

25/10/68

DRAFT

The non-adjudication entrustment of State projects to local firms able to secure foreign loans, on a State guarantee is being strongly criticized.

By Currency Committee decision dated May 3, 1968 published in the official gazette No. 299, Volume II of June 25, 1968 authorization was granted to the Greek technical enterprise "EPEX-STEP S.A." to negotiate foreign loans upto a total of \$25 million equivalents, under the guarantees of the Greek State. The proceeds of these loans will be used to finance various basic infrastructure projects of the Greek State Investment budget (mostly reclamation and irrigation works). Based on State Investment budget data supplied by the Bank of Greece, it results that during the July-September 1968 period above mentioned enterprise had already contracted four loans from European sources totaling about \$11 million equivalents as follows:

July 1968: Swiss francs 17 million	= \$4,0 million
August 1968:	= \$2,7 "
September 1968: EPEX 13,2 million	= \$5,5 "
September 1968: Other loans	= \$1,0 "
		<u>\$11,0 "</u>

The terms of above loans etc, as yet, not fully known, but, from information in the local press it appears that these loans are of a five year duration with an interest rate of around 7%. However, it appears that the proceeds of these loans are not 100% at par because of certain bank ^{commissions} ~~commissions~~ and other sundry expenses.

Thus as regards the 17 million loan in Swiss francs which, according to press reports, was granted by the American Express Co. of Zurich, bank charges and other sundry expenses amounted to 685,000 Swiss francs or more than 4% of the total nominal value. Therefore the actual cost of such loans will exceed 8%. The proceeds of these loans converted into drachmas have been credited to the Greek State Revenue account within the Bank of Greece and are used for the financing of State reclamation and irrigation projects, the implementation of

which has been entrusted to EDOE-STEP without the usual adjudication procedure. Apparently the present Government has adopted this procedure in order to increase the inflow of foreign capital for local cost projects so as to avoid any reduction in Greece's foreign assets.

As we no longer receive statistical data from the Ministry of Finance relating to the implementation of the Regular and Investment Budgets we are not in a position to know whether these proceeds have been earmarked as a foreign loan, an internal borrowing or as an investment budget revenue. We believe, based on previous practice ~~concerning~~ ^{as in the case of the} Postal Savings bank credits to the Highways Fund for road construction, that the same ~~procedure~~ ^{treatment} will also be applied ^{in this case} and that these earnings will be treated as a State investment revenue and not as an internal or an external borrowing. As a result that by the end of the year the Greek State Budget will show a lower volume of foreign borrowing.

There are also certain implications affecting balance of payments transactions. It appears that during the January-August 1968 period the \$6.7 million inflow of above credits ~~xxxxxxxxxx~~ ^{were not} treated as a Greek State borrowing under official financing. The Embassy believes that this amount was either included under Private Capital Inflow or, more probably, under Invisible Receipts (other remittances). In fact other remittances under Invisible Receipts rose during the July-August 1968 period by \$11.0 million while in the comparable 1967 period there was an increase of \$5.4 million.

This unorthodox procedure of entrusting the execution of large approved State investment projects directly to certain firms such as "EDOP-STEP" without the normal adjudication procedure has been strongly criticized in two articles of the newspaper *ESTIA*, translation of which is attached.

The above mentioned two articles are of particular importance in view of the fact that the local press is still under control. According to the opinion voiced by ESEPA the entrustment of the execution of projects to private firms without the normal adjudication procedure leads to a substantial increase in the overall cost of the project and therefore imposes an additional ~~burden~~ burden on the Greek State Budget. The argument that Greek technical firms are able to obtain foreign loans to ~~finance~~ ^{finance} projects which ~~involving~~ involve mostly local expenditures is not valid in view of the fact that the Greek Government guarantees these loans 100% and is responsible for the repayment of these loans in foreign exchange.

ES:it
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