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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

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Eugene H. Rotberg chronological files
Vol. 11. January-May 1974

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Chron

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.

May 31, 1974

Mr. Koshi Suzuki
Deputy Chief Manager
Securities Department
The Industrial Bank of
Japan, Limited
Marunouchi, Tokyo
JAPAN

Dear Mr. Suzuki:

Thank you very much for your letter
of May 25, 1974, with which you enclosed
IBJ's latest Bond Market Report. I
continue to find this information inter-
esting and appreciate your thoughtfulness
in sending it to me.

Sincerely,

Eugene H. Rotberg
Eugene H. Rotberg
Treasurer

Encl.

Chen



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



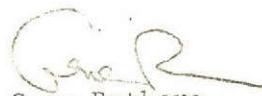
May 30, 1974

Dear Sandy:

It was quite a coincidence to learn that I called right after you arrived back from Japan. I had these pictures made up and didn't know where to send them in the Far East. It was good talking to you. You might want to read The Needle's Eye by Margaret Drabble and The Diaries of Anais Nin.

When I was speaking to your father I realized that I had met him several times. That was a long time ago -- some time in 1967 or 1968, I think. I used to have many friends in the securities industry. I have an uneasy feeling, however, that after the last six years I'm afraid that there are few left who look upon me as a friend.

Kindest regards,


Gene Rotberg

Encl.

Mrs. S. Evans
c/o Mr. Palmer York, Jr.
7312 Patriceros Avenue
El Cerrito, California

Market	Currency	Average Life (Years)	Term (Years)	Date of Issue	Amount (US \$m)	Coupon (%)	Yield at Issue	
							Yield to Purchaser (%)	Cost to IBRD (%)
FY75 (Program)								
Two-Year Bonds	US\$	2.0	2.0	9/15/75	200	8.00	8.00	8.00
	US\$	2.0	2.0	4/15/75	240	7.50	7.50	7.50
Bundesbank	DM	4.2	4.5	8/1/74	150	8.875	8.875	8.875
	DM	4.2	4.5	2/1/75	118	8.625	8.625	8.625
Bank of Japan	¥	6.5	7.0	various	<u>200</u>	8.20	8.20	8.20
					908			
Oil-Exporting Countries Offset Arrangements								
		10.0	10.0	various	450	8.00	8.00	8.00
Iran		12.0	12.0		200	8.25	8.25	8.25
Venezuela		10.0	10.0		400	8.125	8.125	8.125
Saudi Arabia		10.0	10.0		260	8.125	8.125	8.125
Other		<u>12.0</u>	12.0		<u>100</u>	8.00	8.00	<u>8.00</u>
		7.77 yrs.			1410			8.12%*
Excess					118			

*Weighted by amount and maturity.

Chron

10822 Childs Court
Silver Spring, Md.
20901

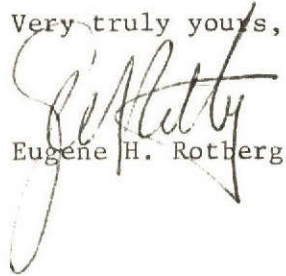
May 28, 1974

Mr. Ronald L. Futterman
Pressman & Hartunian
33 North Dearborn Street
Suite 707
Chicago, Illinois 60602

Dear Mr. Futterman:

Enclosed please find an executed
affidavit, in accordance with your request.

Very truly yours,


Eugene H. Rotherg

Enclosures: 1

Chiron



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



May 28, 1974

Mr. Al Block
23 Maplewood Avenue
Philadelphia, Pennsylvania 19144

Dear Al and Ethel:

Congratulations on being grandparents.
It was very nice hearing about the birth of
Jennifer from Janet and Jack. Please send
them our love and congratulations. I don't
have their address.

I am enclosing some photographs on
the occasion of my signing the World Bank
borrowings from Sweden and from Japan. It
was good seeing you at Passover.

Sincerely,

Gene
Gene

Chen



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U. S. A.



May 28, 1974

Mr. Yoshihiro Akama
The Mitsubishi Trust and
Banking Corporation
4-5, Marunouchi 1-Chome
Chiyoda-Ku
Tokyo 100 Japan

Dear Mr. Akama:

I wish to take this opportunity to express my appreciation to you for the beautiful "palace" book which was given to me when Mr. Ohta visited this office. I am most sorry that you were unable to visit in Washington, and I hope that you are now feeling quite well and recovered. I look forward to seeing you soon in Tokyo.

Kindest personal regards.

Sincerely,

Eugene H. Rotberg
Eugene H. Rotberg
Treasurer

Chiron



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



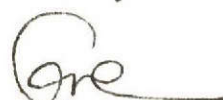
May 28, 1974

Dr. Hal Lazarus
225 Wellington Road
Garden City, New York 11530

Dear Hal:

It was delightful having Mark here. He is just very relaxing; it is very comfortable to be around him. I am afraid that I am not going to be able to make it up to New York this weekend, since I have just been away too much and I want to spend the weekend with Iris, Diana, and Pam. I hope I can avoid all traveling until the beginning of July.

Love,


Gene

John

10822 Childs Court
Silver Spring, Md.
20901

May 28, 1974

Dear Pearl:

It was good hearing from you. I am simply overwhelmed about Amy's success. It is just an incredible achievement. I am sure that she will be very happy at Berkeley. As a matter of fact, if Amy wants to travel, I think she will find that being with a debating team will enable her to visit most parts of the United States over the next three or four years.

Since I saw you, I was in Madrid and Geneva for a couple of days, came back, and then a week later went to Paris for two days - so I am a bit tired. The Geneva trip was interesting as I had a chance to speak to the European section of the Harvard Business School.

The children are still talking about all of you and their visit and just had a glorious time.

Unfortunately, I just don't know any San Francisco lawyers personally. While there are several I know in a professional capacity, I am reluctant to recommend anyone who isn't a close personal friend. Fundamentally, the choice of a lawyer to probate a Will should be made on the basis of a close personal relationship, since it is a very traumatic time for children, relatives, friends, etc.. The only ones I know who fit that category live in Los Angeles and I would have a great deal of confidence in them as they are old friends. So, why don't you look around and see if you can find anyone in your area with whom you feel comfortable; otherwise let me know and I will suggest some names of Los Angeles lawyers. In the meantime, if you wish, why don't you send me a copy of the Will and I will be glad to look at it.

Mark Lazarus visited us over this Memorial Day weekend. He is very comfortable to be with and we enjoyed having him. Iris saw "The Conversation" and said it was extraordinarily tense but a superb movie. She doesn't want the children to see it. Next week we see the Royal Ballet doing "Romeo and Juliet" and "Swan Lake". I am reading The Nickel Mountain by John Gardner. It isn't exactly spellbinding. Iris has been incredibly busy at work but is getting a lot of satisfaction from it - apart from the office politics which are terrible.

Keep in touch soon.

Love,

John

Chen



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



May 28, 1974

Mr. Leon T. Nelson
Executive Assistant
Public Services
Federal Reserve Bank
of Boston
Boston, Massachusetts 02106

Dear Mr. Nelson:

Please let me express my appreciation to you somewhat belatedly for the very nice photograph you sent to me on the occasion of my recent visit to Boston. It is very much appreciated, and it was most kind and thoughtful of you to think of me. I look forward to seeing you soon.

Kindest personal regards.

Sincerely,

A handwritten signature in dark ink, appearing to read "Eugene H. Rotberg".
Eugene H. Rotberg
Treasurer

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OFFICE MEMORANDUM

TO: Messrs. McNamara, Aldewereld, Cargill DATE: May 24, 1974

FROM: Eugene H. Rotberg *ER*

SUBJECT: Portfolio Statement: May 15, 1974

Attached is the portfolio statement for the period ending May 15, 1974. In recent weeks yields have declined considerably. Three-month Treasury Bills have declined 150 basis points in yield; four/five-year U.S. Government securities have declined by about 75 basis points.

Attachment

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld
Mr. I.P.M. Cargill

FROM: Eugene H. Rotberg *EHR*

SUBJECT: Bank Liquidity Policy

DATE: May 23, 1974

The proposal has been made that the Bank's holding of liquid assets be reduced from a projected level of \$6.2 billion by FY79 under the old liquidity formula, to a level of \$4.0 billion. It is my view and that of my colleagues that the projected benefits from this change have been overstated in present projections while the costs in terms of financial flexibility have not been pointed out.

BENEFITS

The draft financial policy paper (page 36) shows the minimal effect of reducing liquidity on our income for FY75 and FY76; it shows a considerable impact in FY77 and FY78 where the reduction in liquidity is calculated to save the Bank \$14 billion and \$19 billion respectively. This saving, however, is the result of using a conservative estimate of 85 basis points for the cost of holding liquidity in FY77 and FY78. The Bank's actual experience in FY69 - FY73 was 33 basis points.

There are several reasons why it is likely that the cost of carrying liquidity is likely to be even less in the future than it has been in the last five years. First, the Bank's borrowings for FY75 - FY79 are projected to have an average maturity of 7-8 years, therefore being quite close to the maximum maturity of our investments. Second, the oil exporting countries have lent and are expected to lend to the Bank at a concession from market rates. If the Bank were in fact to make substantial new borrowings in dollars in the Mid East, those resources could be invested currently at about 8-1/2% for five years, thereby assuring a positive spread - at least over a five-year period. Third, the borrowings projected for FY75 - FY79 are in currencies where the Bank has market investment opportunities as opposed to its experience of holding large balances (Yen, Deutsche mark, Libyan dinars and Kuwaiti dinars) at yields very much lower than the cost at which these funds were borrowed in the FY69 - FY73 period. Fourth, unlike previous periods, we can recall on loans those currencies where we have investment opportunities at high yields - Guilders, French Francs, Belgian Francs. (We could not do this previously because of the reluctance of those governments to increase their foreign exchange reserves.) Fifth, we have been restructuring our portfolio and locking in higher yields for longer periods of time. Sixth, with the removal of U.S. controls, there is no reason why we should not invest in the Eurodollar market. We can currently place liquid CD's at about 9-1/2% for five years in that market.

Mr. S. Aldewereld
Mr. I.P.M. Cargill

- 2 -

May 23, 1974

The second apparent advantage attributed to the reduced liquidity is the fact that we will not have to place before the Board a large borrowing program which will require substantial access to capital markets throughout the world. While I can understand the reluctance to put such a large borrowing program before the Board, the issue is whether it is or is not necessary to build up our liquidity and diversify our markets in order to properly finance our projected lending program. If borrowings are available from the Mid East at or about the same rate as those in other countries, we should not forego the borrowings in such other countries, since these are essentially market borrowings and, in the latter periods of the five-year program and thereafter, it will be indispensable to have our bonds known in world markets and our financial statements reviewed on a regular basis by investors. If we do not on a regular and continual basis show the gradual change in the Bank's financial position, the difference between our financial position now and after a long hiatus from the market will be striking and detrimental to the Bank. If there is a concern that member countries will object to the demands on their markets, we should know that now rather than at the middle or end of the five-year period.

It is true that our interest coverage ratio will not deteriorate as fast as otherwise under the reduced liquidity policy. I assume that any reasoned financial analysis would offset that "advantage" against the relative deterioration of our cash position as shown below. Further, the fact that our interest coverage will deteriorate to about 1.06 in the early 1980's even under the projected program should augur for borrowing earlier rather than later.

RISKS AND DISADVANTAGES

It may be useful to set forth the ratios of our cash and liquid holdings vis-a-vis various types of liabilities of the Bank. Perhaps most striking is the fact that, if the Bank in FY79 (a) rolls over all Central Bank issues then outstanding, including those in the Bundesbank, The Bank of Japan, Bank of Libya, etc., and (b) also borrows only enough to refinance all other maturing obligations, for a total of \$1.5 billion borrowings, its liquidity will drop to \$2 billion at the end of six months. The cash drain in FY79 on our operations is in the magnitude of \$3.0 billion over and above the borrowing necessary to refinance all maturing obligations. Therefore, even if the informal arrangements from oil exporting countries do in fact come into being during the next five years and at the levels contemplated in the program, we are extremely vulnerable to any change in those attitudes toward the end of the five-year program. See Table following.

IBRD Liquid Holdings FY68-FY79

	<u>FY68</u>	<u>FY69</u>	<u>FY70</u>	<u>FY71</u>	<u>FY72</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
LIQUID HOLDINGS	1,167	1,702	2,049	2,548	3,218	3,734	3,813	4,005	3,840	3,782	3,880	3,892
1. <u>Undisbursed Loans</u>	3,524	4,222	4,612	5,441	6,962	8,925	9,701	10,865	12,377	14,429	17,064	17,709
Liquid Holdings as a % of Undisbursed Loans	33%	40%	44%	47%	46%	42%	39%	37%	31%	26%	23%	22%
2. <u>One Year's Disbursements</u>	654	747	914	1,182	1,175	1,465	1,677	2,477	3,051	3,596	4,292	4,303
Liquid Holdings as a % of One Year's Disbursements	178%	228%	224%	216%	274%	255%	227%	162%	125%	105%	90%	90%
3. <u>Financing Requirements</u> ^{1/}	(314)	351	(200)	150	620	763	920	1,329	1,570	2,150	2,515	2,964
Liquid Holdings as a % of Financing Requirements	-	485%	-	1,698%	519%	489%	411%	301%	245%	176%	154%	131%
4. <u>Months Until \$2.0 billion Liquidity Reached if Borrowing Limited to Refinancing all Maturing Obligations</u>	-	-	-	-	-	24	20	18	15	11	8	8

^{1/} Net Financing Requirements are defined as disbursements less repayments to IBRD, Sales of Loans, Net Income, plus drawings by IDA less receipts of Capital Subscriptions and Other.

Mr. S. Aldewereld
Mr. I.P.M. Cargill

- 4 -

May 23, 1974

During the five-year period, we will have made our commitments, but will have done little to build up our market capacity or diversity. The preceding Table shows virtually every ratio deteriorating by 100%; our lead time and flexibility is considerably limited by the late 70's. In addition, were there debt reschedulings, defaults, or increased inflationary pressures, our position would be even more vulnerable. Nor do I think it is an answer to "divide up" our borrowings between the public markets and oil exporting states at the levels contemplated in the paper. To follow that practice would mean that by the end of the five-year period we would find ourselves not having "tested" either the informal assurances from oil exporting states or our ability to finance in public markets.

The fact that the Bank has not borrowed in Saudi Arabia since 1968 and that its borrowings in Libya, Lebanon, and Kuwait have all been in local currency, does little to make me sanguine about the amounts, form, or permanence of these assurances. If (a) the net financing requirements of the Bank were minimal in absolute amounts (or as compared to our previous levels of borrowings), or (b) if the Bank had demonstrated an ability to borrow in capital markets whenever and in the amounts it wished, or (c) if we could predict our future interest costs, or (d) the attitudes of governments toward the Bank, or (e) the extent to which there would be shifts in investor preference for currencies in which we had market access, then perhaps the risk would be worth taking, but there seems little reason to take the risk of not being able to meet our commitments without countervailing benefits.

Apart from the low level of liquidity vis-a-vis our months of reaction time and our liabilities, I am reasonably certain that the level of liquidity projected in fact will jeopardize our net income. At the present time, the maturity structure of our portfolio is a function not only of the level of interest rates which we project for the future, but it also reflects our analysis of the risk that we take by investing in longer maturities and having to liquidate such securities during a period of high interest rates. That risk today is minimal since in recent years we increased our cash position in response to an increasing projected resource gap. If, however, our liquidity is to remain constant, and if we are subject to losing half of it within a period of 6-8 months should we be out of the market for new borrowings for any reason, then we must hold a far greater proportion of our assets in very short-term investments to avoid a capital loss should we have to draw down our liquidity. The holding of short investments as an alternative to the possible taking of capital losses on longer term instruments means that our net income will be more vulnerable to sharp swings in interest rates, as we can lock in little at high yields. Over the long run, I am convinced our net income over time, therefore, would suffer. I would note here that in the United States as recently as two years ago,

Mr. S. Aldewereld
Mr. I.P.M. Cargill

- 5 -

May 23, 1974

Treasury Bills were yielding 3%. We avoided the impact of that development by having diversified and lengthened our portfolio by purchasing bonds of longer maturities. We could not prudently do that again in view of the much greater net cash drain under the new five-year program and the risk of having to liquidate our holdings in substantial amounts and over a short time period. I think it is also relevant to note that if an increasing income is a desirable goal, one way to increase that income is by redeeming our outstanding debt at depressed prices and taking the gain into current income. Such use of liquidity could not be done if it is held at levels projected in the paper.

A basic reason why our net income rises in the five-year projections is because the commitment fee is on an expanding basis of operations. The total commitment fee for FY75, FY76, FY77, FY78, FY79 amounts to 53, 65, 78, 92, 104 million respectively, of which the commitment fee attributable to loans made after July 1, 1974, is 8, 28, 43, 76, 96 millions for each year. This is far more significant to our income than the cost of carrying liquidity.

Finally, I would note that I do not mean to imply that a greater borrowing program than projected in the program can easily be done. Rather, we should try to do it if it is financially prudent to do so in order to support the expansion of our lending.

EHRotberg:emk



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

chum

May 17, 1974

Professor Donald E. Schwartz
New York University
School of Law
40 Washington Square South
New York, New York 10012

Dear Don:

I'm sorry I did not have a chance to respond to you earlier concerning the subject matter of the Securities Regulation course. The course deals with the following subjects: structure and operation of the trading markets; anti-trust implications of the rate structure in the securities markets (minimum commission rates, institutional membership, abolition of third market, etc.); regulatory role of U. S. Treasury Department, Securities and Exchange Commission, and U. S. Department of Justice; recent developments re primary jurisdiction, standing to bring suit, appropriate place to challenge either market practices or rate structure; implications of rate structure in securities industry vis-a-vis incentives or disincentives to invest savings in securities markets as compared to other alternative forms of savings.

The materials are: House and Senate committee reports, statements of Treasury, Justice, and SEC in Congressional committees or amicus briefs filed in pending cases; SEC releases; published expressions by NYSE or third market on their positions; cases on anti-trust, primary jurisdiction, standing to sue, choice of forum, etc; also, Bankers Trust or Salomon Brothers yearly flow of funds study, etc.

The students are approximately 25% undergraduate law students; approximately 25% graduate law students, who may or may not also be practicing law during the semester; and about 50% practicing lawyers who are taking the course because it is specialized and not for the purpose of receiving an advanced degree.

Please keep in touch.

Best regards,


Gene



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



May 17, 1974

Dear Pat:

It was good talking to you. Attached
is a biography. I look forward to seeing you.

Sincerely,


Gene Rotberg

Ms. Pat Callahan
2000 S. Eads Street
Arlington, Virginia 22202

BIOGRAPHICAL RESUME

EUGENE H. ROTBERG is Treasurer of the World Bank, a position which he has held since January 1, 1969. Prior to that time he was with the Securities and Exchange Commission where he served as Chief Counsel, Office of Policy Research and Associate Director for Markets and Regulation. He received his Bachelor's Degree in 1951 from Temple University and graduated from University of Pennsylvania Law School in 1954. He is a member of the District of Columbia and Pennsylvania Bar and is a Professorial Lecturer in Law at the George Washington University Law School.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

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

May 17, 1974

Mike:

1. Here are the papers which have been received to date. I have graded Question I of all of those papers, irrespective of whether the students are or are not graduating seniors. This should give you a fairly good idea as to how I considered the relative merits of the answers.

2. The grade equivalent to numerical grades are as follows:

85 - 100	A
75 - 84	B
65 - 74	C
55 - 64	D
Below 55	E

I rarely, if ever, give below a 65 and usually give possibly three or four "A's" for each class for really good papers showing a lot of work.

3. The only grades which are required immediately are those for graduating seniors, and those must be telephoned to Mrs. Porter of the G. W. Law School (676-6260) by 5:00 p.m. on Monday and no later. Otherwise, the students cannot graduate. Each graduating senior is supposed to mark on the paper whether he is graduating or not.

4. Remember, Question I represents 70% of the grade and Question II, 30%. Perhaps Julie could help you with the necessary mathematical equation to come up with the final grade.

5. Kessie or Barbara will bring the remaining papers to your office early Monday morning, since they are being left at the guard desk at the World Bank up until 8:00 p.m. on Sunday night.

6. I think we should try to grade the remaining papers, i.e., the non-graduating seniors, in the next two weeks. It will be interesting to see whether your evaluation of the answer to Question II generally agrees with my evaluation of the response to Question I.

Gene

OFFICE MEMORANDUM

TO: Files

DATE: May 14, 1974

FROM: Eugene H. Rotberg

SUBJECT: Calculation of Value of SDR Basket

In Column one, currencies of sixteen component countries of the SDR basket are shown. In Column two, the specific weight of each component currency is shown; these weights are fixed by the IMF at the time of introduction of the SDR basket and are fixed according to a weighting which reflects the countries' economic and trade position. The sum of these weights adds up to 100%. In Column three, the specific weights of Column two are converted into dollars, using the exchange rates prevailing on the reference date, April 26, 1974, as shown in Column four. In converting the value weight of each currency in Column two into dollars in Column three, we simply multiply the total value of the new SDR basket in dollars (\$1.20635, which is fixed by the IMF to make the value of the new SDR basket comparable to the current SDR value) by the weight of each component currency shown in Column two. For example, the DM weight in terms of dollars is calculated by $\$1.20635 \times 12.19\% = \0.1470 or DM 0.3633. To calculate the dollar weight in dollars again, $\$1.20635 \times 34.63\% = \0.4178 .

The fifth column expresses one SDR in terms of each component currency. We divide the total dollar value of one SDR (\$1.20635) by the respective dollar exchange rate of each component currency on the reference date. For example, in order to express the SDR in terms of DM, $\$1.20635 \div 0.4046 = \text{DM } 2.98158$. To calculate the SDR in terms of the pound sterling, $\$1.20635 \div 2.4100 = \text{£ } 0.50056$, and so on.

What happens when exchange rates changed thereafter? For example, yesterday the exchange rate of DM was DM 1 = \$0.4173, compared to DM 1 = \$0.4046 on April 26. The exchange rate of pounds sterling was £ 1 = \$2.4290 yesterday, compared to £ 1 = \$2.4100 on April 26. For example, the value of one SDR in terms of DM with the new exchange rate will be $\$1.20635 \div 0.4173 = \text{DM } 2.8908$ (as compared to DM 2.98158 on the reference date) and the value of one SDR in terms of the pound sterling with the new exchange rate is $\$1.20635 \div 2.4290 = \text{£ } 0.4966$.

With the new exchange rates in DM or pound sterling, the value of one SDR in terms of dollars, which was originally \$1.20635, also changes. For example, the new DM exchange rate of DM 1 = \$0.4173 as of yesterday is a revaluation of DM over the original exchange rate of DM 1 = \$0.4046 on April 26. Since the DM content in the SDR basket is fixed on the original reference date of April 26 at DM 0.3633 ($\$0.1470 \div \$0.4046 = \text{DM } 0.3633$), the new dollar value of the DM content in the SDR basket is \$0.1516 ($\text{DM } 0.3633 \times \$0.4173 = \$0.1516$) instead of \$0.1470 on April 26. Hence, the new dollar value of one SDR is \$1.21095 instead of \$1.20635 or \$.0046 greater, reflecting the change

in the market value of the DM. Each day, the market value of each currency is determined in terms of dollars, and that market value multiplied by the original and unchanging content of the constituent currency on the package. The sums of all of the dollar values are calculated for the dollar value of the SDR each day.

The disbursement of national currencies by the Bank can readily be restated in terms of SDR's. For example, assume the Bank disburses DM 500,000. What is the value of the DM 500,000 in terms of SDR's? Assuming 1 DM = \$.4046 on the date of disbursement, then 1 SDR = 2.98 DM (see Table I), or 167,785 SDR's. The borrower would be charged 167,785 SDR's. Assume a 10% revaluation of the DM to \$.4450 at the time of repayment. One SDR would then be worth DM 2.74 and 167,785 SDR's would be equivalent to DM 459,731. Thus, the borrower would repay the Bank some DM 40,269 less than originally disbursed. The table below shows, by way of example, the disbursements of DM, Sterling, and dollars with their equivalent SDR values at time of disbursement, and the amounts to be repaid in SDR's--assuming a 10% revaluation, no change, and 10% devaluation of the respective currencies in the market place.

ORIGINAL AMOUNT		NEW AMOUNT TO BE CALLED BACK		
Originally Disbursed	Equivalent SDR's	After 10% Reval.	No Change	After 10% Deval.
DM 500,000	(@ DM1 = \$.4046 (1 SDR = 2.98 DM (SDR 167,785	(@ DM1 = \$.4450 (SDR 1 = DM2.74 (DM 459,731	DM500,000	(@ DM1 = \$.3641 (SDR 1 = DM 3.2728 (DM 549,127
£ 500,000	(@ £ 1 = \$2.41 (SDR 1 = £0.50 (SDR 1,000,000	(@ £ 1 = \$2.6510 (SDR 1 = £0.4598 (£ 459,800	£ 500,000	(@ £ 1 = \$2.169 (SDR 1 = £0.5502 (£ 550,200
\$ 500,000	(SDR 1 = \$1.20635 ((SDR 414,473	(SDR 1 = \$1.1346 ((\$470,261	\$ 500,000	(SDR 1 = \$1.2851 ((\$532,639

Composition of SDR Basket

As of 4/26/74

	Weights	In \$	\$/Ex. Rate on 4/26/74	1 SDR In Each Currency
United States	34.63	.4178	--	1.20635
Germany	12.19	.1470	.4046	2.98158
United Kingdom	10.67	.1287	2.4100	.50056
France	7.23	.0872	.2042	5.90769
Japan	6.79	.0819	.003574	337.5349
Canada	5.51	.0665	1.0401	1.15984
Italy	5.41	.0653	.001563	771.8170
Netherlands	4.17	.0503	.3811	3.16544
Belgium	3.37	.0406	.02615	46.13193
Sweden	2.23	.0269	.2318	5.20427
Australia	1.58	.0191	1.4850	.81235
Spain	1.36	.0164	.01723	70.01451
Norway	1.31	.0158	.1850	6.52081
Denmark	1.27	.0153	.1687	7.15086
Austria	1.18	.0142	.0542	22.2574
South Africa	1.10	.0133	1.4900	.80963
	<u>100.00</u>	<u>1.20635</u>		



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



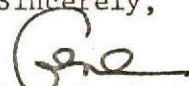
May 14, 1974

Dear Bill:

I find myself writing letters to you expressing congratulations for succeeding appointments. I suspect that these congratulations are misplaced and congratulations should go to the President for recognizing a good man and appointing him to positions of great public significance. There are few who realize the complexity of the problems which will make up your life but I am sure that, with your typical grace and sureness, you will cut through the jargon and make the best decisions. The problems of inflation, the impact of the transfer of resources to oil-exporting states on the U.S. economy and interest rates, the relationship between the foreign exchange markets and inflation in the U.S., raise all kinds of difficult problems but I can think of no one who has the temperament and qualities better suited to resolve them.

Please give my love to Carol and let me know when you have some time to sit around and talk. Iris sends her regards and best wishes.

Sincerely,


Gene Rotberg

Mr. William E. Simon
Secretary of the Treasury
The Department of the Treasury
Washington, D.C. 20220



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



May 14, 1974

Mr. Charles A. Coombs
Senior Vice President
Federal Reserve Bank of
New York
33 Liberty Street
New York, N.Y. 10045

Dear Mr. Coombs:

I am enclosing herewith for your
information Document No. R74-96 issued
in connection with our proposed issue of
8% United Arab Emirates Dirham Bonds of
1974, which has been approved by our
Board of Executive Directors.

Sincerely,


Eugene H. Rotberg
Treasurer

Enclosure

The matter before you relates to proposed borrowing of 8% United Arab Emirate Dirham bonds in the principal amount of 300,000,000 Dirhams-- the equivalent of \$76 million. This matter was brought to your attention last week and the final terms and conditions have now been negotiated. The bonds would carry an 8% coupon payable semi-annually. The price would be par and the bonds would be repayable in ten equal installments in each of the years 1980 through 1989, resulting in an average life of 10 1/2 years. *The total cost to the Bank, including the expense incurred for the fiscal agent would be 8.01%.*

In addition, commencing in 1984, the Bank can redeem at par 30 million Dirhams per year for the years 1984, 1985, and 1986. In this connection, it would be very much appreciated, *if you would* ~~should the Board approve this issue,~~ *to reflect the final status of negotiations.* *page 1, line* ~~to make a change on the resolution. On Annex I, three full lines from~~ the bottom, there is a reference to the fact that the bonds can be redeemed in each of the years 1984 through 1988. The 1988 should be changed to read 1986.

The purchaser of the bonds is the government of Abu Dhabi, and the proceeds would be paid to the Bank in six equal installments over the next six weeks. This borrowing would be the last to be charged against the fiscal 1974 borrowing program and would bring total borrowings for the fiscal year to \$1,965.9 million, as compared to the plan of \$1,950,000,000 for the year. As you may note, on Annex II *highlighted* the ~~total~~ cost of all borrowings for the year will be 7 1/2%.

Chron

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara ✓
Mr. S. Aldewereld

FROM: Eugene H. Rotberg *ER*

SUBJECT: Portfolio Statement: April 15, 1974

DATE: May 8, 1974

Attached is the portfolio statement for April 15, 1974. Current interest rate levels are at historic highs. Yields increased 200-300 basis points since late February, with the greater increases in the shorter maturities. See chart following this memorandum. Recently, as the market began to deteriorate, we sold some longer term investments and made new investments (approximately \$300 million) in short-term instruments (1 to 3 months) at yields of approximately 11%, with the expectation that during the month of May we would be able to reinvest the funds in longer maturities again at higher yields. We do not know when the "high" will be reached but feel that the purchase of U.S. Government bonds and Federal Agencies at a rate of 8.75% is a good investment; we would expect to make such investments as our short-term Certificates of Deposit mature. There is of course a risk that we are mistaken. Interest rates may continue to rise above the 9% level for 3-5 year maturities for the following reasons:

1. Two-digit inflation rate in first quarter.
2. Increasing Bank loan demand to finance inventories.
3. Highly erratic fluctuations in money supply and tight rein by the Federal Reserve.
4. Declining unemployment figures; avoidance of a recession.
5. Material and basic commodity shortages.
6. Deteriorating U.S. terms of trade, which would restrain the Federal Reserve in lowering domestic interest rates for fear of further capital outflows. (Under a floating rate system such outflows result in depreciation of the dollar, which in turn exacerbates the U.S. inflation through higher domestic prices of imports.)

Despite the foregoing, the great body of economists in the United States believe that the U.S. economy is at, or has passed, the peak inflationary period. We agree with this view. Chase Econometrics, a subsidiary of Chase Manhattan Bank, makes the following projection for the annual rate of increase in the CPI Index:

<u>1973</u>	<u>1 9 7 4</u>				<u>1975</u>
<u>4th Qtr.</u>	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>	<u>1st Qtr.</u>
9.4	11.6	6.6	4.8	4.4	3.4

Mr. Robert S. McNamara
Mr. S. Aldewereld

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May 8, 1974

Economists at First National City Bank predict a decline of 500 basis points for 90-day maturities within the next six months. They expect no increase in consumer spending, and a decline in real income. A good portion of the business loan demand is attributed to the financing of unwanted inventories; a stockpiling of certain materials because of fear of increased prices; repaying of outstanding indebtedness at depressed prices from Bank lines of credit. In addition, economists detect a slowing of commodity inflation here and abroad. A slight easing of monetary policy has been observed in Europe and Japan as authorities seek to stimulate weakening economies. I have attached a recent, but rather lengthy, analysis by Chase Econometrics which analyzes inflationary pressures in the United States and makes some useful observations on commodity prices, etc.

We face the typical dilemma in the management of a debt portfolio. Over time, we can avoid substantial unrealized capital losses (which are increasing) by holding a short maturity (3-6 month) portfolio. This strategy, however, makes our net income quite vulnerable to a decline in interest rates. Conversely, to the extent we invest substantial resources in 3-5 year maturities, we are vulnerable to unrealized capital losses as rates deteriorate from time to time in response to inflationary pressures or tight monetary policy. However, if interest rates thereafter decline, we can liquidate securities, realize gains, and maintain a generally satisfactory net income posture. A third scenario, however, would have us purchasing 3-5 year securities, and interest rates increasing even higher. We would be unable to take financially justified gains, but incremental resources would be invested at increasing yields, thereby maintaining a favorable income. If, however, we do not have either (a) additional liquidity, or (b) a maturity structure with substantial short-term holdings, our income from investments would decline, under the third scenario since we would have to liquidate securities with capital losses. Therefore, as a matter of prudence, assuming no increase in our liquidity, we probably should maintain fairly considerable investments in short-term maturities. This would be particularly true as the amount of borrowing required to hold liquidity constant increased, since a short fall in borrowing would have to be met by net liquidations from portfolio.

Liquidity and Net Income

Recently, the carrying of liquidity has been to our financial advantage. We have invested the proceeds of incremental borrowings at a higher interest rate than their cost. We expect that this should continue because (a) the Bank can obtain slightly concessionary funds now in currencies for which there are high-yielding investment opportunities of similar maturities, and (b) previously we were borrowers of, and held large positions in, currencies where there were no investment opportunities, i.e., Yen, Swiss francs, Deutsche marks. Our investment income for FY75 should be at least \$30 million in excess of our investment income for FY74 - assuming approximately the same average cash balances for the respective years. We should

Mr. Robert S. McNamara
Mr. S. Aldewereld

- 3 -

May 8, 1974

enter FY75 with an 8% yield on our entire portfolio - a rate well above the incremental cost of borrowing for the last several years. Virtually no government obligations or agencies mature in FY75 and, although we hold approximately \$1 billion in U.S. Certificates of Deposit maturing during FY75, the book yield is approximately 7.9% - well below prevailing rates of interest. Stated another way, if short-term CD rates were to decline by as much as 200 basis points, the reinvestment could be made at the rates currently held on our books. I am reasonably confident, therefore, about our investment income for FY75 and FY76.

Although I projected borrowing costs for a \$2,200,000,000 FY75 borrowing program at 8.30/8.40%, it should be noted that this projection was weighted by both maturity and amount - as it should be when we use it to compare it to the Bank's lending rate. However, I think that weighting by maturity is irrelevant when calculating the "negative spread" for the next fiscal year, i.e., the incremental cost of borrowing versus the incremental (or average) return of our investments. If we borrow at 9% for three years or for 25 years, the spread against our return on our portfolio is unaffected by the maturity of the borrowing. We calculate that a 8.30% borrowing cost, weighted by the probable maturity mix for FY75, works out to about a 8.17% "cost" in terms of the FY75 P & L Statement.

Though I do not fully share their views, my colleagues in this Department believe that they may be able to achieve a rate of return on our entire portfolio for FY75 approaching that "cost." They point out, given the present maturity structure of our portfolio, that if rates decline they may be able to justify, on a financial basis, the taking of capital gains and, if rates remain at current levels, the incremental investments of maturing obligations will be made at substantially higher yields than our current book yields.

Non-U.S. Investments

Recently we have been able to obtain approval from the Bundesbank and The Bank of Japan for investment of our holdings at prevailing market yields. This would not have been possible several years ago. Further, we now hold low-yielding currencies for only a few days since disbursements have substantially increased. In this connection, we should be able to disburse the Abu Dhabi Dirhams quickly. We arranged to take the funds down in six tranches over a six-week period. Therefore, we should be able to disburse the Dirhams within a day or two after they are received and thereby minimize the carrying of a low-yielding "float." Our present intention is to invest the second tranche of the Iranian loan (\$100 million) in 3-5 year obligations at an 8-3/4% yield.

We have become more active in managing currencies, other than dollars. Specifically, our examination of short-term rates in Europe would dictate

Mr. Robert S. McNamara
Mr. S. Aldewereld

- 4 -

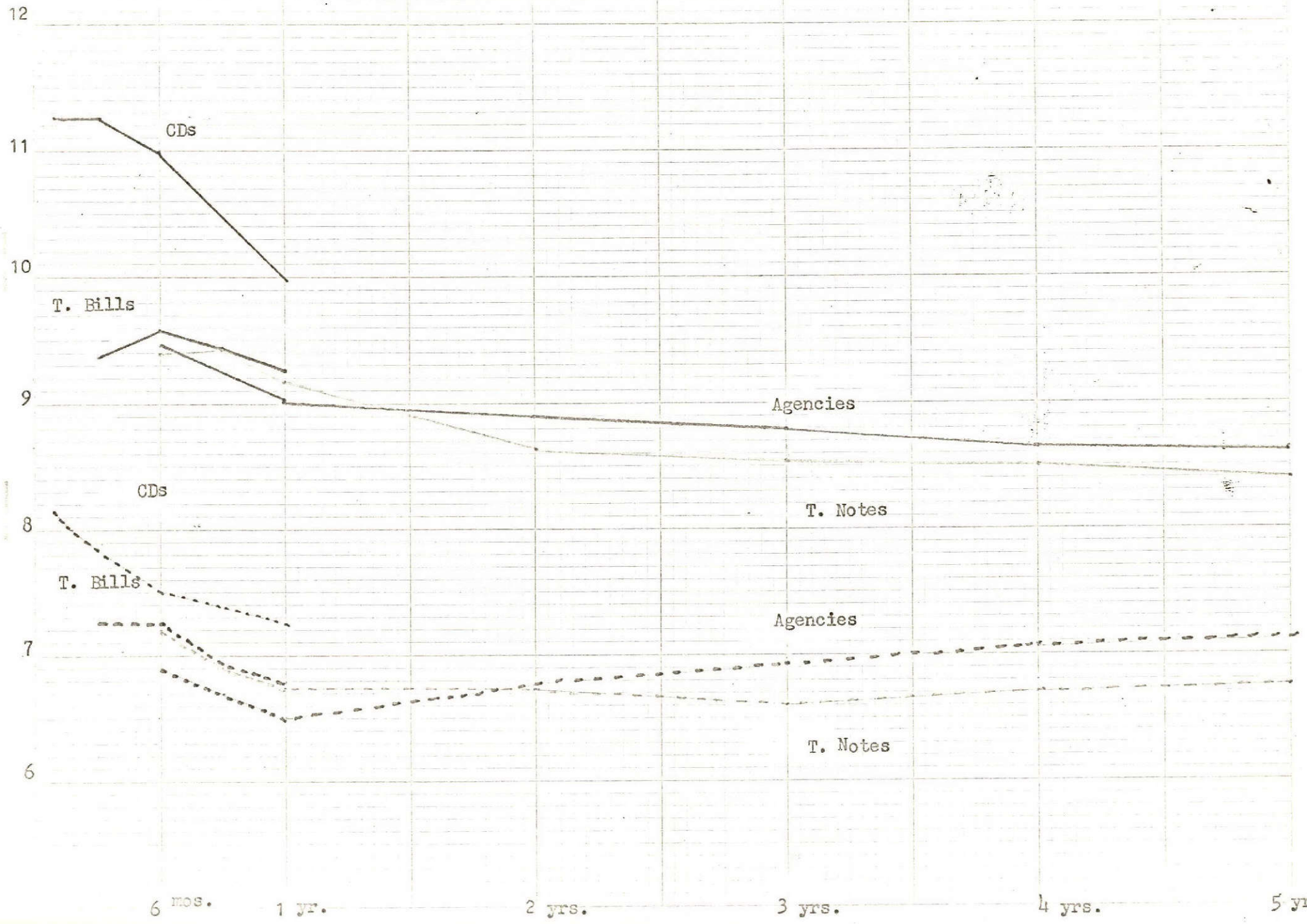
May 8, 1974

that we recall on our loans not only dollars but also French francs, lire and guilders, where rates are higher than those in dollars. It would also provide us with more currency diversity in our portfolio and thereby reduce the risk to our portfolio of a sharp decline in rates in the U.S. There is, of course, no increased exchange risk since we take a risk on our earnings from exchange rate changes irrespective of whether the income is derived from outstanding loans or from investments. From our borrowers' point of view, we would be liquidating their exposure in those currencies at current market rates and leaving them with a greater percentage of dollar risk - a currency in which we assume they have at least a modicum of reserves.

cc: Mr. Cargill

Attachments

Straight Lines — May 7, 1974
Dotted Lines --- February 22, 1974



Chron



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



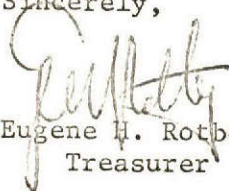
May 6, 1974

Mr. Koshi Suzuki
Deputy Chief Manager
Securities Department
The Industrial Bank
of Japan, Limited
Marunouchi, Tokyo, Japan

Dear Mr. Suzuki:

Thank you very much for your
letter of April 26, 1974 with which
you enclosed IBJ's latest Bond Market
Report. I continue to find this
information interesting and appreciate
your thoughtfulness in sending it to
me.

Sincerely,


Eugene H. Rotberg
Treasurer

Chen

10822 Childs Court
Silver Spring, Md.
20901

May 6, 1974

Dear Joyce and Alan:

It was wonderful seeing you in California. After I arrived back in Washington, I left for a day or two in Geneva and Madrid and have just settled down again. It was most delightful to see all of you and our children can't stop talking about your house and, more important, your hospitality.

It is good seeing old friends. Please let us know when you come in town.

Love,


Gene

Mr. and Mrs. Alan R. Gordon
13670 Bayliss Road
Los Angeles, California 90049

Chen

10822 Childs Court
Silver Spring, Md.
20901

May 6, 1974

Dear Alan and Vicki:

It was wonderful seeing both of you. I have just returned from Europe and have begun to get things in order again. Thank you again for showing us so much hospitality and taking us around the sights of Los Angeles.

Please call when you come to town.

Love,


Gene

Mr. and Mrs. Alan R. Markizon
3857 Beverley Ridge Drive
Sherman Oaks, California 90403

Chrom

10822 Childs Court
Silver Spring, Md.
U.S.A. - 20901

May 6, 1974

Ms. Phillda Ragland
PAA YA PAA Art Gallery
& Studios
Sadler House, Koinange Street
P.O. Box 49646
NAIROBI, Kenya, East Africa

Dear Ms. Ragland:

Thank you very much for your letter
and the batik. The batik is quite beautiful
and is a pleasure to look at.

I hope to see you soon.

Sincerely,

Eugene H. Rothberg
Eugene H. Rothberg

OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

DATE: May 3, 1974

FROM: Eugene H. Rotberg *EHR*SUBJECT: Bank's Financial Policy

Peter:

financial trends

Attached are a chart and table prepared monthly which shows, among other things, the spread between the cost of all funds to the Bank (borrowings plus capital and reserves) and the rate of interest on our outstanding loans. While it is quite important to increase the lending rate, the primary reason for the deterioration of our financial ratios occurs as a result of the deterioration of our debt/equity ratio. We are adding only about \$100-150 million a year to our reserves, after IDA transfers, but are increasing our funded debt by almost \$1 billion a year. The incremental addition of debt ten-fold over our increased equity caused the cost of our funds to increase from slightly over 2% to about 4.60%. On the other hand, the rate of interest on outstanding loans receivable has not increased substantially for two reasons: (a) the lag between commitments and disbursements and the long grace period for repayment results in our having substantial outstanding commitments at well below the current lending rate; and (b) the increases in the lending rate lagged behind the increases in borrowing costs.

Note that at the present time the interest on all outstanding loans is only about 6.25% -- well below the average cost of our funded debt. Profits, however, have risen because of (a) the increased amount of our cash and securities as a percentage of income - producing assets and (b) the high yields on those investments. The income on investments has in a very real sense masked the deterioration of traditional financial ratios.

By the end of FY74 the yield on our investment portfolio will be about 8%. The yield on our other major asset (loans receivable) will be about 6.30%. We are now endeavoring to place for investment substantial resources in the 3 to 5-year maturity range so as to "lock in" as much of our portfolio as prudent at the 8-1/2% level. But all of this is only playing around at the margin. (We cannot place too much at longer maturity because of the risk of having to liquidate and take capital losses which are substantial with longer maturity investments.) Fundamentally, the capital increase is necessary not only to provide cost-free money and an increased equity base from a P & L point of view but also to reduce our capital market requirements.

Attachments

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Assumptions and Other Input for Financial Forecast FY 1974

	<u>Amounts</u> <u>(\$ millions)</u>	<u>Average Rate</u> <u>(%)</u>
1. <u>CASH AND INVESTMENTS</u>		
Cash on Hand and in Interest Bearing Bank Accounts at February 28, 1974	87	11.22
Investments at February 28, 1974	<u>3,640</u>	<u>7.75</u>
Total Cash and Investments	3,727	7.83
2. <u>LOANS</u>		
Loans Disbursed and Outstanding at February 28, 1974 .	9,737	6.24
(Excluding maintenance of Value: \$ 150 M)		
New Commitments to Countries	2,550	
New Commitments to IFC	60	
Loan Disbursements to Countries	1,450	7.08
Loan Disbursements to IFC	72	7.00
Loan Repayments	483	5.70
Receipt from Loan Sales (Portfolio and Participations)	40	7.10
Increase in Loan Participations Outstanding	75	
Cancellations	19	
Exchange Adjustments (Account 335)	1,034	7.08
3. <u>IDA</u>		
Transfers to IDA	110	
Payments to IDA	90	
4. <u>BORROWINGS</u>		
Borrowings Outstanding at February 28, 1974	9,072	6.63
Gross Borrowings - Average Cost	1,950	7.50
Debt Retirement	864	5.80
5. <u>CAPITAL</u>		
Increase in Paid-in Capital	12	
Capital Funds Used	70	

Controller's
3/15/74

OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

FROM: Eugene H. Rotberg *EHR*

SUBJECT: Bank's Financial Policy

DATE: May 3, 1974

Peter:

Attached are a chart and table prepared monthly which shows, among other things, the spread between the cost of all funds to the Bank (borrowings plus capital and reserves) and the rate of interest on our outstanding loans. While it is quite important to increase the lending rate, the primary reason for the deterioration of our financial ratios occurs as a result of the deterioration of our debt/equity ratio. We are adding only about \$100-150 million a year to our reserves, after IDA transfers, but are increasing our funded debt by almost \$1 billion a year. The incremental addition of debt ten-fold over our increased equity caused the cost of our funds to increase from slightly over 2% to about 4.60%. On the other hand, the rate of interest on outstanding loans receivable has not increased substantially for two reasons: (a) the lag between commitments and disbursements and the long grace period for repayment results in our having substantial outstanding commitments at well below the current lending rate; and (b) the increases in the lending rate lagged behind the increases in borrowing costs.

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By the end of FY74 the yield on our investment portfolio will be about 8%. The yield on our other major asset (loans receivable) will be about 6.30%. We are now endeavoring to place for investment substantial resources in the 3 to 5-year maturity range so as to "lock in" as much of our portfolio as prudent at the 8-1/2% level. But all of this is only playing around at the margin. (We cannot place too much at longer maturity because of the risk of having to liquidate and take capital losses which are substantial with longer maturity investments.) Fundamentally, the capital increase is necessary not only to provide cost-free money and an increased equity base from a P & L point of view but also to reduce our capital market requirements.

Attachments

Chron

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.

May 3, 1974

Dear Tom:

It is with considerable regret that I learned of your retirement after forty-four years with the Pacific Stock Exchange. Unfortunately, I was out of the country at the time of your dinner; otherwise I would have been there.

I miss you and your family and wish all of you the very best of luck. You have always been very kind to me. Please call me whenever you visit Washington so that we can get together.

Kindest regards,



Eugene H. Rotberg
Treasurer

Mr. Thomas P. Phelan
Pacific Stock Exchange, Inc.
618 So. Spring Street
Los Angeles, California
90014

Chen

OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

DATE: May 1, 1974

FROM: Eugene H. Rotberg *ER*

SUBJECT: Proposed Borrowing Program for FY75

Attached is a proposed borrowing program of \$2.2 billion for FY75. The cost estimates are based upon our best evaluation of interest rates and assume some reduction in rates from current levels. Accordingly, we should delay entering the U.S. market since we assume that rates will decline toward the end of this calendar year.

Attachment

FY75 Borrowing Program

Government Borrowings

	<u>Amount in mill. of currency</u>	<u>Amount in mill. of US \$ equiv.</u>	<u>Cost to Bank in %</u>	<u>Av. Life in years</u>
Central Banks				
Sept. 15, 1974	230	230	7 3/4	2
March 15, 1975	270	270	7 1/2	2
Bundesbank				
Aug. 1, 1974	377 @2.46	153	8 7/8	4.5
Feb. 1, 1975	301 "	122	8 5/8	4.5
Bank of Japan	55,100 @279	197	8 1/4	6.5
Gulf States (Abu Dhabi, Bahrain)	(in local currency)	100	8	12.0
Iran	--	250	8	12.0
Saudi Arabia	500 @3.55	141	8	12.0
Venezuela (and others, f.e. Oman)	--	150	8	12.0
Total Government Borrowings		<u>1,613</u>	<u>8.08</u>	<u>6.95</u>

Market Borrowings

U.S. 5 yr.	--	300	8.40	5
25 yr.	--	250	8 3/4	22
Switzerland	100 @ 2.93	<u>34</u>	8.15	16
Total Market Borrowings		584	8.64	12.9
Government Borrowings		<u>1,613</u>	8.08	6.95
Grand Total		<u>2,197</u>	<u>8.30</u>	<u>8.54</u>

Note: If the cost of \$641 million of "oil money" is assumed to be available at 8 1/4% rather than 8% cost to the Bank as shown above, the total cost of our borrowings would increase to 8.41% (compared to 8.30% above).

The average cost of borrowings is weighted by amount and maturity.

May 1, 1974

The disbursement of national currencies can readily be restated in terms of SDR's. For example, assume the Bank disburses DM 500,000. What is the value of the DM 500,000 in terms of SDR's? Assuming 1 DM = \$.4046 on the date of disbursement, then 1 SDR = 2.98 DM (see Table I), or 167,785 SDR's. The borrower would be charged 167,785 SDR's. Assume a 10% revaluation of the DM to \$.4450 at the time of repayment. One SDR would then be worth DM 2.74 and 167,785 SDR would be equivalent to DM 459,731. Thus, the borrower would repay the Bank some DM 40,269 less than originally disbursed. The table below shows, by way of example, the disbursements of DM, Sterling, and dollars with their equivalent SDR values at time of disbursement, and the amounts to be repaid in SDR's--assuming a 10% revaluation, no change, and 10% devaluation of the respective currencies in the market place.

<u>Original Amount</u>		<u>New Amount to be Called Back</u>		
<u>Originally Disbursed</u>	<u>Equivalent SDR's</u>	<u>After 10% Reval.</u>	<u>No Change</u>	<u>After 10% Deval.</u>
DM 500,000	(@ DM 1 = \$.4046 (1 SDR = 2.98 DM (SDR 167,785	(@ DM 1 = \$.4450 (SDR 1 = DM 2.74 (DM 459,731	DM 500,000	(@ DM 1 = \$.3641 (SDR 1 = DM 3.2728 (DM 549,127
£ 500,000	(@ £ 1 = \$2.41 (SDR 1 = £0.50 (SDR 1,000,000	(@ £ 1 = \$2.6510 (SDR 1 = £0.4598 (£ 459,800	£ 500,000	(@ £ 1 = \$2.169 (SDR 1 = £0.5502 (£ 550,200
\$500,000	(SDR 1 = \$1.20635 (SDR 414,473	(SDR 1 = \$1.346 (\$470,261	\$ 500,000	(SDR 1 = \$1.2851 (\$532,639

Composition of SDR Basket

As of 4/26/74

	Weights	In \$	\$/Ex. Rate	1 SDR In Currency
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Germany	12.19	.1470	.4046	2.98158
United Kingdom	10.67	.1287	2.4100	.50056
France	7.23	.0872	.2042	5.90769
Japan	6.79	.0819	.003574	337.5349
Canada	5.51	.0665	1.0401	1.15984
Italy	5.41	.0653	.001563	771.8170
Netherlands	4.17	.0503	.3811	3.16544
Belgium	3.37	.0406	.02615	46.13193
Sweden	2.23	.0269	.2318	5.20427
Australia	1.58	.0191	1.4850	.81235
Spain	1.36	.0164	.01723	70.01451
Norway	1.31	.0158	.1850	6.52081
Denmark	1.27	.0153	.1687	7.15086
Austria	1.18	.0142	.0542	22.2574
South Africa	1.10	.0133	1.4900	.80963
	<u>100.00</u>	<u>1.20635</u>		

OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

DATE: April 29, 1974

FROM: Treasurer's Department *C. R. Pettigrew*

SUBJECT: Borrowing in SDRs

Although the final format for valuation of SDR has not been formally decided upon, the value of SDR is likely to be tied to a basket of major currencies, whose "weights" in the basket are made proportional to their relative economic importance such as exports and the reserve-currency status. For our present purpose, the SDR formula proposed in the IMF draft paper of April 3, 1974, will be used here. According to the formula, one SDR will be equal to US\$ 1.20635 at the beginning and its value will be tied to 16 major currencies. This new SDR formula is quite similar in concept to "Eurco," whose value as of April 26 was equal to US\$ 1.25. /1

Major issues pertaining to an SDR issue by the Bank are discussed below. This note assumes that the Bank will "on lend" in SDRs and will not split up the package into its constituent parts for disbursement.

Change of SDR Formula: While the IMF does not envisage revising the weights of composite currencies frequently, it is possible for SDR to have changes in weights and/or composition of the currencies. The formula could be revised either to the advantage or disadvantage of the lenders, or borrowers. Therefore, it would seem appropriate to irrevocably "fix" the weights and composition of the package at the time of issue. This consistency would remove any uncertainty over the value of SDR due to its formula change.

Subscription Currency: In which currency or currencies should the issue be subscribed, i.e. paid to the borrower? Regardless of which subscription currency is actually used, the total value of the loan is not affected, because the amount will be expressed in terms of SDRs. Selection of the subscription currency should be based upon the following factors. First, the selected currency should be a currency which is used widely in international transactions, so that the Bank can easily disburse the loan proceeds in that currency. Second, the selected currency should be widely available to the lenders. Third, the exchange rate of the subscription currency should not fluctuate unexpectedly in short intervals, otherwise the Bank could be subject to considerable exchange risks during the interval between subscription of the loan and disbursement of its proceeds to LDCs. Even if the U.S. dollar is used as the subscription currency, the Bank still assumes an exchange risk during the interval noted above. In order to minimize this risk, the loan proceeds should be drawn down over a period of time at different intervals so that the Bank does not hold a substantial "float." The Bank should follow each withdrawal with prompt disbursement.

/1 The only major difference between SDR and Eurco is that the former is composed of 16 currencies, while the latter is composed of 9 currencies of the expanded EEC countries.

Repayment Currency: In Eurco issues, lenders are given the option to designate the repayment currency among the nine composite currencies as well as the dollar. For those investors who do not designate the currency until five days before the payment date of principal and/or interest, the borrower has the right to choose the repayment currency. Unlike a Eurco issue whose bond purchasers are a diverse group of international investors from all over the world, our SDR issue in the Middle East countries would be purchased by a more homogeneous group--mostly governments or public institutions. Therefore, they are not likely to ask for as wide a currency option as in Eurco issues. It is reasonable to assume that they will be satisfied with the dollar as the repayment currency. Their interest in an SDR-linked loan is not due to their dislike of the dollar itself but rather due to the uncertainty over the future value of the dollar.

However, if the lenders want to have more than one currency as their repayment currency, say, dollar, or DM or yen, the Bank could easily accomodate them. The Bank would in turn ask our LDC borrowers to repay in dollars, DM or yen or, more simply, receive repayment from LDCs in dollars only and then convert them into DM immediately on the exchange market. As long as the repaid dollars are equal to a fixed amount in SDRs, the total value will be the same in either currency. The Bank only needs to add in a contract that the opted-for repayment currency of interest or principal "should be readily available on exchange markets."

Matching Repayments of the SDR Loan and IBRD Loans to LDCs:
When the Bank is required to pay interest and principal on certain dates, the Bank loans to LDCs disbursed in SDRs may not be serviced on the same dates; indeed, even when on the same dates, they need not be in the same amounts as required to pay the lenders. As long as there are discrepancies in the timing or amount, the Bank assumes an exchange risk. In practice, the Bank loans to LDCs will have a longer maturity than the SDR loan from the Middle East. In paying interest on the SDR loan, the Bank does not assume any undue exchange risk, because the interest rate is likely to be similar on both loans and also because the Bank may be able to arrange the dates of actual disbursements so as to match the interest dates of both loans as nearly as possible.

However, the Bank assumes an exchange risk in repayment of the principal. Assume the SDR loan has a maturity of seven years and the Bank loans to LDCs have a maturity of 20 years. At the end of the seventh year, the Bank is obligated to make the final principal payment on the SDR loan in the repayment currency--say, in dollars at the rate of 1 SDR = \$1.20. If the dollar later appreciates in value to 1 SDR = \$1.10 at the time of repayment of the Bank loans by LDCs, the Bank will suffer an exchange loss. If, on the other hand, the dollar depreciates to 1 SDR = \$1.30, the Bank will realize an exchange gain. The Bank is not permitted, however, to take an exchange risk on its borrowings in the

manner described here. Therefore, it must repay the SDRs to the lender from loan repayments received from the Bank's borrowers. In effect, this means that if the Bank were to borrow in SDRs for an average life of, say, 5-1/2 years, it would have to disburse the SDRs on loans in which the grace period had already been concluded. The Bank would then recall the SDRs within the period required under the amortization of our SDR borrowings. It is for this reason that the Bank seeks as long a maturity as possible on its borrowings, or absent a long maturity, a reasonable prospect for roll-over.

cc: Messrs. Nurick and Gabriel

Rotberg/Park:dal

OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

DATE: April 26, 1974

FROM: Eugene H. Rotter *E. Rotter*

SUBJECT: Liquidity Policy

Peter:

I understand that there is some consideration being given to reducing the level of our borrowings, in order to increase our income, on the assumption that the carrying of liquidity is costly. While that may have been true in the past, there are certain recent developments which should substantially decrease the cost of carrying liquidity from previous levels. Although I do not believe that the cost of carrying liquidity was excessive, to the extent it was a problem which eroded our income, it should be even less significant in the future for the following reasons:

1. There is more willingness now by member countries to permit us to invest in market instruments at prevailing market yields--unlike previous years when countries with a strong foreign exchange position (Germany, Japan, etc.) offered low rates of interest as an incentive to disbursing our borrowings quickly. They wished to draw down their foreign exchange holdings and did not want us to hold local currencies.
2. The significantly higher level of disbursements now permits us to quickly disburse any low-yielding currencies in the investment portfolio.
3. We can expect more dollar denominated borrowings and therefore a higher percentage of dollars for investment. There is a significant difference in investment yields for dollars as compared to Iranian Rials, Lebanese Pounds, Kuwaiti Dinars, or Libyan Dinars. The cost of carrying the borrowed funds before disbursement should be significantly lower.
4. If we borrow in SDR's, there will be no negative spread, as the settlement currency is likely to be dollars.
5. We have been restructuring our portfolio and locking in higher yields for longer periods of time. If the Bank were to make substantial new borrowings in dollars in the Mideast, we could take those resources and invest them at about 8 1/2% for five years, thereby assuring a positive spread--at least over the period of loan.
6. Unlike previous periods, we can recall on loans those currencies where we have investment opportunities at high yields (Guilders, French Francs, Belgian Francs). We could not do that previously because of the reluctance of those governments to increase their foreign exchange reserves.

April 26, 1974

7. With the removal of U. S. controls, there is no reason why we should not invest in the Eurodollar market. We can currently place liquid CD's at about 9 1/2% for five years in that market.

8. If we were to reduce our borrowings from the level required under the liquidity "formula," and if yields rise, it is likely we will find ourselves having to liquidate securities on a regular basis with capital losses which will reflect itself in an immediate deterioration for the year in which the transaction takes place. On the other hand, if we increase our liquidity, although the borrowings might be marginally expensive, the marginal increase can be immediately reinvested at little loss of income. These securities can be sold with a lesser chance of capital loss, particularly if they are purchased with the proceeds of a borrowing. Essentially, what I am saying is that if yields continue to rise, the foregoing of borrowing will increase the probability of having to take losses on our books and a further deterioration of income because we will have few investments on our books at current market yields.

9. If capital market yields remain high, our bonds will be trading in the market at low prices. One way to increase our income is to retire those bonds by market purchases. This can only be done by reducing our liquidity, which in turn would not be wise unless we were to replace those funds with new borrowings. From a financial point of view, it is prudent to borrow at 9% if we can redeem bonds which are yielding 11% in the market place. We have the unique ability to do that since we can borrow in the least expensive currency and redeem our bonds in those currencies and markets where the bonds have the highest yield.

. . .

10. Finally, even if we have a 50 basis point negative spread on the average cost of marginal borrowings versus the average marginal investment income on, say, \$2 billion over a period of four years, it would only involve a reduction of income of about \$5 million a year.

11. While I realize that the borrowing program and the liquidity formula may not be easy to accomplish because it is so large, I would think that one way to present the matter is to have a borrowing program which contemplates a range of gross and net borrowings within which we would operate--depending upon the absolute cost of the borrowing and the spread on marginal investments. Obviously, we would not borrow at 10% to meet the "borrowing program", if we could only invest 6%. On the other hand, we might increase our borrowings at 9% (say from Central Banks on our two-year issue) if we can invest the marginal resources at or above that rate.

EHRotberg:bjg

Chion



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



April 25, 1974

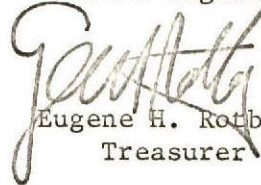
Mr. John S. Townsend
Economic Adviser to the
Government
Sultanate of Oman
P.O. Box 750
MUSCAT, Oman

Dear Mr. Townsend:

I wish to take this opportunity to express my appreciation to you and to the Sultanate of Oman for the resources which will shortly be made available to us. The availability of these funds is an important contribution to assist us in our efforts to help developing countries.

On a personal basis, let me express my appreciation for the courtesy and cooperation you showed in arranging the transaction.

Kindest regards,


Eugene H. Rotberg
Treasurer



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

April 25, 1974

Mr. Charles A. Coombs
Senior Vice President
Federal Reserve Bank
of New York
33 Liberty Street
New York, N.Y. 10045

Dear Mr. Coombs:

I am enclosing herewith for your
information Document No. R74-74 issued in
connection with our proposed borrowing
from the Government of the Sultanate of
Oman, which has been approved by our Board
of Executive Directors.

Sincerely,

A handwritten signature in dark ink, appearing to read "Eugene H. Rotberg", is positioned above the printed name.

Eugene H. Rotberg
Treasurer

Encl. .

10822 Childs Court
Silver Spring, Md.
20901

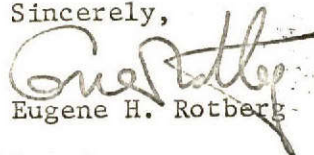
April 19, 1974

Dear Lil:

I am enclosing a check for \$592 for
Diana's camp fee and miscellaneous expenses.
Unfortunately, Pamela, our younger daughter,
has decided not to attend camp this year as
she feels that she would like to stay home
with us this summer and we are very reluctant,
of course, to pressure her into attending
camp if she would rather be with us. I very
much hope and expect that she will decide to
attend your camp in 1975 along with her sister,
Diana.

Thank you very much for your courtesy.

Sincerely,


Eugene H. Rotberg

Mrs. Lillian Taylor
Camp Seafarer
P.O. Box 10976
RALEIGH, North Carolina 27605



Record Removal Notice

File Title Eugene H. Rotberg - Chronological Records - Volume 11 - January - May 1974		Barcode No. 1858114		
Document Date 19 April, 1974	Document Type Letter			
Correspondents / Participants To: Camp Seafarer From: Eugene H. Rotberg				
Subject / Title Statement payable and Check				
Exception(s) Personal Information Financial Information iv				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Tarsica Morgan-Taylor</td><td>Date October 19, 2023</td></tr></table>	Withdrawn by Tarsica Morgan-Taylor	Date October 19, 2023
Withdrawn by Tarsica Morgan-Taylor	Date October 19, 2023			

10822 Childs Court
Silver Spring, Md.
20901

April 19, 1974

Dear Anna: *(Shankill)*

Thank you for your beautiful letter and very elegant drawing. I would have recognized the style anywhere. I must apologize for not writing sooner, but traveling long distances for quite short periods has left little time to sit and write to friends.

I spent a few days in Iran -- successful days since I bought two beautiful 1,000 year old Iranian plates. They are about 15" in diameter, blue-green iridescence, and are quite mesmerizing. I am afraid I spent more time negotiating the price of the plates (which cost about \$75) than I did in negotiating the interest rate on a \$200 million bond issue - but that's because the Iranian Government was lending us resources at a concessionary rate, while the antique dealer was in no such mood.

After my return from Iran, Iris and I and the children went to California for two weeks. We have just returned, and, I find that I must leave again this weekend for a day or two in Geneva and Madrid. Then I will come back and visit with you and Simon.

You mention in your letter that artists show their feelings through their work and that, if one likes the artist's work, he will also like the artist personally -- that artists are frightened (you put it that they had complexes), that they put off people with whom they share emotional ties, but their feelings later come out in their work. That makes a lot of sense to me. Most human beings, I expect, are frightened by their fellow human beings, though only artists have a conscious outlet in which to express themselves through their work. I would think this gives them a nice healthy release. I suspect the release is not limited only to artists -- the personality will out -- the bricklayer doesn't mix enough sand; the doctor has compulsive-obsessive handwriting; the lawyer ties up both his client and his adversary in knots by his persistence to detail or hostility. These releases don't seem so healthy.

With artists I am lost. There is no way that I could describe the personality of Jackson Pollack or Mondrian by looking at their paintings; I can't even tell whether I would like them or not by their paintings. I am always somewhat surprised to read about the personalities and emotional development of artists and musicians and then listen to their music or see their works. I would never have guessed. Your work, for example, shows a good deal of anger at our life styles and our lack of humanitarianism. But that's all very intellectual

stuff (with which I agree), but mirrors little about the emotions or personality of the artist.

Speaking of your work, there are at least two pieces we would like to steal from you -- the mask (\$75) and a large free-standing figure (\$450 - I think, but I am not sure, that was one-half the price in the show). I can understand why Simon is so attached to the wall hanging. It is really quite beautiful.

Morale in Washington is low. Many Government departments are simply going through the motions of making Government policy. They don't seem angry, however -- sort of a feeling of malaise, boredom, a disinterest mixed with some curiosity of what the morning newspapers will bring forth next. I am afraid, however, that the impeachment move against Nixon will be counter-productive. I am concerned that the American public will become even more bored after two more months of House hearings, a month of writing committee reports, months of Senate hearings, etc. I hope that this process does not result in Nixon looking like a poor badgered minority of one who is picked on by tormentors. Perhaps the best punishment would be for him to remain in office, totally without power, unable to make or initiate new directives and controlled by an independent Congress after 1974. I find it a bit anomalous - amusing - that on this morning's news he received the unqualified support of the Daughters of the American Revolution and the editorial support of Pravda. If our President can base his support on just those two extremes with no support from the middle, the Republic will survive in good shape.

You and Simon are both very kind.

Love,


Gene

Chen

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OUTGOING WIRE

TO: HARVARD SCHOOL
LAUSANNE

DATE: APRIL 18, 1974

CLASS OF FULL RATE OR
SERVICE: TELEX

COUNTRY: (SWITZERLAND)

TEXT:
Cable No.:

FOR PROFESSOR CHARLES WILLIAMS

WILL ARRIVE VEVEY BY TRAIN SOMETIME SUNDAY AFTERNOON THEREFORE

QUITE UNNECESSARY TO MEET ME IN GENEVA STOP SCHEDULED TO LEAVE

GENEVA FOR MADRID EARLY MONDAY EVENING STOP BEST REGARDS

ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE *Eugene H. Rotberg*
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:

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Checked for Dispatch

Chron

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OUTGOING WIRE

TO: PROFESSOR CHARLES M. WILLIAMS
C/O LE MIRADOR HOTEL
MONT PELERIN
LAKE GENEVA

DATE: APRIL 18, 1974

CLASS OF SERVICE: TELEX 25 275

COUNTRY: (SWITZERLAND)

TEXT:
Cable No.:

WILL ARRIVE VEVEY BY TRAIN SOMETIME SUNDAY AFTERNOON THEREFORE
QUITE UNNECESSARY TO MEET ME IN GENEVA STOP SCHEDULED TO LEAVE
GENEVA FOR MADRID EARLY MONDAY EVENING STOP BEST REGARDS

ROTBURG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE *Eugene H. Rotberg*
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EHRotberg:cmk

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



April 17, 1974

Dear Peter and Jutta:

I am enclosing a release showing the latest changes at the World Bank. As you can observe, my own position remains, as usual, unchanged. I have also enclosed some recent articles about Botswana which appeared in the New York Times of February 3.

The weather here is beautiful. All of us just returned from a 10-day vacation in California and we are looking forward to a pleasant Spring. The theater season is terrible; movies are depressing - so we find ourselves going to the opera and ballet more and more often.

The energy crisis and its monetary effects on developed and developing countries is of all-consuming interest here. Much is being written about the cost of energy, food, basic commodities, etc. One has the impression that we are at the beginning of a new Industrial Revolution; that the balance of political and economic power is shifting into the Mid-East and other commodity-exporting countries.

Love to all of you and your family,


Gene

OUTGOING WIRE

TO: ROTHSCHILD
LONDON EC4

DATE: APRIL 17, 1974

CLASS OF
SERVICE: TELEX

COUNTRY: (ENGLAND)

TEXT:
Cable No.:

FOR MR. RODNEY LEACH

I AM AVAILABLE MAY 2 EITHER 10 AM TO 12 AM OR AFTER 3 PM TO SEE
MR. ROTHSCHILD. PLEASE EXTEND MY INVITATION TO MR. ROTHSCHILD
FOR DINNER IF HE IS AVAILABLE. BEST REGARDS.

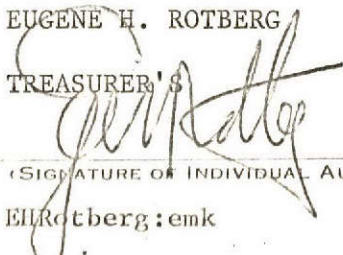
GENE ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE 
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EH Rotberg:emk

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Chron



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



April 17, 1974

Mr. R. David Lester
Lead Articles Editor
Kentucky Law Journal
University of Kentucky
Lexington, Ky. 40506

Dear Mr. Lester:

Thank you for your letter of April 3 in which you request that I write an article for publication in a forthcoming issue of the Kentucky Law Journal.

While I appreciate your thoughtfulness in inviting me to submit such an article, unfortunately, due to a heavy work schedule at the office and the necessity for me to travel quite extensively, I cannot at the present time commit myself to write a paper for your publication. Thank you again for your kind offer.

Sincerely,

Eugene H. Rotberg
Treasurer

Chow



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



April 8, 1974

Mr. Koshi Suzuki
Deputy Chief Manager
Securities Department
The Industrial Bank of Japan, Ltd.
Marunouchi, Tokyo, 100 Japan

Dear Mr. Suzuki:

In the absence of Mr. Rotberg, who
is presently out of the city, I wish to
acknowledge receipt of and thank you
for sending your latest information on
the Japanese Bond Market.

Sincerely,

Edith Kesterton

Secretary to
Mr. Rotberg

OFFICE MEMORANDUM

TO: Lester Nurick

DATE: April 5, 1974

FROM: Eugene H. Rotberg 

SUBJECT:

Lester:

Pat Heininger has written a most informative paper. I would suggest, however, that he might also review a line of cases which are not covered in his memorandum. Specifically, I would like to have his views on the relevance of the cases noted below and whether he detects any trend in corporate management responsibility vis-a-vis actions which might affect shareholder and bondholder rights. These cases arise under Section 10 (b) of the Securities Exchange Act of 1934. While couched in terms of disclosure, they do not relate to the use of information for purposes of trading securities, but rather to the obligations of the corporate manager to classes of securities holders. By way of example see: O'Neill vs Maytag; Pappas vs Moss; Schoenbaum vs Furstbrook; Dasho vs Susquehanna; Popkin vs Bishop.

There are several law review articles on these cases. I believe there is a recent one in the Harvard Law Review on Popkin, which I think has the citations for all the other cases. Most were decided by the Second or Seventh Circuit.

Perhaps I am just a bit too nervous on this subject and see ghosts where there aren't any. It is just that I sense more stringent obligations being placed on corporate management -- perhaps facilitated by Section 10 (b) of the Exchange Act which permits a plaintiff to get into a Federal court without being subject to some of the Common Law defenses and impediments which were designed in the 1920's and 30's to give corporate managers a freer hand.

EHRotberg:bjg

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Mr. S. Aldewereld

FROM: Eugene H. Rotberg *ER*

SUBJECT: Portfolio Statement: March 15, 1974

DATE: April 2, 1974

Attached is the portfolio statement for March 15, 1974. Following this note is a chart showing the yield curve for March 29, 1974 and for February 22, 1974. There has been a substantial increase in interest rates in the United States in the last five weeks. Six-month CD's have risen from 7-1/2% to 9-5/8%; one-year U.S. agency obligations from 6.5% to 8-3/8%. Five-year U.S. agency obligations have increased from the 7.10% level to almost 8%. The increased yields are attributable to several factors:

- (a) Strong business loan demand.
- (b) Market expectations that the Federal Reserve Board will not ease their tight money policies.
- (c) Expectation of increased auto sales as a result of the lifting of the oil embargo.
- (d) Heavy bond market calendar.
- (e) Continued high inflation and prospects for higher costs of energy, basic commodities, etc.

The increase in interest rates was not projected by market analysts, who, to the contrary, assumed a slowing of the U.S. economy accompanied by a more expansionary monetary policy in an effort to avert unemployment and a recession. Most market analysts still hold to that view and are projecting lower short-term interest rates and consider the current rise a transitory phenomenon.

In February, we were not prepared to purchase five-year obligations at an interest rate of 7.10% because, though we also projected a decline in interest rates in 1974, there was a high risk that rates would rise first and, accordingly, we preferred to remain invested in shorter maturities. In view of developments in the last several weeks, we have purchased and are continuing to purchase 4-5 year agency securities at the 7-3/4 to 8% level. We do not know whether we have reached the "high" or whether rates might not rise further. However, since we believe that interest rates will decline from current levels at some point in the next six months or so, we have been making and are continuing to make commitments in the longer maturities. See attached table showing the distribution, by maturity, of our U.S. portfolio.

Temporarily, our "book yield" will decline as we shift resources out of short-term CD's yielding over 9% into longer-term obligations at the 8%

April 2, 1974

level. We believe that, over time, the rate of return on five-year obligations will be better than holding a short-term CD to maturity and then reinvesting the proceeds. We increased our FY74 investment income projection for the February 1c report by \$5 million to a total of \$276 million. Despite the lower book yield in intermediate-term securities, and the high level of disbursements, we believe that our investment income should exceed \$280 million for FY74. The interest expense for our outstanding borrowings for FY74 should be close to the original projection - the difference accounted for primarily by changes in the timing of borrowing operations. The Bank's net income for FY74 will exceed \$230 million, apart from exchange adjustments on the earnings derived from non-dollar loan and investment income.

The cost of borrowing for FY75 will increase substantially over FY74. Virtually every capital market now requires yields of between 9 and 10%. The U.S. long-term market is about at the 8.75% level. Most market analysts, who project lower rates for shorter-term investments, remain considerably more cautious concerning long-term rates because of inflation and a heavy bond calendar.

The volume of international bond financing is minimal. There was only one Eurodollar bond issue during the month of February. The Kingdom of Denmark on February 15 offered the first public Deutsche mark issue since November, 1973 (currently yielding about 10%). The Swiss National Bank has announced that bond issues aggregating only SwF 360 million will be permitted for each quarter in 1974. Fundamentally, the financing needs of public and private corporations have been met through the Euro-currency market -- since that market has been and will likely become the depository of oil-exporting countries' revenues.

There are some bright spots. The Bank can raise substantial resources. We have heard recently that Saudi Arabia and/or Kuwait have negotiated, and have not publicized, direct loans to certain Western European governments at substantial concessions (2-3%) from prevailing Eurodollar market rates, but with what have been described as "cast iron guarantees." We are trying to verify whether this information is accurate and, if so, whether the transactions have exchange rate guarantees and, if so, based on what kind of currency index or whether the guarantee assures a real rate of return. It may be that oil-exporting states are coming to realize that:

- (a) The placement of large resources in the short-term Euro-currency market could be counter-productive in that the placement of resources in size will drive down interest rates - particularly if short-term rates decline in the U.S.
- (b) These deposits will be relent to borrowers who may not be creditworthy, thereby jeopardizing the continued viability of the market.

Mr. Robert S. McNamara
Mr. S. Aldewereld

- 3 -

April 2, 1974

- (c) They will end up financing, at best, developed countries' deficits at high interest rates, which ultimately will result in further inflationary pressures in developed countries, thereby diminishing the value of the investments themselves.

Another bright spot is the performance of the German economy. Germany is expected to have a trade surplus, and there are rumors of revaluation. The Bundesbank has made it clear that, if non-residents would attempt to speculate in the Deutsche mark, it would take immediate steps to prevent such speculation by imposing restrictions on purchases by non-residents of Deutsche mark denominated bonds and shares. If that would occur, we could again have a situation where non-residents were prepared to accept low interest rates in Deutsche mark denominated obligations of the Bank (whose obligations are exempt from such restrictions) in contemplation of a capital gain on a switch from dollars to Deutsche mark.

. . .

I have attached for your information, following this note, a list of recent borrowers (or proposed and publicized borrowing operations) in the Eurocredit market. While some developing countries are able to tap that market, for the most part the increased revenues from higher oil prices are being used to finance the deficits of developed countries, either directly or indirectly. The U.K., France, Italy, Japan, etc. are in a very real sense displacing some developing countries from entering the market and are borrowing amounts considerably in excess of their immediate needs occasioned by oil price increases. It is unrealistic to expect the small differences in the spread over the London Interbank rate to compensate for the credit risk of financing the requirements of the poorer developing countries. Mexico, Brazil, etc., on the other hand, apparently have little difficulty in borrowing.

Attachments

EHRotberg:emk



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



April 2, 1974

Mr. Syed A. R. Hussaini
Agency of The Bank of
Nova Scotia
67 Wall Street
New York, New York 10005

Dear Mr. Hussaini:

Your letter to Mr. Shoaib and the Annual Report for The Bank of Nova Scotia have been sent to me. We very much appreciate learning more of the activities of your Bank and its activities in New York. You can be assured that we are aware of your facilities and very much appreciate your offering to enter into business relationships with us.

Thank you very much for your courtesy.

Sincerely,


Eugene H. Rotberg
Treasurer

OFFICE MEMORANDUM

Chm

TO: Mrs. Muriel Lee

DATE: March 29, 1974

FROM: Edith M. Kesterton *EMK*:

SUBJECT: Future Travel - Treasurer's Department

Mr. Rotberg

April 8 to 16/17 - Annual leave. Possibly will also attend the Bankers Association for Foreign Trade convention while on leave in San Diego.

April 22/23 - Switzerland.

Mr. Hittmair

Presently in Venezuela. Expected to return to the Bank on April 3.

He is tentatively scheduled to go to Germany the last week in April.

EMK/

Chow

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



March 29, 1974

Mr. Frank E. Morris
President
Federal Reserve Bank of Boston
30 Pearl Street
Boston, Massachusetts 02106

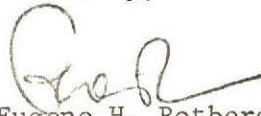
Dear President Morris:

I want to take this opportunity to thank you and your associates for affording me the opportunity to discuss the World Bank at the recent luncheon seminar. The increased awareness by the academic, government and business community of each others' problems and concerns can only make for a better society.

Let me once again express my appreciation to you, Mr. Nelson and his staff for the kind personal services shown to me during my visit.

Kindest regards.

Sincerely,


Eugene H. Rotberg
Treasurer

10822 Childs Court
Silver Spring, Maryland
20901 - U.S.A.

March 29, 1974

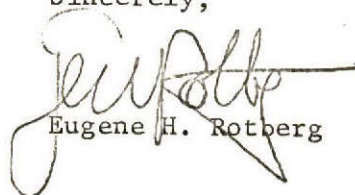
Ms. Phillda Ragland
PAA YA PAA Art Gallery
& Studios
Sadler House, Koinange Street
P.O. Box 49646
NAIROBI, Kenya, East Africa

Dear Ms. Ragland:

Reference is made to your letter of March 4 informing me that the original of the batik which I ordered last September was being sent to me by air. This is to advise that the batik still has not arrived and, in view of the fact that nearly a month has elapsed since it was dispatched, I would appreciate your looking into the matter and ascertaining the reason for the delay.

Thank you for your cooperation in this matter.

Sincerely,


Eugene H. Rotberg

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld
FROM: Eugene H. Rotberg 
SUBJECT: Travel Plans

DATE: March 26, 1974

Siem:

My projected travel plans are as follows:

Wednesday, March 27:

Luncheon speech at the Federal Reserve Bank of Boston. Mr. McNamara was asked to make this speech and he suggested that they extend the invitation to me, which I accepted. The subject will be "The World Bank and International Financial Markets".

Monday, April 8 to 16/17:

Annual leave. I expect to be in California with my family and may attend the BAFT Convention (see attached letter).

Monday, April 22/23:

Geneva. The Harvard Business School has asked me to give a series of lectures to international bankers in Geneva, who are attending the Advanced Harvard Business School Management course. I will be back in the office Wednesday morning, April 24.

Hans Hittmair will be leaving for Venezuela today to sign the bonds and determine what the future prospects are for borrowing from the Central Bank. Apparently this matter, and related ones dealing with joint financings with Venezuela, have been under discussion this week with representatives of the Area Department.

In addition, I would like Hans to go to Germany to talk to Tuengeler again about possible investment opportunities should we decide to call back Deutsche mark. As you may recall, there matures on May 1 one of those six-month obligations which the German Government made available to us under a special arrangement.

At some point in the Spring or Summer, I would like to make a visit to Central Banks to discuss with them their subscriptions to our two-year issue. Though this is not a matter of great priority, there may be more time before July to make some visits rather than thereafter.

EHR:emk



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



March 25, 1974

Mr. Rodney W. Loeb
Equity Funding Corporation
of America
1900 Avenue of the Stars
Los Angeles, California 90067

Dear Rodney:

Thank you very much for sending me the Trustees' Report. I am sure that it must have been a painful experience as the magnitude of the fraud became apparent, but I am sure that by now you have put the matter in perspective and have kept yourself busy by reconstructing what happened.

Although I deliberately did not tell you at the time (because your own disillusionment and shock was much greater than mine), my "broker" had purchased a not insubstantial amount of Equity Funding common stock for me two days before the whole thing broke. Please keep this confidential as neither my friends at Equity Funding, Wall Street, or the Commission know about my investment loss. Please let me know about your future plans. Do you expect to stay on the West Coast? Iris and I still prefer the somewhat sheltered cocoon existence of the World Bank rather than attempting to cope with New York. Write soon.

Kindest regards,

Eugene H. Rotberg



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



March 25, 1974

Mr. Miles Mason
7916 Robison Road
Bethesda, Maryland 20034

Dear Miles:

Iris and I have never been known for our punctuality. We both are much too disorganized and often leave things for tomorrow which should have been done yesterday. However, both of us again send you our best wishes for a happy and satisfying future life. We can think of no better way to achieve some temporal and material satisfaction than by visiting the Kennedy Center on occasion. Have a good time.

Kindest regards,

Iris & Gene Rotberg
Iris and Gene Rotberg



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



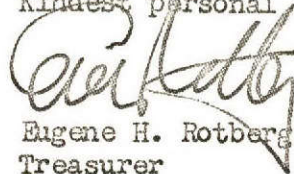
March 21, 1974

Mr. O. T. W. Price
Resident Head
International Bank for
Reconstruction and
Development
Agricultural Task Force
38 Elizabeth Boulevard
P. O. Box 12/1668
Tehran, Iran

Dear Mr. Price:

I want to take this opportunity to thank you for the kindness and courtesy which you showed to me on my recent visit to Iran. It was most kind and thoughtful of you to meet us at the airport and help us during our only too brief stay in Tehran.

Kindest personal regards,


Eugene H. Rotberg
Treasurer

Chrom



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



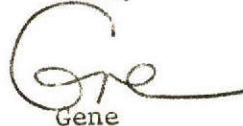
March 21, 1974

Dear Hal,

A colleague at the Bank brought to my attention the resumé of his son-in-law who currently is interested in obtaining a University position. As you can see, he has had a most interesting educational background and work experience in the fields of education administration, industrial management and computer sciences.

If you have any interest, or if the Department of Education might be interested in talking to Dr. Ramsey, would you please let me know.

Love,


Gene

OUTGOING WIRE

TO: ECONOMIST
MUSCAT

DATE: MARCH 20, 1974

CLASS OF TELEX MB 256
SERVICE:

COUNTRY: (OMAN)

TEXT: ATTENTION MR. JOHN S. TOWNSEND, SULTANATE OF OMAN
Cable No.:

REURLET MARCH 14 CONCERNING PROPOSED BORROWING FROM OMAN STOP WE AGREE IN PRINCIPLE TO TERMS AND CONDITIONS SET FORTH IN YOUR LETTER SUBJECT TO APPROVAL OF OUR BOARD OF EXECUTIVE DIRECTORS STOP IN VIEW OF CURRENT MARKET CONDITIONS WE ARE NOW PREPARED TO OFFER AN INTEREST RATE OF EIGHT PERCENT PAYABLE SEMIANNUALLY FOR FULL AMOUNT OF U.S. DOLLARS THIRTY MILLION WHICH IS CURRENT RATE IN SECONDARY MARKET FOR U.S. AGENCY OBLIGATIONS OF SIMILAR MATURITY STOP IF THIS IS SATISFACTORY PLEASE CABLE STOP WE HAVE PREPARED AND WILL SEND TO YOU A DRAFT LOAN AGREEMENT STOP WE UNDERSTAND THAT YOU HAVE NEW YORK COUNSEL AND WE WOULD BE MOST PLEASED TO SEND DRAFT LOAN AGREEMENT TO THEM UPON YOUR INSTRUCTIONS STOP SIGNING OF AGREEMENT BY WORLD BANK AND GOVERNMENT OF OMAN CAN TAKE PLACE AS SOON AS POSSIBLE AFTER (A) AGREEMENT ON INTEREST RATE OF EIGHT PERCENT; (B) FORMAT OF LOAN AGREEMENT IS AGREED UPON; AND (C) FORMAL APPROVAL BY OUR BOARD OF EXECUTIVE DIRECTORS STOP FOR YOUR INFORMATION, SINCE PROPOSED ISSUE IS IN U.S. DOLLARS, WE ARE REQUIRED TO OBTAIN APPROVAL FOR TRANSACTION FROM U.S. GOVERNMENT, WHICH APPROVAL WE ASSUME WILL BE FORTHCOMING STOP BEST REGARDS

ROTBERG
TREASURER
INTBAFRAD

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

TREASURER'S

SIGNATURE

(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:

EHRotberg:cmk

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

CLEARANCES AND COPY DISTRIBUTION:

Cleared with and cc to Messrs.
Aldewereld and Sella

For Use By Communications Section

Checked for Dispatch:



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

Chron.

March 18, 1974

His Excellency
Dr. Jamshid Amouzegar
Minister of Finance
Ministry of Finance
Tehran, Iran

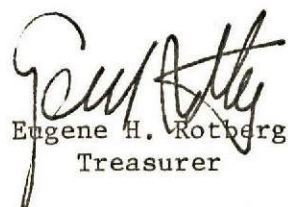
My dear Mr. Minister:

I want to take this opportunity to thank you on a personal basis for the extraordinary kindness and courtesy that you and your colleagues showed to me on my recent visit to Iran. It was not only a great pleasure to participate in arranging the first World Bank Loan from Iran but it was, on a personal level, a most pleasant and rewarding experience.

In particular, I also want to thank you for arranging my trip to Isfahan, Shiraz and Persepolis. The representatives of your Ministry, other staff and guides who accompanied them, could not have been more gracious, warm-hearted and responsive. I have always had a great interest in history and art and only wished that I could have stayed longer. There were many people, also, in the Ministry of Finance and Bank Markazi Iran, too numerous to identify by name, who were most kind to me and my colleagues. I look forward to meeting you and your associates again soon.

Kindest personal regards.

Sincerely,


Eugene H. Rotberg
Treasurer

Chson



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



March 18, 1974

Dr. Mohammed Yeganeh
Governor
Bank Markazi Iran
P.O. Box 3362
Tehran, Iran

Dear Mr. Governor:

I want to take this opportunity to thank you for the kindness and courtesy that you and your colleagues showed to me on my recent visit to Iran. It was not only a great pleasure to see you again and your colleagues, but it was, on a personal level, a most pleasant and rewarding experience. I look forward to meeting you and your associates again soon.

Kindest personal regards,


Eugene H. Kothberg
Treasurer

OUTGOING WIRE

TO: MULTIBANK
LONDON

DATE: MARCH 15, 1974

CLASS OF SERVICE: TELEX 883615/6

COUNTRY: (ENGLAND)

TEXT:
Cable No.:

FOR MR. HUGH NORTON, EXECUTIVE DIRECTOR

~~WILL BE~~ DELIGHTED TO MEET WITH YOUR COLLEAGUE MR. BART WILSON.

1130 PERFECTLY SATISFACTORY. PLEASE ADVISE IF MR. WILSON IS

FREE FOR LUNCH. KINDEST REGARDS.

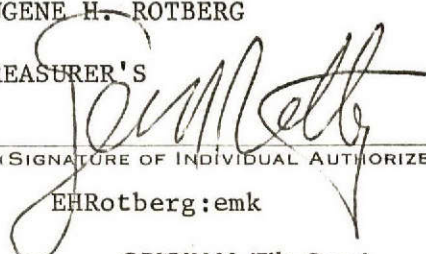
EUGENE ROTBERG
INTBAFRAD

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE 
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EHRotberg:emk

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

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* Checked for Dispatch: _____

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March 14, 1974

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COMMUNICATIONS
SECTION

Distribution

Mr. Rotberg

WORLD BANK

WASHINGTON (DC)

MR EUGENE H ROTBERG TREASURER

GREETINGS GENE

A COLLEAGUE OF MINE BART WILSON IS VISITING WASHINGTON ON
FRIDAY MARCH 29TH AND WOULD VERY MUCH LIKE TO VISIT WITH YOU
WOULD EITHER 1130 HOURS OR 1500 HOURS THAT DAY BE CONVENIENT?
WARMEST REGARDS

HUGH NORTON EXECUTIVE DIRECTOR MULTIBANK TLX883615/6

CFM 25TH 1130 1500 883615/6

OUTGOING WIRE

Chron

TO: MULTIBANK
LONDON

DATE: MARCH 15, 1974

CLASS OF TELEX 883615/6
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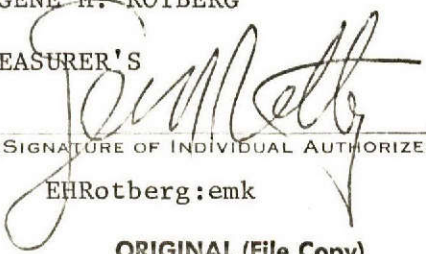
EUGENE ROTBERG
INTBAFRAD

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AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE 
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EHRotberg:emk

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

CLEARANCES AND COPY DISTRIBUTION:

For Use By Communications Section

Checked for Dispatch: _____

OFFICE MEMORANDUM

Chen

TO: Mr. Robert S. McNamara

FROM: Eugene H. Rotberg *ER*

SUBJECT: Proposed Borrowing from Iran

DATE: March 15, 1974

Following is a summary of the meeting between Messrs. Aldewereld, Nurick and Rotberg and Messrs. Amuzegar (Minister of Finance), Agah (Undersecretary for Economic Affairs, Ministry of Finance), Pour-Abbas (Director General for World Bank affairs), and Shirazy (Bank of Iran).

Minister Amuzegar summarized the proposals of the Shah of Iran:

- (a) that OPEC and industrialized nations would contribute between \$125 million-\$175 million as capital to be used as a fund for less-developed countries on a soft loan basis;
- (b) that \$700 million would be made available to the IMF from Iran to finance an expected deficit of from \$7-8 billion from industrialized oil-importing countries; and
- (c) about \$150 million-\$200 million would be available immediately to purchase the World Bank bonds with a maturity of 10 years.

He expressed the view that the Shah was "disappointed and sorry" that he had received no response whatsoever from industrialized countries to set up a soft lending facility. Amuzegar stated that Iran had gone further than anyone else in any of the three areas mentioned and was waiting now to see what other countries would do. Specifically, Amuzegar would talk to France and Germany about the soft loan proposal in the next few days.

We quickly settled the amount of our initial borrowing in Iran for \$200 million and agreed that the maturity would be 12 years.

There then was very brief discussion about the currency of borrowing. Amuzegar mentioned that we could either do it in an SDR basket or in dollars. He said that, if we would prefer a basket of currencies, he would look to the average yield on bonds in those currencies or, alternatively, if we wished to borrow shorter than 12 years (say for six months) that would be satisfactory if we were prepared to agree that the interest rate at the end of six months, and thereafter, would be at the inflation rate applicable to the countries making up the basket. We rejected both of these proposals and agreed to a dollar borrowing with a 12-year maturity subject, of course, to the interest rate. With respect to interest rates, Amuzegar made the following points:

- (a) Austria had just offered to borrow in Iranian Rials, and carry the exchange risk, at 9% for 7-9 year maturity. Amount equivalent to \$150 million;

March 15, 1974

(b) United Kingdom was prepared to offer prevailing short-term Eurodollar rates for borrowings directly from Iran;

(c) Iran had made (or was in the process of making) a substantial concessionary loan to India in view of their serious problems;

(d) The Iranian Government itself was borrowing with a 7-year maturity in its own country at 10-1/2%; and

(e) Iran had been charged and was continuing to be charged extremely high prices for its imports. The strength of many industrialized countries in Europe and Japan was directly attributable to the low cost of oil and the high prices they charged for their exports. The Minister specifically mentioned the very high cost of basic commodities such as sugar and wheat. Therefore, Iran had to lend the \$200 million at "commercial rates."

We pointed out to Minister Amuzegar that the rates in the Euro-dollar market were dropping quickly and were currently about 8-1/4 - 8-1/2%; that our lending rate was 7-1/4%; high-quality U.S. Government obligations in the five-year U.S. market were trading at the 7-1/2 - 7-3/4% level. We advised Minister Amuzegar, however, that we recognized that the long-term U.S. market was 8-1/4%; that the Eurobond market was even higher; that we would probably have to pay even more than 7-1/2% if we borrowed in the intermediate U.S. market, but that, essentially, we would wish to borrow at or about the prevailing U.S. Government agency interest rate for the intermediate-term market (5 to 7 years), but for the longer maturity. We realized that this would be a concession as compared to Iran's investment opportunities.

Amuzegar responded by asking what we were prepared to offer. We suggested 7.50% and, after he made a proposal of 8%, we told Amuzegar that we were not able to conclude an agreement with a 12-year maturity in excess of 7.75%. Amuzegar advised us that under no conditions could he take less than 8%. He explained that, under the authority given to him, he was not permitted to make a better offer and he could be severely criticized, given the points mentioned above, for accepting anything lower than 8%. We advised Mr. Amuzegar that we would give him our response (which we did) on the following day.

Amounts to be borrowed: Amuzegar agreed that we could, at our option, borrow this year, at the same interest rate (8%), an additional amount equivalent to our lending commitments to Iran from this point forward. He understood that this would be something on the order of \$200 million through June 30. As for the future years, an understanding was reached, subject to the caveat below, that, commencing in our FY75, Iran would be prepared to lend to the Bank each year \$200 million plus an amount equivalent to our loan commitments to Iran, at prevailing

March 15, 1974

commercial rates. (The 8% rate only applied to the commitments made to Iran between March 1 and June 30 of this year. Future borrowings would be negotiated on new terms.) He specifically made the point that Iran, while desirous of the Bank's technical assistance, was neutral concerning Bank lending to Iran . . . that was "up to us". . . , and that the fact that we were prepared to make loans to Iran at 7-1/4% was not a factor which he considered to be relevant in any discussions. He said that he realized that, while the cost of our borrowing was higher than our lending to Iran, it was the Bank which wished to lend to Iran and the fact that they were prepared to relend us that amount was, in itself, an advantage to us.

We raised the question whether Iran was also prepared to prepay its outstanding loans. We pointed out that Iran was obligated to the Bank in a variety of currencies, such as Kuwaiti dinars, Japanese yen, DM, etc., and, while these were at lower interest rates, there was a potential currency risk which Iran could avoid by repaying the loans. Mr. Amuzegar was favorably disposed to prepayment and asked that we send him a schedule of loans outstanding in different currencies and the maturities. We also agreed to advise him which of the loans were, in the private sector, guaranteed by the Government and which were direct Government loans. We did not query or resolve the point whether the prepayment would be in addition to the \$200 million plus the amount of the loan commitments to Iran, or whether the prepayment might be in partial substitution to a portion of these borrowings (prepayment would be beneficial to the Bank since our loans to Iran are at a lower interest rate than prevailing commercial rates.)

I dictated a cable reflecting the material points. When Amuzegar saw the reference to the amount of \$200 million in excess of our lending commitments to Iran each year, for each of the next three or four years, he asked that the amount be deleted from the cable because he did not want to be tied down to a precise figure. He said that the lending to us would be substantially over our lending to Iran but that he could not make that large a firm commitment for that long a period in view of potential changing prices of oil and domestic requirements. Amuzegar also assured us that the IMF would, under no conditions, obtain better terms and conditions than did we, since, he stated, the Fund was lending to rich countries while we were lending to poor ones. He did imply, however, that there was a possibility that the Fund might obtain the same terms.

One final point came up at a subsequent conversation. Amuzegar had assumed that the loan would have a final maturity of 12 years and that there would be some amortization of the loan. We pointed out to him that our loans to Iran and to other countries, while amortized, were for a much longer final maturity, and that our basic requirement was to have long-term loans at fixed rates; any amortization would make

March 15, 1974

it difficult to accept a rate of 8%. He then agreed that this initial operation would be a straight 12-year non-amortized loan but stated that, with respect to future borrowings from Iran, he would expect some amortization of the loan. It is my own personal view that he would accept a five-year grace period, with equal repayments over the subsequent 10 years, which would produce an average life of 10-1/2 years. Amuzegar, however, may insist on a 12-year final maturity with a five-year grace period for an average life of nine years. We did not think it necessary to reach agreement on this point at this time.

Subsequent to the discussions, agreement was reached on the draft English text of the loan agreement. In addition, a draft of the agreement in Persian was prepared by the Ministry of Finance. As far as the signing of the agreement is concerned, Mr. Amuzegar said that he would authorize his brother, Mr. Jahangir Amuzegar, the Executive Director in the Fund, to sign the agreement. This authorization will be sent after Minister Amuzegar receives word that our Executive Directors have approved the transaction.

The general negotiations which took place over several hours were cordial. We admitted very openly that Iran had other more attractive investment opportunities. At the same time, we made it quite clear that we knew prevailing interest rates in U.S. dollar denominated securities had declined - particularly for short and intermediate maturities. In the course of our conversation Amuzegar specifically told us that he was not a "rug dealer" and that we should not haggle with him once he had given us a rate. We did not do so. He told us during the course of the conversation that he had been advised that the World Bank and the IMF were going to compete with each other to get lower rates and that, specifically, the World Bank would use as one of its arguments the fact that it was prepared to make loans to Iran at 7-1/4% and he wanted that point taken out of the discussion completely. At a very early point in the conversation, all of us were fully aware that both sides of the table had about the same degree of sophistication concerning prevailing market conditions. He realized that we wished a concessionary rate (in terms of available investment options to Iran); they knew that the rate they were offering was a concession in that context but was still considerably over our lending rate to other countries. The discussion was open and frank.

One final point: Mr. Amuzegar was anxious, in response to our offer, to have some of his staff visit Washington (perhaps for a week or two) to discuss with us some of the technical tools that we use in the management of our own liquid resources.

Cleared with and cc to Mr. Nurick

cc: Mr. Aldewereld
Mr. Benjenk

The attached was dictated by Mr. Rotberg just prior to his departure for Tehran but he did not have an opportunity to review the final version.

OFFICE MEMORANDUM

DECLASSIFIED

Date: 10/25/2010

DATE: March 8, 1974

CONFIDENTIAL

TO: Mr. Robert S. McNamara
Mr. S. Aldewereld

FROM: Eugene H. Rotberg

SUBJECT: OECD Meetings

EMR per EMK.

The following is a summary of some of the points made at the Financial Markets Committee meeting of the OECD which I attended in Paris March 4-7. These meetings are held three times a year. One of the purposes of the meetings is to permit Central Banks and Ministries of Finance of OECD countries to describe informally and without record the state of their capital markets; effect of current and projected government policies on short and long interest rates; possible restrictions on access to markets by non-resident borrowers and investors; structural changes in their markets and new developments or techniques of borrowing or investing. On occasion, the OECD invites commercial bankers to a private session in which their views are elicited on these and similar subjects.

The meetings held this week were particularly useful and included a rather extensive discussion of the financial impact on capital markets and interest rates of the substantial flows of resources into OPEC countries. While some of the comments set forth below are repetitious (since they were repeated at various sessions), I will simply set them forth as reflected in my notes so as to give a rather full picture of the views and attitudes expressed. I have attached to this summary a list of the representatives from each country and their responsibilities with the Central Bank or Ministry of Finance.

. . .

United States

The prospects are that a relatively small proportion of oil receipts will be spent by OPEC countries. Most of the oil receipts will find their way into OECD currencies for investment, though, of course, the distribution of investment will be different for each country. It is not unreasonable to assume that the U.S. will not suffer the loss of resources and will be a primary source of investment. It is not clear whether the oil revenue investment will be in longer or shorter maturities.

Italy

The uncertainty about the prospects for inflation, the political risk attached to making illiquid commitments, and the uncertainty of the strength of the U.S. dollar will cause Mid East countries to keep dollars in very short-term instruments.

United States

U.S. projects that there will be a shift from Central Bank holdings in Europe and Japan from Treasury Bills or other government paper to the banking system, since Central Banks will have to liquidate their dollar holdings in U.S. instruments and pay those resources to Mid East countries. These countries in turn are not likely to repurchase U.S. obligations

March 8, 1974

with their dollars but will put the money in the banking system, particularly in the short-term Euro-dollar market. The U.S. view is that consumption is likely to drop throughout the world because of inflation and the high cost of oil, and that if there is no real demand for new goods and services, then short-term interest rates are likely to decline because of a rapid influx of oil money and reduced business demand. These comments apply only to the U.S. market.

Germany

Bundesbank representatives noted that during the summer, participants in fixed interest DM securities expected lower rates and therefore bought bonds with expectations of later resale and profit. Then Bundesbank said it would not ease up on tight monetary policy, and there were substantial losses in the market. Market strengthened again in December on expectation of lower rates caused by projected fall-off in business demand. Again, however, Bundesbank refused to ease up on tight policy after government permitted substantial increases of new wage contracts for the forthcoming two years. Therefore, tight monetary policy a necessity. Speculators again, therefore, lost and short-term rates are currently at 10-1/2% as compared to 9-3/4% in early February. Central Bank does not intend to change its policy. Savers are now very interest rate conscious in Germany since in the period 1963-70 they were able to earn 3 to 5 per cent in real terms. Now, even at current high interest rates, real return is only 2-1/2%. Therefore, there is scope for even higher interest rates in Germany in both long and short-term markets.

United States

U.S. again cautioned that economic weakness in U.S. could cause decline on rates in U.S., Germany and France. Higher prices and oil would divert income from consuming countries, possibly cause a recession in several countries. Therefore there would be downward pressure on rates despite efforts of Central Banks to hold up rates in an effort to curb inflation.

U.S. expects long-term rates to possibly go to higher levels. Therefore, there will be a wider spread between short and long-term rates. There are several factors which are likely to put upward pressure on long-term rates.

- (a) Very heavy corporate calendar occasioned by new capital and equipment expenditures and a restructuring of debt from the very short maturities of 1973.
- (b) Inflationary expectations.
- (c) Desire for borrowers to obtain money when it is available below 8-1/2%.
- (d) Substantial foreign government and corporate borrowing since removal of capital export restrictions last month.

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Mr. S. Aldewereld

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On the downward side, only if there is a very substantial fall-off in economic activity will long-term rates drop. This could happen particularly if the housing and commercial credit factor remains weak.

U.S. expects close links between the three-month Eurodollar rate and the U.S. domestic CD rate and U.S. Treasury rate, since restrictions on flow both ways have been removed. As money will flow into the Euro-dollar market from oil producing States, those rates will fall unless there is either creditworthy demand from borrowers or need of new funds by U.S. banks. However, the actual payments reflecting the December oil price increases have not yet been made and are not likely to be fully felt until April. Therefore, commercial banks do not yet have the expected new resources -- although in the last seven days there have been very large and unexplained non-interest bearing deposits made by foreign institutions into U.S. commercial banks, possibly in anticipation of the forthcoming payments. U.S. does not expect to get too much direct investment from the Mid East, i.e. real estate and stocks.

Switzerland

Also does not expect to get direct investments. Unlike the U.S., government does not wish to have or encourage foreign investment in Swiss Franc denominated obligations. Extremely tight monetary policy. Therefore, at the end of the month when Swiss banks must meet certain reserve requirements, Swiss money rates are likely to escalate to 10-15%, as Swiss banks have no excess liquidity and must make deposits with the Swiss National Bank.

United Kingdom

Long-term rates are at 14%. U.K. contemplates large government borrowings outside U.K. High rates caused by political uncertainty, inflation, and industrial unrest. Inflation expected to get worse. Government would like to lower rates to encourage the flow of savings funds into mortgage market, since building is falling off and aggravating economic slump, but cannot be rectified since home owners simply cannot pay high interest rates. However, U.K. feels it must hold up high rates to attract sterling investments from outside England, i.e., it must compete against Deutsche mark and French franc high interest rates. There is no evidence whatsoever that Mid East oil money is going into U.K. equity market. However, there is sterling investment in gilt bonds by oil producing States, who have been given, in certain cases, a guarantee against devaluation if they hold a fixed percentage (and continue to hold that percentage) of their reserves in Sterling. U.K. afraid if they lowered interest rates money would leave England to France, Germany or Japan. They do not expect, however, to get substantial new resources, but they do wish to hold their own.

Italy

Government will arbitrarily hold down the long-term interest rates and will heavily intervene in the markets to keep long-term rates low,

as they, alone, believe that the more serious problem is economic stagnation rather than inflation, and they do not wish to inhibit business expansion through the vehicle of high interest rates.

France

Short-term interest rates are 12-1/2%, which they consider to be reasonable; long-term interest rates are 10-1/2% to 11%. They expect no influx of investment from the oil producing states and little investment in French franc short-term securities. Though they do not know the peak of interest rates in France, they do not predict any change from current levels. If contrary to their expectations, oil funds did come into France, they probably would take steps to reintroduce controls so as to prevent short-term investments in the French franc by non-residents, since they believe that this is inflationary and, if the amounts are large, subject their currency to large and erratic swings on exchange rates. (This view was later expressed by the Dutch, Germans, and Japanese, who do not wish to have oil producing states invest in short-term instruments, which are too volatile. They want long-term investments which cannot be moved out quickly).

Germany

The Euro Deutsche Mark is very weak and will remain so as long as the dollar is strong. Therefore, there is no difference between the domestic interest rate in Germany and the non-resident Deutsche Mark. Foreigners have no interest in Deutsche Mark despite the high interest rates, since there is no confidence in the strength of the Deutsche Mark because of increased inflation.

Switzerland

Interest rates in Switzerland rose from 5.35% in August to 6.75% in January. National Bank expects 20% inflation rate. Also there is huge demand for credit from the Cantons, Cities and from the power sector. The short-term Swiss market interest rate is being pulled up in sympathy to the short-term Eurodollar interest rate; and that rate in turn is affected by the very tight policy in the U.S., where the prime rate still remains over 8%. Oil prices will increase prices substantially and will be inflationary. Therefore, the Swiss are in a dilemma because they must hold down mortgage rates for political reasons, but at the same time cannot expect investors to put money in Swiss banks (who make mortgage loans at 6%) when the investors see a 20% inflation rate. The Eurodollar is pulling money out of Switzerland. There is no known indication as yet that oil producing countries are investing in Swiss banks. The Swiss would be prepared to accept small investments in Swiss francs by oil producing states but only to redress prospective balance of payments problems. If investment were excessive, then restrictions on imports of capital would be immediately reapplied, since they cannot permit foreigners, in view of their small economy, to have too much control over their capital markets.

Japan

Credit restrictions were beginning to work in Japan. However, rise in prices caused by wage increases and oil crisis required Government to continue to restrain the market. Tight money is to be expected. All credit restrictions will be increased. Rates of interest are not expected to decline in reasonable future. Prime rate for first class borrowers is 9.4%. There have, however, been some signs for the economy to slow down. However, consumer price index and wholesale price index still too high, though not increasing at the same rate. Therefore, tight money policy will be continued with high interest rates in foreseeable future.

OECD

OECD Secretariat takes position that Euro currency deposits and short-term deposits in U.S. banking system will account for great majority, possibly 85% of investments by oil exporting states. Most investments will be in Euro currency market because of (a) secrecy (b) liquidity (c) familiarity with the market (d) traditional monetary theory requires that investments be kept short even beyond the point when such policy is not financially required.

United Kingdom

Expects a considerable time to lapse before Mid East countries show sophistication in their investments. Therefore, they will stay short. U.K. equity market could not take more than one billion dollars of investment. Even real estate market in U.K. is quite small. Therefore, sterling investments will be in short-term instruments if they occur at all, but confirm that most will be in U.S. dollars, particularly Euro currency deposits. According to U.K., BIS claims that over 90% of OPEC projected resources will be in short-term Eurodollars. Of the balance, a good deal of oil royalties are paid in sterling and are invested in short-term U.K. bonds, specifically under arrangements as noted above which provide protection against exchange losses if and only if the country maintains its percentage of sterling reserves. U.K. also expects to exchange manufactured goods for oil to reduce adverse BOP impact.

Germany

Question: Can Euro currency market absorb all that is projected to be placed in it.

Answer: United States. Yes. Customary patterns will be followed. Some U.S. investors will invest in Eurodollar market and some U.S. banks will borrow from their own subsidiaries so that the entire U.S. banking system will absorb (possibly at lower and lower interest rates) the resources placed in dollars in London. During this period some of these deposits will be lent at floating rates on medium-term consortium loans if U.S. banks do not wish to borrow these funds. In addition, many Mid-East and African countries may themselves be borrowers of their own money in the Euro currency market. There is no problem of "absorption" since the dollars cannot disappear, and where it goes will simply depend upon the level of interest rates, economic activity, etc. According to U.S., the crucial question is the borrowing capacity of the oil importing countries.

Can they in fact borrow, from a creditworthiness point of view, to finance their deficits. France and U.K. can and have borrowed to finance those present and projected deficits, but it is highly unlikely that developing countries can and there may even be a question as to the extent that banks whose parents are U.S. institutions will be willing without limitation to extend credits which depend ultimately on the ability of even Western European countries to generate sufficient foreign exchange resources to pay off their projected deficits.

As economic activity in the U.S. slows, rates in Euro currency market will drop as U.S. banks will be willing to pay less and less for marginal resources, particularly in the next few months when figures on real growth in U.S. are publicized at the same time that banks will have available a large new pool of resources.

United Kingdom

U.K. not expected to borrow "too much" in Eurodollar market since there will be large borrowings from IMF and they therefore do not expect to put too much pressure on Eurodollar market. Also they expect to borrow in the U.S., hopefully in medium and long-term market, privately and publicly. This supports U.S. view that long-term rates may rise while short-term rates may decline.

Sweden

Many countries, such as Sweden, do not even have instruments to offer that are attractive to oil exporting states. Real problem is fact that U.S. long-term market is not open to less developed countries who cannot borrow because of credit risk.

Switzerland

Switzerland hopes that there will be transfer of oil resources to under-developed countries, either directly or through World Bank.

United States

Commercial banks will probably raise questions about creditworthiness of borrowers and quality of loans being made by their subsidiaries in Europe. All borrowers will not get resources from the credit markets, as U.S. expects that banks under FED jurisdiction will be most cautious in evaluating loans.

. . .

Mr. Robert S. McNamara
Mr. S. Aldewereld

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The following comments were made at a meeting in which Commercial Bankers as well as government officials were present (see attached list).

England

No flow yet of investments from oil exporting states. Sterling payments are made on a seasonal basis -- January, April, July, October. First payments reflecting December oil price increase will not be seen until April.

AMRO Bank (Holland)

Confirms the flow is seasonal. Large payments due in April.

Dresdner Bank (Germany)

All oil deficits are self-financing in toto. There are three categories of countries:

- (a) Those in which Mid East countries will invest their resources and who therefore will have no problem.
- (b) Those countries who will not be the recipients of investments but who are creditworthy and will borrow. They will simply borrow the funds that they have paid for oil.
- (c) Those countries who are not creditworthy and who have deficits. For them the problem is monumental.

Netherlands

The second category, i.e., those who can borrow, may be illusory, since the amount of the deficits for the so-called creditworthy countries is so large that they will quickly reach the limits of their borrowing capacity.

Warburg (England)

Mid East investors are very suspicious. They do not want to make investments in most currencies, but it really does not matter since, if all their funds are in the Eurodollar market, the consortium banks will themselves relend the money under floating interest rates to borrowers to whom the Mid East would prefer not to lend to directly. No real possibility of oil producing states making substantial long-term investments.

AMRO Bank (Holland)

Arab states withdrew deposits in very large amounts from Dutch banks for political reasons in November, 1973. However, virtually all of that money has returned to those banks on deposit, but the Dutch are cautious.

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They are concerned with encouraging short-term deposits in either guilders or dollars in their London branches--the former because of the possibility of withdrawals which affect exchange rates, and the latter because of severe liquidity pressures which could be exerted on them.

Dresdner Bank (Germany)

It is reasonable for the Arabs to stay short. All Central Banks stay short. As long as short-term rates are high, there is no reason to make long investments. But it is expected that some portion will go to long-term investments simply to diversify holdings, particularly if a case can be made that U.S. short-term rates (and the Eurodollar rates to which they are now linked) will decline rapidly over the next several months.

Lazard (France)

Impossible to place 10-15 year money with oil exporting States. They do not wish even medium-term investments. As manager of many syndicates, Lazard has seen a total absence of Mid East interest in any currency in medium-term market.

OECD Secretariat

If oil money stays short, this will drive down interest rates and, if so, what will be the impact on U.S. Index of Inflationary Policies?

United States

No. Western Europe will see Treasury Bills driving up rates and Mid East countries will reinvest in Banks, for same maturity, driving down rates. Therefore, there is a market effect.

U.S. has no problem whatsoever in taking short-term investments. Essentially, European countries will sell Treasury Bills, which will push the rates up, and then Mid East countries will invest in the banking system directly or indirectly to put them down. There will be some adjustment problems, since these are two different markets but, overall, the U.S. will obtain resources through investments in CD's, in U.S. banks, commercial paper, and U.S. bank borrowings on the Eurodollar market. He feels the U.S. banks are quite equipped to undertake the job of relending the funds and expects that the New York banks will be the leaders. The rate of interest will be affected primarily by U.S. economic conditions; or creditworthiness will be a limiting factor in Eurodollar market. U.S. Banks will probably invest in five-year bonds and may even increase their long-term bond investments if they believe these funds are permanent. As for the inflationary impact, he feels that the Fed can control that situation by adjusting the reserve requirements. Again he points out that much of the infusion of funds into the U.S. banking system was already in the U.S., only instead of being

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owned by Saudi Arabia, was owned by France, Italy, or Germany by way of U.S. Treasury Bills. He notes that Lazard feels European banks who receive Euro currency deposits will be very careful to analyze creditworthiness, which will also tend to lower rates of interest.

Netherlands

Do not wish short-term investments in their country. Too volatile. Therefore, prefer long-term investments which are not likely to occur.

Switzerland

Not interested in short-term investments. If it were to occur, they would protect themselves.

Banque de Bruxelles (Belgium)

Expects most of the resources to go to U.S. commercial banks because of lack of creditworthiness of the borrowers who are in deficit position. IMF may have the financing burden.

Warburg

Most resources will go to U.S. banking system. That will create no problem whatsoever because all the resources can be easily absorbed because of the huge base of the U.S. domestic economy. That is not the case with Holland, Japan, Germany, and Switzerland, who cannot afford to let foreign institutions have that much hold over their assets.

Japan

Japan's problem is the same as Holland's and Germany's. They will not encourage short-term investments. Oil problem is not severe. Japan's deficit will be relatively small, but Japan expects to borrow outside of Japan in order to finance increased costs of oil.

OECD

"What is the vulnerability of the Eurodollar market?"

U.S.

U.S. banks will not draw resources from the Eurodollar market until the rates drop. When the rates drop, it will draw only what it needs at rates comparable to U.S. CD's. Therefore, there will be a complete circular flow totally depending on economic conditions in the U.S. and creditworthiness evaluation in the U.S. and Europe. "Vulnerability" occurs when there are restrictions on free flows. There now are no restrictions in dollars.

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IBRD

A. Mid East countries apparently wish to place money in Eurodollar market.

B. These funds must be lent.

C. If U.S. economy is soft and if rates drop, then rates in Europe will drop in order to attract U.S. banks as borrowers.

D. Since the money in Europe must be invested somewhere, the spread between U.S. dollars and so-called London dollars will disappear, thereby creating significant spread between the dollar and other European currencies under policies expressed to combat inflation.

E. At that point, it is possible during the spring and summer, under the scenario described above, to see perhaps a 300-500 basis point difference between European short-term rates and U.S. dollar short-term rates. At that point - a potential. Most OECD countries do not want to encourage investments in their currencies, but those investments are probable and likely if their interest rates are twice as high as those in the U.S. On the other hand, if they are deficit countries, the investments will reduce their requirements to borrow and help resolve some of their balance of payments difficulties. How will this dilemma be resolved?

Holland

We will keep interest rates high and maintain restrictions.

Japan and Germany

The same.

. . .

Many countries expressed the view that they would engage in "other" ways of financing their deficits, i.e., borrowing from IMF or borrowing in Europe rather than encouraging short-term investment.

. . .

cc: Mr. Knapp
Sir Denis Rickett

Attachment

EHRotberg:mb:emk

Paris, le 4 mars 1974

COMITE DES MARCHES FINANCIERS
COMMITTEE ON FINANCIAL MARKETS

Liste des Participants
List of Participants

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Mr. G. BRÖKER, Head of the Capital Markets Division (Financial
and Fiscal Affairs).

Mr. I. DIVOY, Secretary of the Group of Financial Statisticians
(Financial and Fiscal Affairs).

Chron

10822 Childs Court
Silver Spring, Maryland
20901

March 8, 1974

Dear Anna:

I have just arrived back from Paris and wanted to thank you and Simon for spending so much time with me, my wife, my mother-in-law and our children. All of us were very delighted to see you and were most excited about your paintings. My wife tells me that she didn't get much time to talk to you about prices. It would be most appreciated if you could simply drop me a note and tell me the price you would take for the "mask" (which I think is in your upstairs living room) which my wife liked very much.

Second, the price of the large orange wooden mural on the right-hand corner wall of your living room. This piece would be too large for our house so I might purchase it for myself and simply place it in the reception area in my office.

Third, my daughter liked the free-standing piece in the den and, fourth, the piece on the side wall of your bedroom, which looks somewhat like the one that Hal has, only smaller. I understand that you might have to repaint that one.

When I arrived back from Paris last night I was told, alas, that I have to turn right around and go to the Middle East - so I am leaving tomorrow and won't be back for about a week. I, therefore, won't have a chance to talk to some of my colleagues about the possibility of an exhibit, or perhaps a few of your pieces being shown at the Bank but I will follow that up later. It was very good talking to you.

You might be interested in some of McNamara's speeches on Development and poverty. They are particularly depressing.

See you when I get back from Iran.

Love,
Gene
Gene Rotberg

Mrs. Anna Thornhill Nuchtern
273 Bleeker Street
New York, N.Y.

OFFICE MEMORANDUM

TO: Mrs. Muriel Lee
DATE: March 1, 1974
FROM: Edith M. Kesterton *EMK*
SUBJECT: Future Travel - Treasurer's Department

Mr. Rotberg

Mr. Rotberg will leave for Paris on March 3 to attend the OECD Capital Markets Committee Meetings. He will return to the Bank on March 8.

He will address a luncheon seminar of the Federal Reserve Bank of Boston on March 27.

Mr. Hittmair

Mr. Hittmair expects to be on vacation during the last week of March.

EMK/

Chron.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.

February 28, 1974

Mr. Charles A. Coombs
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, N.Y. 10045

Dear Mr. Coombs:

In the absence of Mr. Rotberg,
who is presently out of the country,
I am enclosing herewith the following
documents:

- (a) R74-33 issued in
connection with our
Two Year Bonds of
1974, due March 15,
1976; and
- (b) R74-38 issued in
connection with our
Proposed Borrowing in
Venezuela (also
R74-38/1)

Both documents have been approved
by our Board of Executive Directors.

Sincerely,

Edith Kesterton

Secretary to
Mr. Rotberg

Encl.

RECONSTRUCTION AND DEVELOPMENT CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: February 27, 1974

FROM: Eugene H. Rotberg 

SUBJECT: Venezuelan Borrowing

As you may recall, Mr. Vural Guzsavas, Alternate Director from Turkey, questioned whether we might use the proceeds of our Venezuelan borrowing for disbursements on our Venezuelan loans. I have spoken to Mr. Guzsavas and explained that there is no problem in using the Bolivars for disbursements on Venezuelan loans, but that it would take quite some time if we were to hold them exclusively for that purpose. He said he realized that it might take over a year to disburse the funds and that he also understood the Venezuelans wished to reduce their foreign exchange and domestic liquidity, which would not be satisfied by our holding the proceeds of the borrowing. His real concern, of course, was not Venezuela, as the amount was relatively small, but any prospective borrowings in Saudi Arabia or Iran, where, if we borrowed local currencies, there would be a substantial exchange risk to our borrowers. He said he could envision a situation where, several years from now, we might be borrowing heavily in oil-rich countries and passing on a severe burden to our borrowers.

I told Mr. Guzsavas that we recognized the problem; that we would endeavor to borrow in dollars; and that we would attempt to diversify our borrowings both by currency and source. I pointed out to him that only in the case of Iran was there any probability of offsetting borrowed resources in a domestic currency against ongoing disbursements, and if we could not borrow dollars in the Mid East, we would of course make every effort to use Rials on Iranian loans. I emphasized that it would be preferable, if possible, for us to borrow dollars, or a package of currencies, in recognition of the risks which ultimately are passed on to our borrowers.

Mr. Guzsavas seemed satisfied and mentioned again that he only mentioned the Venezuelan matter in the context of the far greater problem of borrowing Mid-Eastern currencies.

EHRotberg:bjg

cc: Mr. S. Aldewereld



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



February 25, 1974

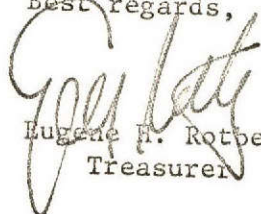
Mr. Susumu Tomoishi
Executive Vice President
Toyo Sanso Co., Ltd.
c/o The Mitsubishi Trust
and Banking Corporation
Tokyo, Japan 100

Dear Mr. Tomoishi:

I am pleased to learn from your letter of February 6 of your appointment as Executive Vice President of Toyo Sanso Co. and wish to extend my congratulations to you. It was a pleasure and honor to have met you during your tenure at the Mitsubishi Trust and Banking Corporation and my colleagues and I appreciate the support you have given to the World Bank.

I wish you great success in your new position and look forward to seeing you again.

Best regards,


Eugene H. Rotberg
Treasurer



Record Removal Notice

File Title Eugene H. Rotberg - Chronological Records - Volume 11 - January - May 1974		Barcode No. 1858114
Document Date 25 February, 1974	Document Type Letter	
Correspondents / Participants To: Mary K. Rieger From: Eugene H. Rotberg		
Subject / Title Ivespri Siciliani		
Exception(s) Personal Information Financial Information iv		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.
		<table border="1"><tr><td>Withdrawn by Tarsica Morgan-Taylor</td><td>Date October 19, 2023</td></tr></table>
Withdrawn by Tarsica Morgan-Taylor	Date October 19, 2023	



Record Removal Notice

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Withdrawn by Tarsica Morgan-Taylor	Date October 19, 2023	

Chm



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



February 20, 1974

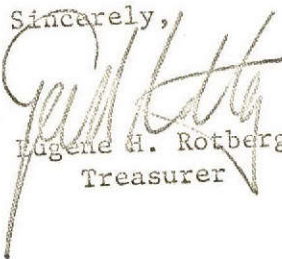
Dr. Edwin Stopper
President
Banque Nationale Suisse
Borsenstrasse 15
8022 Zurich, Switzerland

Dear Dr. Stopper:

It is with regret that I learned of
your forthcoming retirement as President of
the Banque Nationale Suisse. I wish you
many years of health and much happiness.
It was indeed a pleasure and honor to have
worked with you and I look with great
pleasure to our meetings in recent years.

Best wishes and kindest personal
regards.

Sincerely,



Eugene H. Rotberg
Treasurer

OUTGOING WIRE

TO: NIPPONGINK
TOKYO

DATE: FEBRUARY 20, 1974

CLASS OF
SERVICE: TELEX

COUNTRY: JAPAN

TEXT:
Cable No.:

ATTENTION MR. FUJIMOTO

FOLLOWING BOJ DISCUSSIONS WITH MR. SOEJIMA, WE REQUEST SUBSTITUTION OF ALL
TREASURY BILLS MATURING ON MARCH 18 AND MARCH 22 CURRENTLY HELD BY YOU FOR
OUR ACCOUNT WITH JAPANESE TREASURY BILLS MATURING AT LATER DATES STOP

PLEASE CONFIRM AMOUNTS, MATURITY DATES OF NEW BILLS AND OTHER DETAILS STOP

REGARDS TEST 553

ROTBERG
INTBAFRAD

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME Eugene H. Rotberg

DEPT Treasurer's

SIGNATURE *Eugene H. Rotberg*
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EHRotberg:bjg

CLEARANCES AND COPY DISTRIBUTION:

cc: Messrs. Hittmair, Schielke,
Prins/de Boeck, Rutland

For Use By Communications Section

ORIGINAL (File Copy)

(IMPORTANT: See Secretariat Guide for preparing form)

Checked for Dispatch

OUTGOING WIRE

TO: INTBAFRAD
TOKYO

DATE: FEBRUARY 20, 1974

CLASS OF
SERVICE: TELEX

COUNTRY: JAPAN

TEXT:
Cable No.:

ATTENTION: MR. SOEJIMA

FOLLOWING CABLE SENT ATTENTION FUJIMOTO BOJ: "FOLLOWING BOJ DISCUSSIONS
WITH MR. SOEJIMA, WE REQUEST SUBSTITUTION OF ALL TREASURY BILLS MATURING
ON MARCH 18 AND MARCH 22 CURRENTLY HELD BY YOU FOR OUR ACCOUNT WITH
JAPANESE TREASURY BILLS MATURING AT LATER DATES STOP PLEASE CONFIRM
AMOUNTS, MATURITY DATES OF NEW BILLS AND OTHER DETAILS STOP" REGARDS

ROTBURG
INTBAFRAD

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME Eugene H. Rotberg

TITLE Treasurer's

SIGNATURE
SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE

Rotberg:bjg

CLEARANCES AND COPY DISTRIBUTION:

cc: Messrs. Hittmair, Schielke,
Prins/de Boeck, Rutland

Let Use By Communications Section

ORIGINAL (file Copy)

- 10 - (10/10) See Instructions Book for preparing form

Checked by (Type in)

OFFICE MEMORANDUM

TO: Mr. Christopher J. Denton

FROM: Eugene H. Rotberg *ER*

SUBJECT: JUDITH JHIRAD-REICH

DATE: February 20, 1974

You may have some interest in the attached resume.

As you can observe, the subject was born and educated in India and the United States and has recently become a U.S. citizen. Her background is in delivery of medical and health care services. While I do not know her personally, she appears to have experience which might be of interest to one of our Projects Departments.

If you think it worthwhile, it would be most appreciated if you would send Mrs. Jhirad-Reich an application form.

Attachment

EHRotberg:emk

Chron

OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk

FROM: Treasurer's Department *Eus Poley*

SUBJECT: Proposed Borrowings in Iran

DATE: February 14, 1974

We have been requested to prepare a summary of some of our operations which might be applicable to a borrowing in Iran. The Bank has, in the past, raised a substantial proportion of its resources from governments, Central Banks or quasi public institutions. It has also, on many occasions, approached specific sectors of the capital markets or the banking sector to raise funds through private placements or public issues of its obligations.

The attached samples will illustrate, in particular, the flexibility which is feasible in preparing an operation to the specific requirements of the market and the lender. As you can appreciate, the specific laws of the country and the usage of the local market provide for certain differences in the documents. One of the major objectives of any such operation is to keep it as simple and efficient as possible.

In the case of Iran we start from the premise that there is no broad based public capital market in which individuals and institutions trade fixed interest securities on a regular basis. We assume that any borrowing operation by the World Bank would involve the government or government instrumentalities, the Central Bank, or possibly the commercial banking sector acting for its own account or as intermediaries for certain institutions.

Under such circumstances, the simplest form of a borrowing operation is a direct loan from the lender. In this connection the Bank has negotiated direct placements with Governments, Central Banks or quasi public institutions. There is attached, by way of example, the documentation applicable to our recent borrowing from the Government of Austria; the format used in our loan from the Central Bank of Libya; and an example of an obligation which was placed privately with a German quasi-public financial institution, the Westdeutsche Landesbank.

You may observe that the average life on the loans from The Bank of Japan is relatively short, i.e. approximately 6-1/2 years. We accepted this maturity primarily because we received reasonable assurances from The Bank of Japan that, at maturity, the obligations would be "rolled over" and that essentially the borrowings would, in effect, provide a long-term source of funds to us. In addition, the borrowings from The Bank of Japan were in conjunction with an overall borrowing program which included private placements in the banking sector and publicly marketed bonds of considerably longer maturity. As you can appreciate, since our loans are typically for 25 years, currently at an interest rate of 7-1/4%, it is important for us to borrow for as long a

term as possible though, of course, as noted above, we are prepared to be most flexible in providing for an amortization of the borrowing considerably before final maturity.

As you can appreciate, liquidity considerations may be of considerable importance for certain types of lenders. For this reason, certain lenders request negotiable instruments or obligations that provide for an exchange of notes for other denominations in the event of a sale to third parties. You may observe that, in the borrowing from the Central Bank of Libya, they requested bearer bonds which could be sold at any time in any partial amount. This poses no problem for us; nor is there any difficulty in providing for transferability of the evidence of the indebtedness should the lender so desire.

One operation which was simple and flexible in its application was the line of credit offered by The Bank of Japan in recent years. A line of credit was opened and then, within a framework of a loan agreement, drawings were made, from time to time, under the credit. These drawings are documented by simple notes. The advantage for the lender is the fact that the total amount of funds covered by the line of credit does not have to be mobilized at once and the repayments are made on a staggered basis depending on the timing of the drawdowns of the credit. We are, therefore, prepared to take down funds over a period of time, either through a line of credit or "tranches", and to make repayments (whether or not the funds are made available to us at one time or over a period) over a fairly extensive time period. This permits the lender to receive a stream of both interest and principal payments over a period in which it can utilize the reflow of resources to it. We have also attached an example of a straight loan from The Bank of Japan.

The documents pertaining to the Loan from the Bank of Montreal in Canadian dollars and from three Dutch banks (Algemene Bank Nederland N.V., the Amsterdam-Rotterdam Bank N.V. and Bank Mees en Hope N.V.) in Dutch guilders are examples of World Bank loans from commercial banks. The documentation is quite simple and the evidence of indebtedness is a promissory note to pay the designated interest rate and principal on specified dates. As you may observe, these loans are tailored so that principal repayments are made at varying dates in the future.

We also have included the documentation relating to a recent borrowing in Kuwait. These are relatively long-term issues in which bonds are issued as evidence of the indebtedness and are accompanied by a rather detailed purchase agreement. In this instance although bonds are issued, they are placed with relatively few institutional and quasi public institutions.

We would prefer, if feasible, the type of a loan agreement as negotiated with the Austrian Government. It is a simple form of operation, can easily be adapted to the specific wishes of lender (e.g. government or its instrumentalities or a Central Bank) and borrower, and is least affected by formal legal requirements.

As you can appreciate, the format of our borrowings and the nature and extent of the documentation varies considerably depending on the preferences of the lender. We do not contemplate any problems in accommodating ourselves to the requirements of the Iranian authorities. The actual terms and conditions of any borrowing, i.e. interest rate, price, maturity, currency, etc. would be a matter for discussion between the Bank and the Iranian authorities and we are confident that, should the Iranian authorities be prepared to make resources available to us, a mutually satisfactory agreement on specific terms and conditions can be arrived at fairly readily.

Attachments

cc and cleared with Mr. Aldewereld

EHRotberg:emk

OFFICE MEMORANDUM

TO: Mr. John Townsend

DATE: February 14, 1974

FROM: Eugene H. Rotberg *ew*

SUBJECT:

In accordance with our discussion yesterday, which I found most interesting and useful, I am enclosing three sets of documents pertaining to World Bank loans from the government of Austria, the Bank of Japan, and three Dutch banks: Algemene Bank Nederland N.V., Amsterdam-Rotterdam Bank N.V., and Bank Mees en Hope N.V.

These are very simple and straightforward loan agreements, and I am sure that we can readily draft a similar type document for a borrowing from the government of Oman.

I would suggest, if it is agreeable to your authorities, that you telex or cable us a proposal incorporating the points which we discussed yesterday, and setting forth the specific terms and conditions which you think would be fair and appropriate. We would in turn respond to you and would prepare the documentation here in Washington and, if desirable or preferable to your authorities, send one or two representatives to Oman to finalize any agreement.

Thank you very much for your courtesy and cooperation.

Attachments

EHRotberg:bjg

Chros



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



February 14, 1974

Mr. Leon T. Nelson
Executive Assistant
Public Services
Federal Reserve Bank
of Boston
Boston, Massachusetts 02106

Dear Mr. Nelson:

As requested on the telephone today,
I am enclosing herewith a biographical sketch
of Mr. Rotberg which you may wish to use in
connection with the luncheon seminar on
Wednesday, March 27.

Sincerely,

Edith Kesterton

Secretary to
Mr. Rotberg

Encl.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U. S. A.



February 13, 1974

Mr. Fred Siesel
Weeden & Co., Inc.
25 Broad Street
New York, New York 10004

Dear Fred:

I have just returned from Japan, and I am delighted to have received the materials you sent for my law class. The "word" has already been distributed to the law students, and slowly but surely the Gospel is being spread out among God's little children. You realize, of course, that these materials and those you sent last year are forming the basis for dozens of lawsuits brought by fledgling young lawyers who are seeking their way to find salvation and a prosperous way into heaven.

Thank you all and best regards to the Weedens.

Sincerely,


Gene

Chrom



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



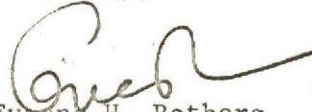
February 12, 1974

Mr. Charles A. Coombs
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, N.Y. 10045

Dear Mr. Coombs:

I am enclosing herewith for your information Document No. R74-19 issued in connection with our proposed borrowing from the Deutsche Bundesbank, which has been approved by our Board of Executive Directors.

Sincerely,


Eugene H. Rotberg
Treasurer

Encl.

10822 Childs Court
Silver Spring, Md.
20901 U.S.A.

February 11, 1974

Dear Ika, Haim, Dalia, Tamar and last (but certainly not least!) Sigal:

It occurred to me with great embarrassment that neither Iris nor I had written to you about the arrival of the new baby. These things are most important to us and I am afraid that we haven't told you how delighted we were hearing about the birth of your new daughter, Sigal, and expressing our happiness about the wonderful event. As you know, from time to time we hear from either Moshe Meirav or someone else coming through Washington about how you all are. Needless to say, we were most happy that you are well after the Yom Kippur war. Washington continues in a state of depression, partly induced by Watergate and partially caused by the failure of the Government to come up with any new initiatives in the fields of social legislation. Nor is the failure to develop a long-term energy program helping the mood of the city.

As you may know, the Bank's soft-loan window, IDA, received a severe setback when the House of Representatives voted overwhelmingly against replenishment of the next three years' funding. There is a disenchantment with "aid" in general; a feeling that the Arab States should supply the resources needed, etc. etc. Of more significance than these temporary phenomena is the fact that the dollar flows to oil-producing states is astronomical and the cost to developing countries, as well as developed countries, is extraordinary. The so-called rich countries of the World seem to be falling all over each other trying to make plant and equipment expenditures in the Middle East to pay for their oil. The political and social implications are incalculable.

I will certainly let you know when I, or Iris and I, can visit Israel. Clearly, if the World Bank borrows in Iran, or perhaps even in Kuwait, I will make a visit.

The children are doing beautifully, generally oblivious (as are most children) to some of the problems in the world today. Iris and I have been going to the opera and ballet a lot recently. The theater becomes tiresome as there is little that playwrights have to say that we find stimulating. Iris' work is just so-so, as most Government agencies don't have their heart in producing much social reform, even in such non-controversial fields as education.

What do you think of the compromise on the Egyptian front? First, will it last? Secondly, does it make sense for the Arabs and for Israel? Third, how much leverage does Israel have in achieving fairly stable peace?

Let us know about the children and please do not be as delinquent in writing to us as we have been to you.



P.S. If this letter sounds like I am depressed about the state of the world and if it sounds like I am not getting compensating pleasure from the opera and ballet, you are right. But I suspect, and I am sure you know that the problems here are mostly intellectual ones since our lives are far too comfortable and there are few, if any, real and practical dangers facing the U.S.

Chrm



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



February 11, 1974

Dear Irv:

Thank you for your letter concerning your nephew, Jeffrey. I have already spoken and written to ex-colleagues about Jeffrey and have sent over his resume. You might tell Jeffrey that, before he talks to Personnel, he should visit with Mr. Sheldon Rappaport, Associate Director, Division of Market Regulation, and Mr. Alan Levenson, Director, Division of Corporation Finance. Unfortunately, I cannot be too optimistic since the SEC is under severe budgetary restraints and there are very few, if any, vacancies available. In addition, as you may know, there are a great number of applications from very bright young lawyers who are seeking employment with the Federal Government. Nonetheless, I think that Jeffrey will receive a courteous welcome and I hope that a position might be forthcoming.

My best to the children and Dot and I wish all of you a happy and pleasant New Year.

Sincerely,


Eugene H. Rotberg

Mr. Irwin Silow
Seacoast Towers West
5600 Collins Avenue
Miami Beach, Florida 33140



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



February 11, 1974

Dear Shel:

As per our discussion.

If Jeffrey Silow visits with you and
if you have time please spend some time with
him and see that he sees the right people.

I have also been in touch with Alan Levenson.

Best regards.

Sincerely,


Gene

Mr. Sheldon Rappaport
Associate Director
Division of Marketing Regulation
Securities and Exchange Commission
Washington, D.C. 20549



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



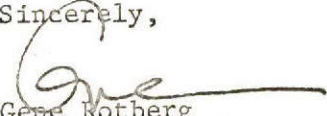
February 11, 1974

Dear Alan:

Attached is a resume of the nephew of an old friend of mine. Since he is coming into the SEC on February 18, I have taken the liberty of suggesting that he call on you. If you or any of your colleagues have time, it would be appreciated if you would talk to Mr. Silow. I know that there are very few, if any, openings at the Commission but I did promise Jeffrey's uncle that I would forward his application to my old colleagues at the Commission.

Kindest regards.

Sincerely,


Gene Rotberg

Mr. Alan Levenson
Director, Division of Corporation Finance
Securities and Exchange Commission
Washington, D.C. 20549



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



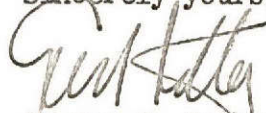
February 11, 1974

Mr. Leon T. Nelson
Executive Assistant
Public Services
Federal Reserve Bank
of Boston
Boston, Massachusetts 02106

Dear Mr. Nelson:

It was most kind of you to invite me to speak at your luncheon seminar on Wednesday, March 27. I will be most pleased to address the group and look forward to meeting you and your colleagues. If there is any further information that you require, please do not hesitate to write to me.

Sincerely yours,


Eugene H. Rothberg
Treasurer

bcc: Mr. Maddux

OUTGOING WIRE

TO: MR. EVERETT J. SANTOS
3388 AVENIDA ATLANTICA 1001
COPACABANA, RIO DE JANEIRO GB

DATE: FEBRUARY 4, 1974

CLASS OF LTR
SERVICE:

COUNTRY: (BRAZIL)

TEXT:
Cable No.:

MR. ROTBERG IS PRESENTLY OUT OF THE COUNTRY AND WILL RETURN
EVENING OF FEBRUARY 8 STOP PLEASE CONTACT HIM UPON YOUR
ARRIVAL IN WASHINGTON BEST REGARDS

EDITH KESTERTON
SECRETARY TO MR. ROTBERG

"Kessie"

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME HANS C. HITTMAIR

TREASURER'S



SIGNATURE
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EMK/

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

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Checked for Dispatch

OUTGOING WIRE

TO: MR. EVERETT J. SANTOS
3388 AVENIDA ATLANTICA 1001
COPACABANA, RIO DE JANEIRO GB

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ARRIVAL IN WASHINGTON BEST REGARDS

EDITH KESTERTON
SECRETARY TO MR. ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME HANS C. HITTMAN

DEPT TREASURER'S

SIGNATURE
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EMK/

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For Use By Communications Section

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch

OUTGOING WIRE

TO: ROTHSCHILD
LONDON EC4

DATE: FEBRUARY 4, 1974

CLASS OF SERVICE: TELEX

COUNTRY: (ENGLAND)

TEXT:
Cable No.:

FOR SECRETARY TO MR. RODNEY LEACH
REURTELEX FEBRUARY 4 WORLD BANK GROUP AND IMF ANNUAL MEETINGS
WILL BE HELD AT SHERATON PARK HOTEL IN WASHINGTON SEPTEMBER 30
TO OCTOBER 4, 1974 REGARDS

XXXX KESTERTON
SECRETARY TO
MR. ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME H. C. HITTMER

DEPT. TREASURER'S

SIGNATURE 
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EMK/

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

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Checked for Dispatch: _____

Chen



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



February 1, 1974

Mr. Koshi Suzuki
Manager
International Finance Department
The Industrial Bank of Japan, Ltd.
Yaesu, Tokyo, Japan

Dear Mr. Suzuki:

In the absence of Mr. Rotberg, who is presently out of the country, I wish to acknowledge receipt of and thank you for sending your latest report on the Japanese Bond Market. I will bring this report to Mr. Rotberg's attention upon his return to the Bank.

Sincerely,

Robert Rotberg

Secretary to
Mr. Rotberg

Chron

10822 Childs Court
Silver Spring, Maryland
U.S.A. - 20901
1-28-74

PAA YA PAA ART GALLERY
Sailer House, Koingange Street
P.O. Box 49646
Nairobi, Kenya, East Africa

Gentlemen:

At the time of the World Bank Annual Meeting, my wife and I ordered from you a large batik which was hanging in the City Hall. As you may recall, it was prepaid (\$85.00) and you promised to make a copy of the batik and send it to us. You advised us that it should be delivered to us within about four weeks. It has now been four months and we have not received the batik, nor have we heard from you. I would appreciate your advising us the status of this matter.

Sincerely,

Eugene H. Rotberg
Eugene H. Rotberg



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



January 28, 1974

Dear Amy,

We all look forward to seeing you in early April. I hope the letter helps.

*Love
Gus*



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



January 28, 1974

Benevolent and Protective
Order of Elks

Gentlemen:

This letter is to recommend to you Miss Amy Goldfarb, who is applying for a scholarship from the Elks National Foundation. I have known Amy Goldfarb since her birth and can wholeheartedly and with great pleasure assure you that she is a young lady of the highest ethical character. I have no doubt that in years to come she will be a great asset to our community, both by reason of her demeanor and her competence.

I know that you must receive many recommendations as to fitness of character and worthiness of applicants who seek scholarships, and I also realize that it must be difficult for you to determine from a letter the strength of convictions of those who make recommendations. I can only simply say in a very straightforward manner that Amy Goldfarb will do great credit to our society and that she possesses those qualities which make for a very decent human being.

Very truly yours,

Eugene H. Rotberg
Eugene H. Rotberg
Treasurer



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

January 25, 1974

Mr. E.A. Lieftrinck
Deputy Treasurer General
Ministry of Finance
Kneuterdijk, 22
The Hague, The Netherlands

Dear Mr. Lieftrinck:

Thank you very much for your letter of January 8 concerning suggestions for a work programme for 1974/75. I do have some thoughts which you might wish to consider in developing our future programme.

I think it would be useful if a study were made and a descriptive paper written by an ad hoc Subcommittee which would describe the technical workings of the Eurodollar and Eurocredit market. I would envision that the paper might address itself, briefly and initially, to the historical conditions which prompted the development and growth of these markets.

The study might describe how the market actually works, i.e. (a) how deposit liabilities are created; (b) who in fact create the deposits; (c) where and to whom are the deposits relent; and (d) in what kind of instruments are the deposits, in fact, ultimately invested. I would envision, in this connection, a technical description of the links between the commercial banking system in the United States and the Eurodollar market.

The study might also address itself to the process by which these Eurodollar deposits (or other resources) denominated in dollars have become the base for the expansion of the Eurocredit market - the so-called international medium-term market. Recent developments make it apparent that many private and public entities will be financing their requirements by borrowing in a "market" which has as its base short-term dollar-denominated deposits. This "market" which, in effect, is intermediate-term in name only (since the interest rates usually are reset every six months) far exceeds in size the capital markets developed in most domestic markets throughout Europe.

The study might describe the effect of increased Eurodollar deposits on the interest rate structure in various currencies throughout Europe and also in the United States. This subject, too, I believe is within the jurisdiction of your Committee since changes in short-term rates in the Eurodollar market, for whatever reason, affect the way, the place and the currency in which governments and other entities borrow in the capital markets. In this connection, it is not unreasonable to assume that many governments faced with a cost of borrowing in

excess of 10% (and sometimes well in excess of that rate) may borrow, on a floating rate basis, dollars through the facility of a Eurocredit syndicate if, at the time of the transaction, the short-term Eurodollar interest rate carries a lower cost.

I would expect that the study could also address itself to analyzing the impact of the creation of dollar-deposit liabilities arising from large inflows of funds from oil-producing states. Will substantial funds be invested in short-term dollar deposits in Europe or for longer term, and how will such development affect the willingness of banks to lend for longer maturities on a fixed-rate basis? Further, the impact on the foreign exchange reserves of different countries might be explored under different types of scenarios, i.e. to what extent are the flows "circular", in what currencies are the flows circular, and what is the relevance of the potential reserve changes on access to domestic markets by non-residents.

The Committee on Financial Markets need not draw any value judgments on the above but I think that the international community will be well served by a thoughtful, descriptive paper which simply describes the matters set forth above.

It is my belief that the knowledge of the operations of the matters I have described above does not rest exclusively either in the hands of governments or the private sector. There are certain aspects of the market where technical expertise resides with the banking community. Other aspects are within the purview of Central Banks or Ministries of Finance. Therefore, I would recommend that a task force made up of representatives of both government and the private sector be established with its members chosen according to their knowledge and expertise of the matters set forth above. While I appreciate that some of the matters referred to above have been described by various market observers, I think that a systematic study, using representatives of various countries, might be most productive - particularly if written in an environment of potential large inflows of resources from oil-exporting states.

I would think that we would need, at the least, a good monetary economist who is familiar with the circularity of the dollar flows, a specialist from a commercial bank familiar with the nature of the deposits made in the Eurodollar market, a "statistical" expert familiar with the reporting systems which quantify the size of the market, etc. Obviously, the expertise of the Secretariat would be invaluable.

As you know, there has been much talk in the last several years about "regulating" the Eurodollar and Eurocredit market. I would think that, as a very first step, all of us would be well served if we had a better idea as to how that market actually operates. I am afraid that many of us are using terms to describe a market which masks what actually

Mr. E.A. Lieftrinck

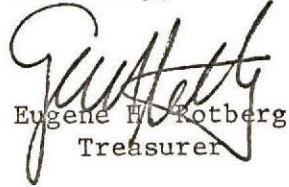
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is happening and which does little to clarify the operational impact of various developments in that market.

I look forward to seeing you in early March. My kindest regards.

Sincerely,



Eugene H. Rotberg
Treasurer

cc: Mr. Raymond Bertrand
Director, Financial and
Fiscal Affairs
Chateau de la Muette
2, rue Andre Pascal
Paris 16, France

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Mr. S. Aldewereld

FROM: Eugene H. Rotberg

SUBJECT: Portfolio Statement: December 31, 1973

DATE: January 22, 1974

Attached is the statement of portfolio yields as of December 31, 1973. The book yield on the portfolio is 7.64%. Yield levels in the U.S. have declined from their mid-August peaks, particularly in the intermediate-term market, as shown below:

Selected Yields in the U.S. Market

	<u>8/8/73</u>	<u>1/21/74</u>
	<u>%</u>	
3-month Treasury Bill	9.29	8.06
6-month Certificate of Deposit	11.00	8.50
1-year Certificate of Deposit	10.12	8.25
2-year Agency	8.81	7.20
5-year Agency	8.43	7.20

Expressed as a rate of return, a decline of 123 basis points in the five-year market is equivalent to a decline of 700 basis points in a one-year CD over the period August 8 to December 31. The relative shifts in yields for different maturities at three different time periods (December 1972, August 1973, January 1974) are shown in Chart I following this memorandum.

During the first six months of FY74, we shifted our investments from relatively short maturities and increased our holdings of 4 to 5-year bonds at the 7.30%-7.40% level. In August substantial portions of the CD and agency portfolios were extended. We continued purchasing in the intermediate-term market in September, October and November. Currently, we do not believe that intermediate-term agency yields are attractive for investment at 7.20%, as compared to alternative investments -- given our projections over the next six months. Specifically, it is our expectation that intermediate-term investments carry more risk with a lesser opportunity for gain than short-term investments for the reasons set forth below:

First, loan demand at commercial banks has begun to weaken. We anticipate it will weaken further this month and the next as the economy slips into a moderate "recession." Second, demand in the commercial paper market should also decline in response to the decline in retail sales for cars and other durable goods. Third, housing starts will continue to decline for the next several months. Fourth, there will be net repayments

Mr. Robert S. McNamara
Mr. S. Aldewereld

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January 22, 1974

by the Treasury and U.S. Agencies during the first half of 1974. Fifth, unemployment is likely to increase. In response to these factors we assume the Federal Reserve will expand credit to moderate a potential recession.

On the other hand, there are three factors which point toward continued high yield levels which may affect the five-year market. First, inflation in 1974 could be as high as 8-9%. Second, the Federal Reserve may restate its money supply statistics to show a higher growth rate for 1974 than was earlier reported. This could relieve pressure on the Federal Reserve to provide further credit. Third, with continued strength of the dollar vis-a-vis other currencies, there should be a gradual sell-off of a significant amount of the \$52 billion of U.S. Treasury securities held by central banks. These sales can have an adverse impact on short and intermediate-term yields. In summary, we anticipate an interest rate decline but recognize that there is a significant risk that it will not occur.

Based upon the above evaluation, our present view is to purchase CD's and Treasury Bills in the one-year maturity range. This maturity range offers the combination of a good benefit from any rate decline in the short term market and a fairly low level of risk from rate increases. We will continue to hold the four-to-five year Agencies purchased in the Fall, but do not expect to increase our holdings at current interest rate levels.

. . .

Disbursements are currently running at about \$150 million a month. We have disbursed most of our low-yielding currencies and we are about at the point where we will have to disburse dollars. Our holdings in Deutsche mark are needed for debt servicing in the near future and, although we still hold substantial Yen, I expect that the Japanese will permit us to invest in high-yielding 3-4 year maturities. Currently, Swiss francs, Guilders, French francs, Sterling, etc. are yielding over 9% for investments of one year. As a result, the average book yield on our portfolio should continue to increase since marginal investments are currently being made at higher rates than maturing investments. However, that situation will level off when we again make longer term investments.

. . .

From time to time, the Bank has considered borrowing in the Eurodollar market or in the medium-term Euro-Credit market, with the interest rate reset periodically according to the London Three-month Eurodollar rate. I understand that some thought is being given to the feasibility of borrowing from Oil exporting States with the interest rate fluctuating according to "short term" rates.

Mr. Robert S. McNamara
Mr. S. Aldewereld

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January 22, 1974

Of interest are Charts II and III following this memorandum which show, for the last five years, the 3-month Eurodollar rate as compared to the U.S. Treasury Bill rate, and the interest rate for U.S. corporate commercial paper (Chart II), and the 3-month Eurodollar rate as compared to a 3-month domestic U.S. Certificate of Deposit and the U.S. Prime Rate (Chart III). The Eurodollar market is among the most expensive of "short" instruments as it does not decline below the rate offered by U.S. Banks for three-month deposits; on the other hand, there is no ceiling as it fluctuates upward with the weakness of the dollar in foreign exchange markets, tightness of money in Europe, cost of overnight money in New York, etc.

Attachments

EHRotberg:emk

Chen

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

FROM: Eugene H. Rotberg *ER*

SUBJECT: Rollover of DM 322 Million - Deutsche Bundesbank

DATE: January 21, 1974

Dr. Tuengeler, of the Deutsche Bundesbank, called on Friday, January 18, concerning the DM 322 Million maturing on February 1. He advised me that, after considering the matter with his colleagues, it would be somewhat difficult at this time to renew the borrowing in dollars but that they were prepared, as he had previously indicated, to roll over the borrowing in Deutsche mark. He proposed that the new borrowing mature in two tranches in February and August 1978. He stated that rates in Germany were about 9-1/4% for four - five year Government obligations but that there was some possibility that they might be lower in the future. He noted that the U.S. dollar Government-quality obligations were yielding about 7-1/4%. Dr. Tuengeler observed that in the past we had struck a balance somewhere between the dollar interest rate and the Deutsche mark interest rate, with a tendency to be closer to the Deutsche mark interest rate in determining the rate for renewing our DM borrowings from the Bundesbank. He stated, however, that, in view of the continued high rates of interest in Germany and the fact that our Board of Executive Directors had raised some questions about the rate on the last occasion (which was 8-3/4%), he was prepared to strike a balance closer to the dollar interest rate. He asked whether I could recommend an interest rate of 8%.

I told Dr. Tuengeler that the rate was highly concessionary to us; that we very much appreciated the substantial concession from prevailing interest rates in Germany; and that they had made us an extremely good offer and we would so advise our Board of Executive Directors.

. . .

The transaction is a good one:

- (1) The interest rate is highly concessionary as noted above;
- (2) It is a greater concession from prevailing market rates in Germany than our previous borrowings;
- (3) The interest rate is lower than we projected it would be based on prevailing market conditions; we had assumed a higher rate (8-1/2%) in our borrowing projections for this particular roll over;

- (4) Inasmuch as these resources are, in effect, long-term funds, we are borrowing resources at an interest rate which is currently below the cost of long-term resources in either Germany or the United States--or anywhere else other than Switzerland; and
- (5) We can expect that our next rollover from The Bank of Japan will be at a rate of about 8.35% for 6-1/2 years. The only less expensive resources for intermediate maturities is in the United States where the cost to us would be about 7.55% - 7.60%.

Recently the Bundesbank has permitted us to invest a portion of our liquid resources in six-month 8.35% government obligations, with an expectation that our liquid investments will be renewed at prevailing market rates.

cc: Mr. McNamara

EHRotberg:emk

Chen

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

DATE: January 21, 1974

FROM: E. H. Rotberg *ER*

SUBJECT: Meetings in New York: Morgan Stanley and First Boston; Salomon Brothers

Meeting with Morgan Stanley and First Boston

Mr. Aldewereld described generally the five-year lending and borrowing program of the Bank, with particular emphasis on our borrowing requirements for the next 18 months. Based on those requirements, we contemplated borrowing approximately \$800 million in the U. S. market, after considering the availability and probable cost of resources outside the United States. Notionally, we assumed that this would take the form of one bond issue of about \$225 million in FY 1974 and the balance in FY 1975.

Morgan Stanley advised us that, jointly with First Boston, they would recommend that we do a long-term bond issue in FY 1974. They pointed out we had not been in a long-term U. S. market for some time and that, on signs of strength, we should be prepared to market an issue. They had no strong views as to whether the long-term market would be more or less costly in, say, May or June as compared to the present time. Morgan Stanley said that they were reluctant to advise their clients as to interest rate prospects for the future as they did not wish to be in the position of having missed the market. They did express the view, however, that they expected the market to be in a "trading" range, i.e., they did not expect any substantial upward or downward shift over the next several months. They noted that there was about a 50 basis point spread between the long- and medium-term market and that, on the basis of that spread, they would prefer to do a long-term issue, particularly in view of the prospects for high rates of inflation.

There was some discussion about whether short-term rates would decline in the next few months, the impact of that development, should it occur, on the long-term market, the "upside" risk over the next several months, the extent and implications of investments by oil producing countries in the \$ U.S. short-term market, etc. The discussion was inconclusive on these points, and in any event, involved factors which were not considered relevant by Morgan Stanley and First Boston in making their recommendation.

They would recommend doing a \$200 million issue and the balance of our requirements in, say, three issues in FY 1975.

Salomon Brothers

After explaining our financial program to Henry Kaufmann of Salomon Brothers, he made the following comments: First he expected interest rates to decline in the U. S. over the next three to four months-- particularly in the medium-term market, thereby widening the spread between the medium and long market. He ascribed this to a fall-off in retail demand, fewer car sales, substantially lower housing starts, less government

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and agency financing, etc. However, because of the increased cost of energy, the recessionary trends would be accompanied by high prices, therefore making interest rate predictions difficult. Nonetheless, he believed the economy would slow down and in response thereto Federal Reserve Board actions would be expansionary and money would be more available in the short and medium-term market. Long-term rates, however, were likely to remain between 8 and 8-1/2% in response to inflationary pressures. Further, he expected the decline in medium and short rates to be temporary. After the oil embargo is lifted, he projected that the U. S. economy would be buoyant, and the Fed would take a more restrictive posture. He said we could envision 9% long-term rates by December, with the five-year market possibly as high as 8-3/4%.

Therefore, he recommended that we do a "good portion" of our \$800 million program this fiscal year (if possible by "borrowing" our authorization for FY 1975 a few months ahead into FY 1974). Specifically, he suggested that as the medium-term rates fall, which might produce some slight decline in the long-term market, we do a combination long and medium issue of, say, \$300 million plus ? in the U. S. market in March or April. That would leave us a U. S. borrowing program of only \$500 million for the remaining 15 months, which would give us considerable flexibility as to timing. Further, the \$500 million balance could be done by only two issues in FY 1975 (rather than three as contemplated by Morgan Stanley and First Boston). Kaufmann's time horizon at this point is about 11 months, but he feels that in calendar year 1975 we might have further opportunities after rates peak at the end of calendar 1974. Fundamentally, he is pessimistic about rates in the last six months of the calendar year 1974, but believes there will be some good opportunities in the relatively near future.

EHRotberg:bjg

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OFFICE MEMORANDUM

TO: Mr. Taro Hori

FROM: Eugene H. Rotberg *EHR*

SUBJECT: Forthcoming Visit to Japan

DATE: January 16, 1974

This is to inform you that I will be in Japan from January 31 through February 8 to discuss financial matters with the Ministry of Finance and The Bank of Japan.

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

DATE: January 15, 1974

FROM: E. H. Rotberg 

SUBJECT: Foreign Exchange Reserves of Arab Oil Producing Countries

Attached is a brief note concerning the foreign exchange reserves of four Arab oil producing countries. These reserves, as we know, are relatively small in the context of their expected increased foreign exchange reserves. The important point made in the memorandum is the very high proportion of their assets which are in the short-term market either as (a) deposits with U. S. commercial banks; (b) deposits in the London Euro dollar market; (c) deposits in the London sterling market. I am personally convinced that the expansion of the medium-term Euro currency credits (which carry "floating" interest rates reset every six months to conform to the short-term Euro dollar rate) is, in part, the result of inflows from oil producing states. One of the reasons why there has not developed a viable long-term Euro dollar bond market with fixed interest rates, as distinguished from the floating rate Euro Credit, is because the investment managers in oil producing states recognize the wisdom from both a financial and political point of view of staying "short."

Short-term investments at 10% yields provide a reasonable hedge against inflation, as well as a vehicle which moves sympathetically with currency changes. As we have seen, short-term interest rates in dollars fluctuate very much in line with the strength or weakness of the dollar in foreign exchange markets. It also offers the flexibility of liquidity. Finally, as long as the Federal Reserve system maintains a tight monetary policy, then the short-term Euro dollar rate cannot drop, since it is linked to the U. S. prime rate and the Federal Funds rate--the rate at which U. S. banks borrow from each other.

The amount that we need to borrow from oil producing Arab states in the context of their expected increase in resources is minimal. Therefore, we should point out to them that a portion of their assets should be long-term because (a) as inflation is controlled or as yields for short-term investments decline in the United States in response to recessionary pressures, the rate of return on their investments will be higher if they held a long-term instrument; (b) diversification of their investments is prudent based upon historic norms for short-term rates; (c) total commitment to a short-term market is as unwise for investors as it would be for borrowers; (d) massive infusions into the short-term market will inevitably drive down the interest rates.

In order to remove their concern about the weakness of the dollar, we could borrow dollars and agree to repay an amount of dollars which varies according to a mix of exchange rates of designated European currencies

vis-a-vis the dollar at the option of the lender. We lose little by this since we have been willing to borrow the strongest currencies at any given time if the interest rate were low enough. It would seem safer to borrow dollars linked to other currencies, if oil producing states would prefer it, rather than to borrow the Dinars, Rials, directly where the exchange risk would be very great to our borrowers and where the market value of their currency vis-a-vis other currencies is not established in a market place but is quite arbitrary.

We should not concern ourselves at this point whether the oil producing states are going to have \$25 billion in 1975 or \$50 billion to invest. The magnitudes are so large in the context of the Bank's requirements that we should sit around a table and talk to them about what they want and what we can offer. I am personally convinced that most of the leaders in these oil producing Arab states will make some financial decisions, perhaps most, for political reasons, but the magnitude of the flows require that they use very sophisticated financial advisors. See attached memoranda. I don't think it is now meaningful to spell out in detail the different kinds of potentially attractive investment vehicles for them which the Bank might find satisfactory. Rather, I think it is preferable to talk to their investment advisors and see the parameters of the constraints that they are working under, what are their concerns, preferences, etc. I assume, of course, that the appropriate relationships between the Heads of State and the Bank have been developed and there is, at the least, no objection as a matter of principle, to our obtaining resources from them.

Attachments

EHRotberg:bjg

OFFICE MEMORANDUM

TO: Messrs. Eugene H. Rotberg & Hans C. Hittmair

DATE: January 14, 1974

FROM: Yoon S. Park *YSP*

SUBJECT: Management of Arab Oil Revenues

How do the Arabs invest and manage their huge oil revenues? Which foreign banks advise them in their investment management? While secrecy enshrouds management of the Arab Government and private funds, this memo is intended to piece together whatever information that has been published regarding this question in order to shed some light on how the Arabs manage their wealth.

In general, London merchant and clearing banks have played a leading part in the management of Arab oil revenues. London bankers are quite frequently retained as investment advisers to Middle Eastern Governments, and they guide the governments on their portfolio investment throughout the world, using the expertise for which London is famous. In Kuwait, there are five Kuwaiti commercial banks -- National, Commercial, Gulf, Alahli and the Bank of Kuwait and the Middle East (BKME). Many of these banks still use the London banks which provided their original management (Midland for National, Barclays for Gulf, and Lloyds for Commercial) as their major correspondents. All Kuwaiti commercial banks except BKME have also joined the Kuwait Investment Company and the Kuwait Foreign Trading Contracting and Investment Company in establishing their London subsidiary, called the United Bank of Kuwait. In 1971, the British Bank of the Middle East (BBME) turned over its Kuwaiti assets to local Kuwaiti investors, who then formed the Bank of Kuwait and the Middle East (BKME). But BBME retains a valuable connection through a management contract with BKME, as BBME and Chartered do also in Iran through minority shareholdings in the Iranian Bank of the Middle East and the Irano-British Bank, respectively.

Most of Abu Dhabi's long-term reserves (about \$150 million) is managed by an investment board under Sir John Hogg of William Glyn & Co. which has headquarters in London. Its dollar portfolio is handled through Morgan Guaranty, and its European investment through the Banque de l'Indochine. In April 1972, Abu Dhabi entered the Japanese equity market acting through Robert Fleming. Nearly all its bond portfolio is managed by the Crown Agents and the Union Bank of Switzerland.

Switzerland has also become a major attraction to the Arab money, especially after the (temporary) demise of Beirut as a banking center following the Intra Bank crash. The traditional virtues of Swiss banking, such as secrecy and conservatism, have proved attractive to Middle Eastern clients. It appears that most of the Middle Eastern money in Switzerland is guarded in trustee accounts of Swiss banks. To take advantage of this

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trend, many Arab-related banks have opened branches in Geneva, such as the Arab Bank Overseas, Ltd., the Banque Commerciale Arabe, the Banque Ottomane (France) S.A., and the BBME. They have to contend, however, with the firmly established reputation of the big three Swiss banks, the Swiss Bank Corporation, the Swiss Credit Bank, and the Union Bank of Switzerland. According to reliable sources, the Big Three have cornered probably more than 50% of the gold trade with the Middle East and have clearly overtaken London in this field. The Arab clients generally prefer Geneva to Zurich, by far the larger financial center, perhaps because many Arabs can handle French more easily than German which is used in Zurich.

Big U.S. banks also maintain close ties with the Arabs. Most Saudi oil revenues are first paid into accounts with Morgan Guaranty and Chase Manhattan. They are then placed through a number of banks and brokers into short-term holdings other than equities. Morgan Guaranty has an adviser on the staff of the Saudi Arabian Monetary Agency and there is some speculation that Morgan Guaranty also manages part of the Saudi reserves.

OFFICE MEMORANDUM

TO: Messrs. Eugene H. Rotberg and Hans C. Hittmair DATE: January 11, 1974

FROM: Yoon S. Park *YSP*

SUBJECT: Composition of Foreign Assets of Arab Oil
Producing Countries

As of November 1973, the total foreign assets of four Arab oil-producing countries amounted to about \$8,848 million, as following:

	<u>Saudi Arabia</u>	<u>Kuwait</u>	<u>Libya</u>	<u>Iraq</u>	<u>Total</u>
	(in millions of dollars)				
Foreign Exchange held by the central bank	3,535	441 ^{/1}	2,013	1,020	7,009
Foreign Assets held by commercial banks	261 ^{/2}	1,439 ^{/3}	52 ^{/4}	87 ^{/5}	1,839
TOTAL	3,796	1,880	2,065	1,107	8,848

The above figures are from the latest (January 1974) issue of the International Financial Statistics, published monthly by the IMF. However, the IMF does not receive from Arab countries the breakdown of their foreign asset portfolios. Those figures are said to be one of the more jealously guarded secrets of the Arab countries. Nevertheless, the above data shed some interesting light on their foreign asset composition. Saudi Arabia, Libya and Iraq are keeping the bulk of their foreign assets in the form of foreign exchange held by central banks, while Kuwait is holding more than 3/4 of her foreign assets in the form of foreign assets held by Kuwaiti commercial banks. Thus, a potential foreign borrower should approach the commercial banks in Kuwait, while he would find more money in central banks in the case of Saudi Arabia, Lybia and Iraq.

Even though the Arab countries themselves do not reveal how they are investing their foreign asset holdings, we can indirectly learn a rough estimate of their foreign asset composition. The U.S. Treasury Bulletin has a table on short-term liabilities to foreigners reported by banks in the United States. As of April 1973, U.S. banks had short-term liabilities of about \$700 million to six Arab oil-producing countries, as following:

-
- ^{/1} As of October 1973.
 - ^{/2} As of June 1973.
 - ^{/3} As of March 1973
 - ^{/4} As of August 1973.
 - ^{/5} As of August 1973.

	(in millions of dollars)	
	<u>Dec. 1972</u>	<u>April 1973</u>
Bahrain	24	n.a.
Iraq	10	n.a.
Kuwait	39	36
Libya	393	n.a.
Quatar	2	3
Saudi Arabia	<u>344</u>	<u>236</u>
Total	812	702*

* When the figures are not available for April 1973, the December 1972 figures are used in estimating the total of April 1973.

Deposit of \$700 million with U.S. banks out of their \$9 billion or so total foreign assets is only a small amount. In contrast, according to the latest Bank of England Quarterly Bulletin (December 1973), the Middle East countries were investing an equivalent of \$3,812 million in the London Euro-currency market as of September 1973, \$2,919 million of them in the form of Eurodollars and the rest in other Euro-currencies such as Euro-DM and Euro-Swiss francs. Furthermore, banks in London also had an equivalent of \$1,523 million in sterling liabilities to Middle East countries as of September 1973. We may assume that most of this Middle East money invested in London came from the Arab oil-producing countries. Thus, we may conclude that about \$5.5 billion out of their total foreign assets of \$9 billion is invested in London, either in the London Euro-currency market (about \$4 billion) or in the local sterling market (about \$1.5 billion). Adding to this their investments of \$700 million with banks in the United States, we now account for about \$6.2 billion out of their total foreign assets of around \$9 billion. Disposition of the remainder, \$2.8 billion, can only be conjectured. They must have invested the amount in the following manner:

- (1) Investments in short-term U.S. Government securities, and short-term deposits with the Federal Reserve banks;
- (2) Investments in short-term U.K. Government securities, and short-term deposits with the Bank of England;
- (3) Investments in other centers of the Euro-currency market, especially in the centers located in Germany and Switzerland; and
- (4) A small investment in the Asia-dollar market in Singapore and Hong-Kong

The \$9 billion total foreign assets of Arab oil-producing countries appear rather modest in amount at this time. However, their annual oil revenues will continue to make a quantum jump in the next several years, as the following table shows us (in millions of dollars):

	<u>1973</u>	<u>1975</u>	<u>1980</u>
Saudi Arabia	4,915	13,150	38,850
Kuwait	2,130	4,930	10,700
Abu Dhabi	1,035	4,130	14,500
Qatar	360	1,010	2,800
Iraq	1,465	4,350	14,250
Libya	<u>2,210</u>	<u>6,150</u>	<u>10,800</u>
TOTAL	12,115	33,720	91,900

According to a recent P & B study on the Middle East capital market, the above five Arab countries (excluding Iraq) will have the following amounts available for foreign investment after satisfying their domestic needs (in millions of dollars):

	<u>1972</u>	<u>1976</u>	<u>1978</u>	<u>1980</u>
New fund available for foreign investment	3,640	28,280	41,550	60,440
Net foreign assets (long-and short-term)	12,600	89,400	165,740	276,800

cc: Mr. R. Deely

OUTGOING WIRE

TO: INTBAFRAD
TOKYO

DATE: JANUARY 14, 1974

CLASS OF
SERVICE: TELEX

COUNTRY: (JAPAN)

TEXT:
Cable No.: 11 FOR SOEJIMA

REUR TELEX 14 AM AGREEABLE TO EXTEND MY STAY UNTIL EVENING FEBRUARY 8.

REGARDS

ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE *Eugene H. Rotberg*
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EHRotberg:emk

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INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL
CORPORATION

OUTGOING WIRE

TO: INTBAFRAD
TOKYO

DATE: JANUARY 11, 1974

CLASS OF
SERVICE: TELEX

COUNTRY: (JAPAN)

TEXT:
Cable No.: 9 FOR SOEJIMA

REUR TELEX 11 MY ARRIVAL DATE IS THURSDAY JANUARY 31. REGARDS.

ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME EUGENE H. ROTBERG

DEPT. TREASURER'S

SIGNATURE *Eugene H. Rotberg*
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: EMK/

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OUTGOING WIRE

TO: KLEINWORT

DATE: January 11, 1974

LONDON

CLASS OF
SERVICE: LT

COUNTRY: ENGLAND

TEXT: ATTENTION: M.J. RUSSELL

Cable No.:

IN ANSWER TO YOUR CABLE OF JANUARY 8 I AM PLEASED TO GIVE YOU THE FOLLOWING INFORMATION STOP YOU SHOULD BEAR IN MIND HOWEVER THAT AS MOST OF OUR OUTSTANDING OBLIGATIONS ARE IN BEARER FORM IT IS NOT POSSIBLE TO HAVE ANY PRECISE RECORD OF ACTUAL HOLDINGS AND THAT THE FOLLOWING ARE ESTIMATES BASED GENERALLY ON INFORMATION REGARDING DISTRIBUTION OBTAINABLE AT THE TIME OF ORIGINAL ISSUE STOP MIDEAST NATIONS HOLDING PART OF OUR BANK'S DEBT ARE ABU DHABI, ALGERIA, BAHRAIN, JORDAN, KUWAIT, IRAN, LEBANON, LIBYAN ARAB REPUBLIC, MOROCCO, OMAN, QATAR, SAUDI ARABIA, TUNISIA AND YEMEN STOP THE DATA IS GIVEN IN MILLIONS OF US\$ AT JUNE 30 OF EACH YEAR STOP WE HAVE USED THE RATES OF EXCHANGE PREVAILING AT EACH RESPECTIVE PERIOD INASMUCH AS SOME ISSUES WERE DENOMINATED IN DOLLARS, OTHERS IN LOCAL CURRENCY STOP

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
FUNDED DEBT	\$4,081.2	4,568.3	5,424.2	6,950.9	8,881.8
MIDEAST NATIONS	127.7	134.7	184.85	353.65	538.81

I TRUST THE ABOVE INFORMATION SHOULD SERVE YOUR PURPOSE

KINDEST REGARDS

ROTBERG

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME Eugene E. Rotberg

DEPT. Treasurer's

SIGNATURE _____
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: HMoya/RDeely/ERotberg:asl

ORIGINAL (File Copy)

(IMPERSONAL - For Circulation Only for preparing letter)

CLEARANCES AND COPY DISTRIBUTION:

cc: Mr. H. Hittmair
Mr. Deely/Sec.Div.Files #8

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OUTGOING WIRE

TO: INTERPANE

DATE: JANUARY 10, 1974

TOKYO

CLASS OF TELEEX
SERVICE:

COUNTRY: (JAPAN)

TEXT:
Cable No.: NO. 7 FOR MR. SOJIMA

EXPECT TO ARRIVE TOKYO THURSDAY JANUARY 21 PAN AM FLIGHT 1 ARRIVING
17:35 HOURS STOP TENTATIVELY CONTEMPLATING LEAVING TOKYO EVENING OF
WEDNESDAY FEBRUARY 6 STOP

ROTBURG

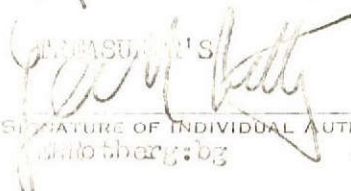
NOT TO BE TRANSMITTED

AUTHORIZED BY:

CLEARANCES AND COPY DISTRIBUTION:

NAME: EUGENE H. ROTBERG

DEPT: FINANCIAL

SIGNATURE: 
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: Rotberg: bz

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OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

FROM: Eugene H. Rotberg *EHR*

SUBJECT: Board Presentation: "Portfolio Management"

DATE: January 9, 1973

Siem:

Attached are dictated notes which cover the subjects I would propose to discuss at the "informal" Board discussion of the management of our liquid assets on January 15. This outline generally corresponds with the presentation last year to the Audit Committee--of course, it will have to be shortened because of time constraints.

May I have your suggestions and comments.

cc: Mr. McNamara
Mr. Damry

1. Describe sources of liquidity, i.e., Capital, Earnings, Borrowings.
2. Describe applicable restrictions concerning conversion of currencies, derived from Earnings, Borrowings, Capital. Bank does not convert for its own account. Therefore, streams of different currencies flow into and out of Bank for various purposes and until used, constitute our liquidity. Examples.
3. Important point to remember is that we borrow, invest, disburse, are repaid interest and principal in same currency. Therefore, certain flows of currencies are predictable. Some inflows which constitute liquidity are predictable: interest income, investment income, capital; others partially so, i.e., some borrowings, currency used to repay principal, others not at all.
4. Bank's cash position as practical matter is constituted by following factors: (a) what currency it has recently borrowed; (b) what currency it has recently been repaid as principal on outstanding loans (currently about \$500,000,000 a year); (c) what currencies are outstanding on loan (currently about 9-1/2 billion dollars equivalent) and at what interest rate; (d) in what currencies has the Bank accumulated earnings and finally, (e) which of these currencies is the Bank (1) currently disbursing on loans or (2) using to service its own debt obligations. Describe accumulation process for our debt servicing obligations and effect on our liquidity management.
5. Fundamental question, therefore, is what in fact are the elements which determine whether a particular currency, once available through borrowings, earnings, or capital, loan repayments, sales from portfolio, etc., will be invested as part of our liquidity or disbursed on loans. Cannot really analyze (a) the investment performance, (b) the return on the portfolio, (c) the cost of carrying liquidity without first being aware of these factors.
6. What are these elements?
 - a. To repeat, no conversion of funds. Therefore, if the Bank has, say, dollars or sterling or yen, it cannot convert into another currency because of higher yields. No yield arbitrage. Nor should there be. It must hold a currency, invest it or disburse on a loan, identify it, and be paid in interest and principal in that same currency by the Bank's borrowers.
 - b. Currencies must be maintained to meet our debt requirements. Explain. Example. Describe necessity to "accumulate" currencies as low yields.
 - c. Currencies, particularly ones in which we have very small holdings, tend to be distributed to the same borrowers for administrative reasons. Example.
 - d. Capital funds are not invested by the Bank and therefore are disbursed as quickly as possible and taken out of our cash position. Describe recall of currency for maintenance of value.

e. "Constraints" imposed by countries from whom we borrow. Explain. Careful.

f. Instruments for investment are also discussed with countries who have given us access to market.

g. Instruments are liquid.

h. Now assume all of these factors have been considered and we have a mix of particular currencies for investment. How are investment decisions made?

7. Use dollars as example of portfolio management.

a. Describe general rules set by Board on investments.

b. Describe two different yield curves.

	<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr.</u>	<u>2 yr.</u>	<u>5 yr.</u>
Ex. A.	5%	6%	7%	8%	9%
Ex. B.	10%	9%	9%	8%	7%

c. Describe effect of alternative investment strategies assuming change in shape of curve 6 months after initial decision on (1) income (2) rate of return. Discuss frequency and sharpness of changes in yields. Discuss concept of "rate of return" re portfolio management.

8. Describe the portfolio management which contemplates that we have four billion dollars to invest each day. Describe the irrelevance of realized capital gains and losses, emphasizing significance in portfolio decision making of ^{long}term financial gain to Bank.

9. Describe the concept of a "break even" analysis on alternative choice of investments. Give examples.

10. Describe a "swap" analysis. Describe trade off between liquidity and basis points.

11. Discuss data bank and use of risk analysis and sensitivity analysis models in portfolio decision making.

12. Detail the decision-making process; identify who actually makes what kind of decisions, nature of supervision, control. Role of Treasurer is to find ways to measure optimum or random performance. Discuss how we measure our performance and the difficulty of measurement. Give examples of different kinds of measurements. Describe review process by Aldewereld. Reports to McNamara and Aldewereld.

13. Note necessity to identify "mistakes"; necessity to "manage," by admitting to mistakes and encouraging from staff best recommendations for long-term benefit of Bank.

14. Describe kind of research done: (a) technical market factors (b) analysis of Federal Reserve actions (c) effect of foreign exchange dealings on U.S. short-term market (d) macro-economic analyses (e) review by us of market analyses by economists, dealers, government officials, etc. (f) weekly, daily meetings. Describe volume of our trading, our significance on market, number of "communications" with market each day.
15. Describe the concept of cost of "liquidity," as used in Bank--i.e., realized income return on average balances vs. average cost of borrowing, time and maturity weighted cf. financial rate of return. Necessity not to overemphasize income derived from short-term investments. Borrowing may be for 10 or 15 years, but the income may be assured for only 2 or 3.
16. Describe the problem of lag. Example: what was our maturity structure at time when Treasury bills were 3% and five-year bonds were 5.2% in 1971. Decisions made now affect, for most part, Fiscal Year 1976-77 income. But decision to restructure portfolio, after mistakes are made in timing, will in long run determine quality of portfolio management.
17. Discuss how the cost of "carrying" liquidity, which on one side is a reflection of how well we manage our liquid assets, on the other side is a function of the efficiency of our borrowing operations. Describe the necessity to put the management of the Bank's liquidity in perspective, i.e., the difference between the best performance, random performance, and the worst performance might amount to, over time, given the constraints and the advantages outlined, say, the difference between a 7-1/4 per cent lending rate and, say, an 8 per cent lending rate for one year. Of far greater impact on our financial structure is the timing of the borrowing operations. These are long-term liabilities and match much more closely in amount and maturity our long-term outstanding assets. The wisdom as to when to borrow will have a much greater financial impact on the Bank over the long run. Note briefly that here, too, there are significant "constraints" as to when, how much, and in what maturity to borrow.
18. But even this should not be overstated. What is much more fundamental is the availability of resources and the predictability of access. Too often when resources are available the cost is too high, which undercuts our long-term financial strength irrespective of how well liquidity is handled. On other occasions it is available possibly at low cost but in excess of our borrowing program. More fundamental, is the social, political, and even psychological environment which affects our borrowing "efficiency." This subject, of course, is linked in turn to the reasons why we have 4 billion dollars in liquid assets in the first place, a subject which goes beyond the subject of this discussion.
19. Note that at some point, the size of the liquid balance affects the way that it is managed, though tests of performance remain the same and decisions must be made (and hopefully forgotten if wrong) irrespective of whether portfolio is \$400 or \$4,000,000,000.

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

FROM: Eugene H. Rotberg *ER*

SUBJECT: Bundesbank and BOJ Borrowings

DATE: January 8, 1973

BUNDESBANK

There matures on February 1 DM 322 million (\$115 million equivalent at 2.80 DM/\$1). On the assumption that it would cost us 8 1/2% to roll over the maturing obligation, I recommend the following:

Repay the Deutsche mark obligation and borrow an equivalent amount in dollars from the Bundesbank. The cost to the Bank should be considerably lower than a DM borrowing as U.S. Agency obligations with a five-year maturity now yield 7.10% while U.S. Government obligations now yield about 6.80%. The Bundesbank has 95 billion Deutsche mark in foreign exchange reserves, a considerable proportion of which is in U.S. dollars. A dollar borrowing by us essentially would involve transferring their investments from U.S. Treasury Bill holdings to World Bank bonds. Hans Hittmair has told me that the Bundesbank was embarrassed about the rate on our last DM borrowing, despite the fact that the rates were concessionary considering the domestic market status. In order to avoid a similar situation the Bundesbank might entertain a request for a rollover in dollars.

We now hold about 170 million Deutsche mark in Treasury Bills, most of which we will require for interest payment obligations before the end of February. Loan receipts for the same period will amount to only about DM 44 million. Therefore, we would have to sell another currency, possibly dollars, and purchase spot DM for repayment and reverse the transaction in six weeks, at which time we would have recalled the Deutsche mark from our borrowers. The cost of the forward cover for two months, and the profit foregone by liquidating securities for the DM purchase, should be considerably less than the higher cost of a straight DM borrowing.

I would recommend that you or I discuss the matter informally with the U.S. Government first, then contact the Bundesbank (Dr. Tungeler) for an initial reaction, and finally have Hans Hittmair go to Germany to negotiate the transaction.

I would not initiate a discussion at this point of borrowing "new" money in dollars from the Bundesbank because (a) we probably could not borrow it this fiscal year under our program; and (b) interest rates are likely to be lower, say, six months from now.

. . .

If the Bundesbank is not prepared to lend us dollars, we might then ask them whether they would be willing to extend the rollover in Deutsche mark for a shorter maturity - possibly 1 to 2 years though, of course, it may be that a shorter maturity will be even more costly.

BANK OF JAPAN

There is a maturity of 7.2 billion Yen on February 19 (equivalent to \$24 million at Y 300/\$1). It is understood that we would repay the maturity from the funds made available to us part of the 135 billion Yen Line of Credit.

There will mature on March 30 a 7.2 billion Yen borrowing which, absent a new Line of Credit, would be refinanced on the maturity date. I propose the following:

Repay the 7.2 billion March 30 from our current Yen balances -- currently about 50 billion Yen. I would ask the Japanese whether, consistent with our previous arrangements with the Bundesbank, they would be prepared to renew the debt in dollars. We would explain that the rate most equivalent to the Japanese "Government guaranteed" rate would be the U.S. Federal Agency market with which they are familiar and which yields in the market about 10-20 basis points over U.S. Government securities, depending on the maturity. Essentially, we would ask them to switch their dollar holdings from U.S. Government obligations to a World Bank obligation. The transaction, therefore, would have no effect one way or another on their foreign exchange reserves as long as their "official reserves" included IBRD obligations. It would be irrelevant to them if we disbursed the dollars on loans. If, alternatively, we renewed the debt in Yen, the transaction would have no exchange impact either as their reserves would remain unchanged. If we borrowed Yen and then converted the Yen for disbursement, our normal practice, it would of course draw down their reserves, as they would hold no "foreign" exchange asset. Finally, if we paid off the Yen debt and did not renew the obligation it would simply reduce our holdings of Japanese Treasury Bills; a repayment would have the same impact on their foreign exchange reserves as if we held the Yen invested in Japan.

EHRotberg/bjg

Jane
Garrick
Wash
Oregon
P
(Grossman)



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

Chun fa

January 3, 1974

Mr. Shiro Inoue
President
Asian Development Bank
P. O. Box 789
Manila, Philippines

Dear Mr. Inoue:

With reference to your cable of January 2 to Mr. Aldewereld, I am pleased to supply the following information regarding our borrowing transactions in Kuwait, Libya and Lebanon.

1. Borrowings in Kuwait total KD 130 million and consist of six issues denominated in Kuwaiti Dinars:

6-1/2%	Kuwaiti Dinar Bonds of 1968, due 1988	(KD 15 million)
7-1/2%	Kuwaiti Dinar Bonds of 1971, due 1981	(KD 30 million)
6-3/4%	Kuwaiti Dinar Bonds of 1972, due 1982	(KD 20 million)
7%	Kuwaiti Dinar Bonds of 1972, due 1991	(KD 15 million)
7%	Kuwaiti Dinar Bonds of 1973, due 1992	(KD 25 million)
7-1/4%	Kuwaiti Dinar Bonds of 1973, due 1988	(KD 25 million)

These were quasi-public issues underwritten by the Kuwait Investment Company and placed with relatively few institutional and official Kuwaiti accounts. At present no prospectus is required for public issues in Kuwait. There are enclosed for your information copies of our latest Purchase Agreement with the Kuwait Investment Company, and of our Board Paper, which sets forth the terms and conditions of the issue. There is also enclosed for your information a copy of a Bond relating to our 7% Issue of 1973, which is substantially the same as our most recent issue.

We have placed the proceeds of our Kuwaiti Dinar issues in time deposits through the facilities of our underwriter who, acting on our behalf, negotiated the interest rate with financial institutions in Kuwait. Generally, the short-term interest rates in Kuwait are low and we usually disbursed the funds rather rapidly after each issue.

Mr. Shiro Inoue

- 2 -

January 3, 1974

2. In Libya we made two placements denominated in Libyan Dinars, totalling LD 40 million:

8% Libyan Dinar Bonds of 1970, due 1975 (LD 10 million)
7-5/8% Libyan Dinar Bonds of 1973, due 1983 (LD 30 million)

The Bonds were placed with the Central Bank of Libya. Copies of our most recent Purchase Agreement with the Central Bank of Libya and of our Board Paper are enclosed. The proceeds of our Libyan Dinar issues were held with the Central Bank of Libya in short-term, interest-bearing deposits pending disbursement.

3. In Lebanon we made a "private" placement of 6-7/8% Lebanese Pound Bonds of 1973, due 1978, aggregating LL 75 million. This was a syndicated issue placed with 33 banks. There are attached copies of our Board Paper and of the Purchase Agreement in French, including a translation in English, between the Bank and the President of the Lebanese Bankers' Association who acted on our behalf in arranging the transaction. The servicing of the issue is performed by the Bank of Lebanon and we enclose a copy of the Fiscal Agency Agreement, including a translation thereof in English.

The proceeds of our Lebanese issue were placed with commercial banks who participated in taking down the loan. We requested and received from them rates of interest for three, six, nine, and twelve months and placed deposits with many of the participating banks. Recently interest rates have risen considerably in Lebanon and short-term investments are available with commercial banks at interest rates in excess of 7%.

I hope that this information is useful to you. If you have any questions, please let me know. My best wishes to you and your colleagues for a happy and satisfying New Year.

Best regards,


Eugene H. Rotberg

Enclosures

cc: Mr. Aldewereld
JPUhrig/EHRotberg



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RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

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- 2 -

January 3, 1974

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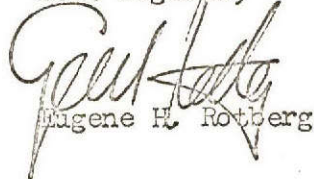
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Best regards,


Eugene H. Rotberg

Enclosures

cc: Mr. Aldewereld
JPUhrig/EHRotberg