576	576	652
<u>COMMERCIAL BANKS CREDIT (K million) 2/</u>													
Domestic Loans and Investment	190	187	212	323	379	225	231	233	323	351	375	417	479
<u>FOREIGN TRADE (K million)</u>													
Exchange Transactions:													
Imports	658	778	952	1,097	-	249	283	312	252	253	238	188*	-
Exports	963	1,153	1,219	989	-	251	315	217	206	229	214	284*	-
Balance	305	375	367	-108	-	2	32	-95	-46	-24	-24	96*	-
Rice Exports 1/	758	809	1,019	840	875*	235	286	189	207	218	276	174*	240*
<u>TERMS OF TRADE 1/</u>													
1952 = 100	88	89	122	105	95	-	-	-	-	-	-	-	-
<u>FOREIGN EXCHANGE RESERVES (K million) 2/</u>	792	993	1,072	678	570*	991	938	760	678	613	535	516	554

* Provisional estimate.

1/ Annual figures refer to fiscal year beginning October 1 of preceding year.

2/ End of period.

3/ Quarterly data not exactly comparable with yearly data.

THAILAND

In 1955, Thailand had a moderate improvement in foreign trade and though more of her internal budgetary deficit was financed by Central Bank advances than in 1954 no serious inflationary impact resulted. Owing to an expansion of exports of about 23% over the previous year, the trade balance was favorable by about \$13 million, as compared with a trade deficit of about \$40 million in the previous year. Thai foreign exchange reserves increased by \$27 million equivalent in 1955. The budget deficit, net of foreign exchange profits, amounted to 9% of total government expenditures in 1955, as compared with 1% in 1954 and 19% in 1953.

Developments in the Thai economy in the first quarter of 1956 included some firming up of rice and rubber prices, continuing increase in foreign exchange reserves, a relatively stable free market rate of exchange, and arrangements for a substantial increase in government borrowings from the public to finance economic development projects. The volume of rice exports dropped during this period to about 282,000 long tons, as compared to exports of 316,000 long tons in the same period of 1955. However, export earnings from rice, rubber and tin in January and February were about \$5.5 million higher than during the same months of last year. The scale of Thai imports, which had risen sharply following the substantial removal of import restrictions in September of 1955, has receded under the pressure of tight credit and substantial accumulation of inventories of imported goods. While the baht depreciated slightly in the free market from February through April of this year, it remained a little above the level of December 1955 (20.9 baht to the dollar).

On April 9, 1956, a new trade agreement was concluded between Thailand and Japan which provides that the proceeds of Thai rice exports up till June 30, 1957 can be used to liquidate Japan's credit balance amounting to \$12.9 million as of February 29, 1956. This arrangement might provide a stimulus for rice exports to Japan and - together with firmer prices - help to attain the government's aim to export about 5% more in 1956 than in 1955 in order to compensate for the generally lower price level. On June 21, it was announced that Thailand had lifted the embargo on exports of non-strategic items to Mainland China.

There are no new data available which would allow a comprehensive assessment of internal finances. However, indications are that the situation developed somewhat more favorably than expected. Government revenues increased faster than expenditures in the first quarter of 1956. In January 1956, a measure was enacted which allowed \$2 million additional borrowing authority for the government on more generous terms than previous issues. The effects of this measure remain to be seen. No recent figures on credits and money supply are available but, judging from the increase in the cost of living, it must be concluded that money supply still continues to rise and to exert some pressure on prices.

THAILAND

	1951	1952	1953	1954	1955	1955				1956				
						I	II	III	IV	I	II	III	IV	
Population (million)	18.8	19.2	19.6	19.9	20.3									
National Income (billion baht)														
Net Domestic Income at factor cost	25.0	26.0	n.a.	n.a.	n.a.									
Rice Production (million metric tons)														
Paddy	7.32	6.60	8.24	5.71	6.80									
Rubber Production (million metric tons)	.11	.10	.10	.12	.12									
Tin Production (thousand long tons)	9.50	9.40	10.12	13.6	13.5									
Prices ^{1/}														
Cost of Living in Bangkok 1953 = 100	82	90	100	99		103	106	105		107			109	
Money Supply (billion baht) ^{1/}														
(With the Public)	4.91	4.93	5.44	6.06		6.48	6.62	7.18						
Government Budget (billion baht) ^{2/}														
Revenue	2.52	3.34	3.93	4.18	4.34	.93	1.11	1.09		1.21			1.26	
Expenditures	3.23	4.27	5.57	4.93	4.93	1.15	1.35	1.32		1.11*			1.23	
Deficit - or Surplus ^{3/}	-.71	-.93	-1.64	-.75	-.59	-.22	-.24	-.23		+.10			+.03	
Foreign Exchange Profits of the Bank of Thailand and the Government	.43	.65	.58	.73	.22	.08 ^{3/}	-.07 ^{3/}	.04 ^{3/}		.17 ^{3/}			0.08	
Internal Public Debt ^{1/ 4/} (billion baht)	1.73	2.59	4.88	6.26		6.45	6.34	5.73 ^{4/}		5.81				
External Public Debt (Disbursed) ^{5/} (in million US \$ equivalents)	12.08	19.74	26.46	49.35				53.16		70.64				
Government Cash Balances (million baht)	753	841	1,221	974		944	980 ^{7/}							
Commercial Banks Credit (billion baht)	1.17	1.64	2.23	2.61				2.98						
Foreign Trade (million US \$)														
Imports	272	300	336	314	322									
Exports	373	333	323	273	335									
Balance	101	33	-13	-41	113									
Rice Exports (million US \$) (thousand tons)	198	216	214	135	148	41	47*	33		27				
Rubber Exports (million US \$) (thousand tons)	1,577	1,425	1,341	1,004	1,221	346	389*							
Tin Exports (million US \$) (thousand tons)	98	50	38	44	84	20	17	25		22				
Unit Value of Exports (in terms of US \$) 1953 = 100	110	99	97	113	115									
Foreign Exchange Reserves ^{6/} Bank of Thailand (million US \$ including gold)	24	23	20	18	21	5	4	5		7				
	12.5	12.9	14.2	13.3	12									
	104	102	100	93		85	87	88		92				
	342	337	286	258		279	301	297		297			306	

* Provisional Estimates.

^{1/} End of Period.

^{2/} Quarterly figures are provisional estimates which have not been reconciled with the annual data.

^{3/} Profits of the Bank of Thailand only. III and IV quarter data adjusted by eliminating \$250.1 million charge to Stabilization Account to retire BOT foreign currency debt to Government.

^{4/} Held largely by the Bank of Thailand. Change in debt between 2nd and 3rd quarters largely offset by reduction in Govt. deposits of \$517 million in BOT.

^{5/} Does not include payments for the settlement of war damage claims.

^{6/} Excluding frozen sterling assets.

^{7/} May.

JAPAN

In fiscal year 1955-56 ending in March, Japan achieved record levels of agricultural and industrial production. Although the availability of bank credit was eased considerably, the expansion of available commodities apparently kept pace with the money supply and no marked increase in prices occurred. For the year as a whole, industrial production increased 11%, employment about 9%, and real wages by 7.2%.

Japan had a favorable balance of payments of \$535 million and gross foreign exchange balances increased to over \$1.5 billion during fiscal year 1955-56. Foreign exchange receipts increased 20% to \$2,839,000 and payments 14% to \$2,304,000. For the first time since the war, Japan had a small trade surplus (about \$5 million), but her balance of payments surplus continued to depend mainly on Special U.S. Expenditures which amounted to about \$570 million in fiscal year 1955-56. This represented a smaller decline in U.S. expenditures than had been anticipated compared with the previous fiscal year.

Although the total of Japan's imports increased by \$189 million, purchases from the dollar area were reduced by \$109 million, while those from the sterling area increased by \$289 million. On the other hand, \$313 million out of a total of \$493 million increase in exports were made to the dollar area. These import payments do not include \$75 million in surplus agricultural commodities obtained from the United States.

Despite recent growth, the export volume in 1955 had reached only 57% of the 1934-36 level and imports 78%.

The terms of trade improved slightly during 1955.

Particularly large increases in exports were achieved in iron and steel products and ships. According to custom's statistics, while all exports increased 25%, iron and steel items increased 37%, establishing an all time record of 2,178,000 tons valued at \$294 million. In 1955, Japan was the world's leading builder of ships for export, launching 583,000 tons. At the end of the fiscal year 1,002,000 gross tons were under construction, equal to about 14% of the world's total. On April 30, the shipyards had orders for about 3 million gross tons, of which 2.6 million were for export.

The improvement in foreign exchange reserves and trade encouraged several moves toward less governmental control. In line with GATT and IMF recommendations, the Open Account agreements for bilateral settlements, which accounted for 17% of the receipts and 21% of the payments in fiscal 1955-56, are being replaced with cash settlement agreements. New arrangements for settlement of trade balances in sterling or other currencies were made with West Germany, Italy, Sweden and Thailand and are being negotiated with the Netherlands and Taiwan. The other ten Open Account agreements will probably also be eliminated although some difficulty in this regard is expected for those countries with large unsettled trade debts, particularly Indonesia, Korea and Argentina. Other moves were made toward liberalizing foreign exchange controls and permitting partial conversion of accumulated yen by foreign corporations doing business in Japan.

Further easing of import controls and an expansion of imports has been provided in the foreign exchange budget for fiscal 1956-57. The budget for imports for which the source is not designated and the automatic approval list have been expanded. The foreign exchange budget for the first half fiscal year 1956 has been set at \$1,887 million, an increase of \$512 million over the corresponding half of the previous fiscal year. Higher imports are planned in order to check price increases while allowing for expansion for production and exports. The Government, nevertheless, expects a favorable trade balance of \$63 million for the first half of the fiscal year.

A reparations settlement with the Philippines was reached on May 9. Japan is to pay \$500 million in capital goods and \$50 million services at the rate of \$25 million per year for the first ten years and \$30 million per year for the second ten years. Payment may be accelerated in the latter period by agreement between the two countries. Japan also agreed to facilitate the extension of long-term commercial loans of \$250 million by private Japanese interests to private Philippine interests.

There has been much speculation about Japan making cooperative investments in South Asia and South America and some such arrangements have been made.

Credit was notably easier in fiscal 1955-56. Large excess Treasury payments were made of ¥276,600 million, an increase of ¥86,400 million from the previous year. Unusually large net disbursements were made from the Foreign Exchange Fund--¥178,500 million--due to the favorable balance of payments and from the Food Control Special Accounts--¥106,900 million--due to purchases of the bumper rice crop. Other Treasury accounts ended in a small surplus in fiscal 1955 as opposed to a large deficit in fiscal 1954. Tax collections were ¥317,686 million, ¥21,000 million over budget estimates.

Bank deposits increased ¥566,500 million (¥362,700 million in fiscal 1954). Bank loans increased only ¥333,900 million (¥230,500 million in fiscal 1954). Reflecting this improvement in bank liquidity, commercial banks retired ¥218,300 million of Bank of Japan obligations and ended the fiscal year practically independent of central bank borrowing. As a result, control of the money supply by the central bank has become more difficult even with the renewal of open market operations. The Government is again considering instituting a reserve requirement for banks. In March the Finance Ministry urged the banks to raise their cash reserves.

The increase in loans for plant and equipment investment was small during most of the fiscal year but a gradual increase occurred since July 1955. Estimated investment in plant and equipment for fiscal year 1956-57 is ¥472 billion, 20% above fiscal year 1955-56. Banks increased their investment in securities by ¥121,300 million in fiscal 1955 (¥72,600 million in fiscal 1954) including short-term Government bonds marketed by the Bank of Japan, stocks, public corporate bonds and financial bonds.

The corporate bond market was reopened April 2, 1956 for selected public and private issues.

In line with eased supply of money, bond rates were lowered for April issues. Yields per annum on industrial corporation bonds (7 year maturity) were reduced to 7.609% from 8.22%, public corporate bonds to 7.215% from 7.60%, financial coupon bonds (5 year maturity) to 7.411% from 7.918%, and local bonds to 7.500% from 8.11%. Paralleling lower yields of financial debentures, the two long-term credit institutions, The Industrial Bank of Japan and the Long-Term Credit Bank of Japan, in the fourth reduction of their interest rates since July 1955 have lowered their rates on loans by 0.365% per annum beginning April. The interest on loans to the electric power industry under the new schedule became 9.125% per annum and on loans to other industries 9.49%. The new schedules represents a decrease of 2.19% per annum from rates in force until June 1955. A cut in the comparatively high rate on loans to the shipping industry (10.585% per annum) is under consideration.

The budget for fiscal year 1956, the first year of the new Five-Year Plan, maintains in general the policy of holding down government expenditures and prices though endeavoring to increase production, lower unemployment and promote foreign trade. Revenues are to be maintained without resorting to increased tax rates. The scale of the general accounts expenditures is to be increased slightly but will remain at about the same level relative to the national income, 14.8% estimated for fiscal year 1956. An increased exemption allowance for income taxes is to be offset by higher indirect taxes.

The most significant developments during the past year were liberalizing of controls, both internal and external, and some interest rate reduction without apparent inflationary consequences.

JAPAN

	1951	1952	1953	1954	1955	1954				1955				1956	
						I	II	III	IV	I	II	III	IV	I	
POPULATION (millions)															
(as of October)	84.6	85.9	87.0	88.3	88.9										
GROSS NATIONAL PRODUCT (billions of yen)															
(For year beginning April)	5,541	6,182	7,130	7,359											
INDEX OF REAL INCOME PER CAPITA															
(year beginning April)															
1934-36 = 100	88.1	98.1	105.9	105.4	112.2										
INDUSTRIAL PRODUCTION															
(year or last month of quarter)															
1934-36 = 100	114.4	126.4	155.1	165.4	179.7	162.7	165.2	159.8	168.0	164.3	175.4	183.1	191.5	191.0*	
MANUFACTURING PRODUCTION															
1953 = 100	72	80	100	109	119	108	107	105	112	107	115	120	126		
RICE PADDY PRODUCTION															
(thousand metric tons)	11,302	12,404	10,298	11,392	13,900*										
WHOLESALE PRICES															
(end of period)															
1953 = 100	97	100	100	99	98	103	99	97	98	98	97	97	98	99	
COST OF LIVING (end of period)															
1953 = 100	89	93	100	105	104	106	106	106	105	104	105	103	104	105	
MONEY SUPPLY (billions of yen)															
(end of period)															
Currency and Deposits with public	1,048	1,265	1,439	1,463	1,698	1,277	1,262	1,221	1,463	1,285	1,369	1,327	1,698	1,547	
CENTRAL GOVERNMENT TREASURY TRANSACTIONS WITH PUBLIC (billions of yen)(- excess payments)															
Balance for fiscal year beginning April or for calendar year quarter															
a. Including foreign exchange transactions	37.1	-0.7	63.6	-191.2	-285.8	206.6	-27.1	1.1	-267.4	102.5	-33.4	-58.5	-298.4	104.5	
b. Excluding foreign exchange transactions	98.6	17.9	-66.2	-116.8	-115.9	124.1	-56.0	16.1	-203.5	126.6	-2.0	-7.3	-245.8	139.3	
BANK LOANS AND DEPOSITS (billions of yen)															
(end of period)															
Loans and Investments (non-government)	1,415	1,981	2,502	2,752		2,538	2,560	2,634	2,752	2,774	2,818	2,898	3,309	3,400	
Time Deposits	667	1,031	1,336	1,588		1,377	1,408	1,491	1,588	1,673	1,726	1,836	2,089	2,193	
Government Deposits with Banks	33	93	84	84		130	80	63	84	238	150	175	166	254	
VALUE OF TRADE (millions of U.S.\$)															
Imports c.i.f.	1,995	2,028	2,410	2,399	2,473	723	689	499	489	576	646	591	659	692	
Exports f.o.b.	1,358	1,273	1,275	1,629	1,969	343	377	417	492	433	460	512	607	560	
Balance	-637	-755	-1,134	-770	-504	-380	-312	-82	3	-143	-186	-79	-52	-132	
VOLUME OF TRADE (1953 = 100)															
Exports	89	89	100	131	162	106	119	133	163	142	148	163	195		
Imports	65	73	100	103	107	124	117	84	85	102	109	101	115		
TERMS OF TRADE (1953 = 100)	92	97	100	101	102	105	103	101	100	99	100	101	103		
PRINCIPAL EXPORTS															
Cotton fabrics															
Value (millions of U.S.\$)	310	180	179	252	230	66	61	58	68	49	50	58	73	74	
Quantity (million sq. yards)	1,078	762	914	1,278	1,138	327	302	296	353	252	246	279	362	363	
Machinery & Transport equipment															
Value (millions of U.S.\$)	108	116	189	202	247	41	51	51	59	43	55	56	83	91	
Iron and Steel 1/															
Value (millions of U.S.\$)	205	263	140	167	259	34	30	39	57	57	51	69	74	58	
Quantity (thousand metric tons)	963	1,633	843	1,187	1,989	198	175	295	489	505	493	495	496	362	
Rayon fabrics 1/															
Value (millions of U.S.\$)	86	65	72	103	143	22	25	20	30	28	32	37	45	43	
Quantity (million sq. yards)	293	300	373	566	864	109	131	119	240	174	198	227	275	235	
Chemicals															
Value (millions of U.S.\$)	36	40	62	79	94	13	24	20	22	22	26	20	26	27	
BALANCE OF FOREIGN EXCHANGE TRANSACTIONS															
(in millions of U.S.\$)															
Total Transactions	331	314	-193	100	494	-162	-16	95	183	82	58	175	179	124	
U.S. Dollar Transactions	69	188	209	-92	353	-151	-56	47	68	9	63	151	130	89	
U.S. MILITARY EXPENDITURES AND OTHER GOVERNMENT PAYMENTS (net)															
U.S. Dollar Receipts (millions of U.S.\$)	577	802	781	617	538	121	164	188	144	117	127	147	147	132	
GOLD AND FOREIGN EXCHANGE (millions of U.S.\$)															
End of period	-	1,165	1,017	1,130	1,469	844	831	930	1,130	1,182	1,214	1,357	1,469	1,558	

* Tentative estimate

1/ Differences between 1954 annual and quarterly figures are probably attributable to year end revisions in annual figures.