

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Annual Meeting briefing papers, 1963 - Europe - Briefing papers

Folder ID: 1076793

Series: Briefing papers

Dates: 09/01/1963 - 10/31/1963

Subfonds: Records of President George D. Woods

Fonds: Records of the Office of the President

ISAD Reference Code: WB IBRD/IDA EXC-03-4528S

Digitized: 05/15/2023

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

President G.D. Woods Briefs - 18th Annual Meeting /
Europe

1963

The World Bank Group
Archives



1076793


A1992-044 Other #: 1

209329B

Annual Meeting briefing papers, 1963 - Europe - Briefing papers

DECLASSIFIED

WBG Archives



1 folder

Box 782

Mu Woods.

Australia
(incl. N. Guinea)

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

AUSTRALIA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Thursday, October 3, 1963

9:00 - 9:20 a.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Collier

II. MEMBERS OF DELEGATION

*Harold Holt
Governor of Bank and Fund

*Sir Roland Wilson
Alternate Governor of Bank

Treasurer of the Commonwealth
of Australia

Secretary to the Treasury

Sir Howard Beale
Alternate Governor of Fund

Ambassador of Australia to the
United States

Advisers:

H. C. Coombs
*J. M. Garland
R. J. Whitelaw

Governor, Reserve Bank of Australia
Executive Director, Bank and Fund
Financial Counselor, Australia
House, London
Assistant Secretary, Department of
the Treasury
Private Secretary to Mr. Holt
Technical Assistant to E.D.

*Roy Daniel

K. W. Pearson
*H. G. Heinrich

*Likely to attend meeting with Management

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

Relations are good. No new lending is being considered and, in view of the favorable economic situation, the Australians are unlikely to raise the question of further loans at this time.

(b) Topics likely to be raised by delegation:

They may inquire about the report of the Survey Mission to Papua and New Guinea. We would not expect that the draft report would be completed much before the middle of next year.

(c) Topics to be raised by Management:

We may want to express our appreciation for the recent release of the remaining 18% capital subscription amounting to approximately \$12 million equivalent.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1950	Commonwealth of Australia	Equipment for development	100.0
1952	Commonwealth of Australia	Equipment for development	50.0
1954	Commonwealth of Australia	Equipment for development	54.0
1955	Commonwealth of Australia	Equipment for development	54.5
1956	Commonwealth of Australia	Purchase of aircraft	9.2
1956	Commonwealth of Australia	Equipment for development	50.0
1962	Commonwealth of Australia	Snowy Mountains project	100.0
Total (net of cancellations and refundings)			417.7 ^{1/}
of which has been repaid			103.5
Total now outstanding			314.2
Amount sold		217.8	
of which has been repaid		98.6	119.2
Net amount now held by Bank			195.0

^{1/} Includes \$68.1 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

None (Part I member).

(c) 18% Capital Subscription

\$48.0 million. Entire 18% released, convertible into any currency, of which \$36.4 million on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$2.05 million	\$4.81 million

(e) I.F.C.

IFC made two investments in Australia: (1) \$660,000 in 1958 (lumber and milling products) to Duncan's Holdings Ltd. and (2) \$225,000 in 1959 (rubber products) to Rubbertex (Australia Pty. Ltd.) The outstanding balance of the investment in the rubber products company was sold in July 1963 at a price equal to 65% of principal and accrued interest outstanding at July 31, 1963 plus a payment of LA 1,600 for stock option rights. IFC is not considering further investments in Australia.

(f) I.D.A.

Part I member; original subscription \$20,180,000. Second round: \$19,800,000.

V. POLITICAL SITUATION

In the election in December 1961, Sir Robert Menzies' Government lost a lot of support and his party emerged with a majority of only one in the House of Representatives. This was generally attributed to an economic recession for which the restrictive policies of the Menzies' Government were held responsible. However, despite his slim majority, Sir Robert has maintained his position and now, with the improvement in the economic situation, there seems no reason why he should not last out his term until December 1964.

VI. ECONOMIC SITUATION (Population - 10.5 million; GNP per capita - \$1,540)

After the recession of 1961 the Australian economy showed signs of revival in early 1962 and the recovery has continued in 1963. Increased income from exports of Australia's principal agricultural exports was the prime contributing factor, but in the other sectors of the economy the revival was rather slow. Private capital expenditure in industry is still lagging. Employment has increased appreciably, but unemployment is still higher than before the recession. Monetary and fiscal policy therefore aims at economic expansion. In the fiscal year 1962/63 the Government was able to raise much more in public loans than had been expected and the year ended with a surplus instead of a substantial deficit. The virtual stability of internal prices and costs and the slow growth of industrial investment moderated the rise in imports so that the increase in exports, together with an improvement in the terms of trade, led to a further strengthening of the foreign exchange position.

Austria

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

AUSTRIA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Tuesday, October 1, 1963

3:00-3:20 p.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Collier

II. MEMBERS OF DELEGATION

*Franz Korinek
Governor of Bank

Federal Minister of Finance

*Hugo Rottky
Alternate Governor of Bank

Head of Section,
Ministry of Finance

*Reinhard Kamitz
Governor of Fund

President,
Austrian National Bank

Advisers:

Kurt Harrer
Rudolf Horak
Franz Fuchs

Counsellor, Ministry of Finance
Secretary, Ministry of Finance
Chief, Secretariat,
Austrian National Bank
Alternate Executive Director of Bank
Financial Counselor,
Austrian Embassy

*Franz Oellerer
*Edgar Plan

*Likely to attend meeting with Management:

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects.

Relations are good. The recovery of the Austrian economy has meant that we have ceased to lend and have, indeed, begun to borrow from Austria. Last year we obtained \$5 million in the form of 5-year, 4% notes placed with the Austrian National Bank and another \$5 million in the form of a public issue of 15-year bonds at 4-1/2%. Both these borrowings were denominated in dollars.

The Austrian balance of payments continues to be favorable and while this situation is maintained there is little likelihood that the Austrians would wish to borrow from the Bank.

(b) Topics likely to be raised by delegation:

None

(c) Topics to be raised by Management:

None

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

	Amount (equivalent in \$ million)
Total (net of cancellations and refundings)	104.9 ^{1/}
of which has been repaid	9.7
Total now outstanding	95.2
Amount sold	26.4
of which has been repaid	6.3
Net amount now held by Bank	75.1

^{1/} Includes \$3.6 million not yet disbursed.

Loans made since July 1, 1961

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1962	Oesterreichische Investitionskredit Aktiengesellschaft	Industrial financing	5.0

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$9.0 million. Entire 18% released, convertible into any currency.

(d) Holdings of World Bank Bonds and Borrowers' Obligations
As of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$15.7 million	\$0.1 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member. Original subscription \$5,040,000. Second round:
\$5,040,000

V. POLITICAL SITUATION

Austria has been governed by a coalition of the two major parties -- the Socialists and the People's Party (i.e., conservatives) -- ever since the end of the war. When general elections occur the relative position of the two parties may alter slightly, but they have always managed to agree on a basis for continuing the coalition. The last elections were in November 1962 and after a long period of bargaining the coalition was duly resumed. However, this summer an acute crisis developed over possible return of former Archduke Otto von Habsburg to Austria. This in itself is not an important matter but the Socialists have apparently used the issue as a means of improving their position. There are also some members of the People's Party who regard the coalition as outmoded. This is the first time since 1945 that there has been any serious prospect of a change in the political equilibrium in Austria.

VI. ECONOMIC SITUATION (Population: 7.1 million; GNP per capita: \$800)

A slowdown in economic growth which first became apparent in 1961 continued throughout 1962. This was largely the result of decreased exports by heavy industry which led in turn to a weakening of investment demand. In the spring of 1963, however, economic activity picked up again and previous unemployment and idle capacity have been virtually eliminated.

Owing both to rising receipts from tourism and a larger inflow of foreign capital, the gold and foreign exchange reserves increased appreciably and the authorities were able to remove some restrictions on international transactions. At the end of June 1963, the discount rate was reduced from 5% to 4.5%, mainly in order to bring interest rates closer to those prevailing in the rest of Western Europe.

The Republic of Austria, 5-1/2% New York issue of 1958-1973 was quoted at 102 as of the end of August 1963, to yield 5.88% to maturity, and the 4-1/2% IBRD bonds of 1962 were priced in Austria at 101.92, to yield 4.44%.

The Austrian Government last week borrowed \$20 million, \$5 million each from the Chase Manhattan Bank, Manufacturers' Hanover Trust Company, Morgan Guarantee and the Bank of America. The borrowings are for a term of 35 months and bear interest at 5% per annum. Repayment of each of the borrowings will be at the rate of \$250,000 each at the end of the 11th, 17th, 23rd and 29th month, with the balance of \$4 million becoming due at maturity. The purpose of this borrowing is to meet part of the budget deficit. The Government is unable to raise the necessary amounts from the Austrian capital market at rates it considers reasonable and unwilling to borrow from the National Bank.

Belgium

Brief on BELGIUM

NOTE

Mr. Knapp has requested the updating of section III (b) on Belgium's demand for cancellation of commitment charges. The present status is as follows:

A memorandum of the Congo loans Working Party recommending action to be taken in this matter will in a few days be sent to Management, which will have to decide upon the course to be followed. A draft of the memorandum is now being circulated to the Bank's Departments concerned.

The briefing paper will be updated after a decision will have been reached.

September 18, 1963

September 18, 1963

CONFIDENTIAL

BELGIUM

BRIEFING PAPER

I. MEETING WITH DELEGATION

Tuesday, October 1

9:00 - 9:40 a.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Cope/Mr. Fontein
Mr. Moussa/Mr. Williams
Mr. Beevor
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Andre DEQUAE, Governor of Bank	Minister of Finance
* Hubert ANSIAUX, Alternate Governor of Bank and Governor of Fund	Governor, Banque Nationale de Belgique
<hr/>	
M. D'HAEZE, Alternate Governor of Fund	General Manager, Administration of the Treasury and Public Debt

Advisers:

* Andre van CAMPENHOUT, Executive Director of Bank and Fund	
* Cecil de STRYCKER	Director, Banque Nationale de Belgique
Louis PLUM	Technical Assistant to Executive Director

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. No lending prospects.

Belgium's assistance to developing countries - The Belgo-Congolese financial talks terminated in Brussels on August 2, 1963. They resulted in an agreement to divide the public debt of the Congo of old Congolese francs 46.1 billion (1 old Congolese franc = 1 Belgian franc) and an agreement on Belgium technical aid to the Congo. The terms of the division of the debt have not yet been made public; it is, however, understood that they may be along the following lines:

- (A) The internal debt of Congolese frs. 22.4 billion will be taken over by the Congo Republic;
- (B) The external debt of old Congolese frs. 12.7 billion (\$255 million), guaranteed by Belgium, will, as in the past, be serviced by Belgium;
- (C) Several non-guaranteed external debts in the amount of old Congolese frs. 11.0 billion (\$220 million) will be converted into a single loan denominated in Belgian francs in the same principal amount, with an interest rate of 3-1/2% and a maturity of 40 years. It will be issued by a Belgo-Congolese body created ad hoc. The Congo will make annual service payments on this loan in the amount of Bfrs. 300 million.

According to the Ministry of Foreign Trade and Technical Assistance, Belgium will make Bfrs. 2,080 million (about \$42 million) available for credits to developing countries during 1963. Of this, Bfrs. 900 million will be for former Belgian colonies and mandated territories and Bfrs. 750 million for contributions to multilateral development organizations.

Belgium is a member of the India Consortium and has pledged \$10 million for 1963/64, the same amount as for 1962/63. In May 1963 Belgium became a full member of the Pakistan Consortium and pledged \$10 million for 1963/64.

The "Office pour la Cooperation au Developpement", through which Belgian technical assistance to developing countries will be channeled, started operations in January 1963.

(b) Topics to be raised by delegation:

Belgium's demand for cancellation of commitment charges - Belgium has asked the Bank to consider whether the commitment charges on the Congo loans could be waived or cancelled. This demand stems from the fact that there have been no disbursements under these loans since June 1961 and that the undisbursed amounts may never be used. The commitment charges amount to about \$300,000 per annum. The Bank's position has been:

- (A) The Bank will not cancel or waive the commitment charges without cancellation of the undisbursed amounts of the loans;
- (B) The Bank sent a three-man "task force" to Brussels for talks with the members of EEC's Congo Mission, as well as the Belgian administration, from whence it proceeded to the Congo for a review of the status of the present projects.
- (C) A decision on cancellation of the loans would not be taken until the report of the "task force" was available.

Mr. Woods has informed Mr. van Campenhout that he would be prepared to recommend reimbursement, retroactive to July 1, 1963, of charges in respect of any amounts eventually cancelled.

(c) Topics to be raised by Management:

- (i) Management may want to express its gratification with the recent decision by Belgium to become a member of IDA as a Part I country.
- (ii) The possibility of a Bank bond issue was raised last year. Management may want to raise it again, although the increase in interest rates in Belgium would make such an issue unlikely. On August 23 the Bank's 5% bonds due 1969 were quoted at 99.60 to yield 5.09% to final redemption.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

	<u>Amount</u> (equivalent in \$ million)
Total (net of cancellations and refundings)	200.6 <u>1/</u> <u>2/</u>
of which has been repaid	<u>43.2</u>
Total now outstanding	157.4
Amount sold	123.9
of which has been repaid	<u>43.1</u> <u>80.8</u>
Net amount now held by Bank	<u>76.6</u>

1/ Includes \$40.8 million not yet disbursed.

2/ Includes \$120.0 million in loans to Belgian Congo, of which \$40.8 million not yet disbursed. In addition, Loan 48-BE of \$30 million was made to Belgium for financing of equipment for development in the Congo. This loan was fully disbursed.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$40.5 million, fully convertible and all on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$13.5 million	\$50.9 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Belgium's initial subscription to IDA as a new member has been set at \$8.25 million and its additional contribution is in the same amount.

V. POLITICAL SITUATION

The present Government, formed in April 1961 after the last general election, is a coalition of the Christian-Social and the Socialist Parties with Mr. Lefevre (Christian-Social) as Prime Minister and Minister for Economic Coordination and Mr. Spaak (Socialist) as Vice-Prime Minister and Minister for Foreign Affairs.

Last year the language conflict between the Flemish and the French-speaking Walloons became increasingly acute. In July 1963, after the Prime Minister had offered his resignation, Parliament approved with large majority compromise legislation which should disperse fears that one language group would become dominant over the other. It is likely that the coalition will continue.

VI. ECONOMIC SITUATION - (Population - 9.2 million; GNP per capita - \$1,320)

The period July 1962 - June 1963 has been another satisfactory year for the Belgian economy, following the sharp recovery from the effects of the Congo events during July 1961 - June 1962. Industrial production and exports increased substantially and much greater price stability was maintained than in most other Western European countries (wholesale prices and the cost of living increased by only 1%), while the gold and foreign exchange holdings of the National Bank of Belgium rose by \$140 million to \$1,889 million. As in the past, the impetus to renewed expansion seems to have come from foreign demand, and especially from the Common Market, where lowered duties have resulted in increased opportunities for sales.

The gross national product rose by 4% in 1962 and is expected to attain a similar growth in 1963.

As elsewhere, the high liquidity which had characterized the money and capital markets since the middle of 1962 recently came to an end, following a large expansion in domestic credit. On July 18, 1963, the discount rate was raised from 3-1/2% to 4%. In June, a 10 - 20 year Government loan was issued at rates ranging from 5-1/2 to 5-3/4%, compared with 5 to 5-1/4% in March 1963 and 4-3/4% to 5-1/4% in November 1962 for the same type of loan.

On September 10, 1962, the New York quotation for Belgium's 5-1/2% dollar bonds due 1976 was 101 1/4.

Cyprus

CONFIDENTIAL

September 18, 1963

CYPRUS

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

M. E. Guven
Alternate Governor of Bank

Deputy Accountant General,
The Treasury

C. C. Stephani
Governor of Fund

Accountant General,
The Treasury

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

We made a loan of \$21 million for the Electricity Authority in April this year -- a substantial loan for Cyprus -- and our relations are good. Cyprus is creditworthy for further Bank lending but the problem is to find suitable projects. We have already indicated that we would be prepared to consider loans for roads and ports but the Cypriots have not so far taken us up on this. We have, however, received a feasibility study by Bechtel on a proposed desalination plant in the Famagusta area (about \$3.2 million of which \$2.45 million foreign exchange). This study is now being reviewed.

(b) Topics likely to be raised by delegation:

The Cypriots may inquire whether Cyprus would be eligible for IDA credits. We should say no. GNP per head is around \$390 and the external debt is modest (\$53.5 million). It would not be easy to make a good case for IDA lending.

(c) Topics to be raised by Management:

Having just made a substantial loan, this would be a favorable moment to ask for release of Cyprus' 18% subscription of \$1.35 million.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1963	Electricity Authority of Cyprus	Electric power	<u>21.0</u> ^{1/}
	Total (net of cancellations and refundings)		21.0
	of which has been repaid		--
	Total now outstanding		21.0
	Amount sold	1.2	
	of which has been repaid	--	<u>1.2</u>
	Net amount now held by Bank		<u>19.8</u>

^{1/} Includes \$21.0 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

None

(c) 18% Capital Subscription

\$1.35 million. No release. See III (c).

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
None	None

(e) I.F.C.

No operations

(f) I.D.A.

Part II member: subscription \$760,000

V. POLITICAL SITUATION

Cyprus was a British dependency before 1960 when it became an independent Republic within the Commonwealth. The U.K. retained sovereignty over its military bases which provide a substantial income to the economy.

During the three years since independence political stability has been maintained although the disagreements between the Greek and Turkish communities are very great. There has been a virtual deadlock concerning the methods by which municipalities should be governed and, principally because of this problem, President Makarios has announced that he favors some changes in the Constitution. The demand has aroused great opposition in the Turkish community. It is quite possible, therefore, that a major crisis may develop.

VI. ECONOMIC SITUATION (Population 565,000; GNP per capita - \$390)

The five-year development program is now in its second year and has already brought a substantial increase in investment. However, it is still doubtful whether the planned investment of £62 million for the five-year period can be carried out in full. About half of this amount is expected to come from external sources. This seems reasonable, since the external debt is very low. One of the main objectives of the development plan is to increase commodity exports and thus gradually reduce the dependency of the economy on British military expenditure.

This process can only be slow since the economy is still predominantly agricultural and agricultural growth is greatly handicapped by a shortage of water. Industrialization is hampered by the smallness of the domestic market and the high cost of capital. The government established the Cyprus Development Corporation in order to provide both long-term credit and technical assistance for industrial enterprises. £400,000 of Class A shares with a guaranteed, tax-free dividend of 6% for ten years have been issued in the local market. The government will subscribe to £600,000 of Class B shares, not entitled to any dividend for five years. The Corporation hopes to obtain a loan of £300,000 from the Kreditanstalt für Wiederaufbau. The consulting firm of Porter International is paid by AID. On May 31, 1963 the House of Representatives passed a bill setting up the Central Bank of Cyprus.

In the fall of 1962 the Government made an approach to the EEC for some form of association with the Common Market. However, since the United Kingdom, which accounts for about 40% of Cyprus' foreign trade, did not enter the Common Market, the question of association for Cyprus has not been taken up.

Denmark

DENMARK
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Monday, September 30.

5:20 - 5:40 p.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

*Otto Müller
Governor of Bank

Permanent Secretary, Ministry
of Commerce

*P. Bjorn Olsen
Alternate Governor of Bank

Secretary for the Public Debt,
Ministry of Finance

*Svend Nielsen
Governor of Fund

Governor, Danmarks Nationalbank

*Einar Dige
Alternate Governor of Fund

Permanent Secretary, Ministry
of Finance

Advisers:

Torben Friis

Manager, Danmarks Nationalbank

Steen M. Secher

Head of Secretariat for the
National Debt, Ministry of
Finance

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

Relations are good. A \$25 million loan for power was signed on July 24, 1963. No immediate lending prospects.

(b) Topics likely to be raised by delegation

The delegation may raise the question of further lending. At the signing of the recent loan on July 24, 1963, Mr. Tyge Dahlgaard, Economic Counselor of the Danish Embassy in Washington, indicated his interest in the subject by asking what the general reaction of the Executive Directors had been concerning Bank lending to Denmark. As to our position, Denmark has to be regarded as a marginal case as far as Bank lending is concerned. We should, however, be prepared to consider lending to Denmark when conditions in the private markets do not allow Denmark to satisfy its reasonable needs for external capital.

(c) Topics to be raised by Management

In relation to the recent inquiry from private interests concerning the possible construction of a bridge or tunnel between Denmark and Sweden, Management may want to ask the Danish delegation about the status of the project and its possible financing. While it seems likely that Sweden might prefer to finance its share of the project through budget appropriations, Denmark might be interested in outside finance for part of its share. Preliminary cost estimates quoted by a committee of experts appointed by the two Governments concerned vary from \$115 million to \$254 million, depending on the technical solution and location chosen, with an estimated cost of \$139 million for a motorway and railway bridge at Helsingor-Helsingborg which in the opinion of the committee seems to be the most advantageous choice.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
1947	Kingdom of Denmark	Reconstruction	40.0
1959	Kingdom of Denmark	Electric power development	20.0
1963	Kingdom of Denmark	Electric power development	<u>25.0^{1/}</u>
Total (net of cancellations and refundings)			85.0 ^{2/}
of which has been repaid			<u>12.7</u>
Total now outstanding			72.3
Amount sold		29.5	
of which has been repaid		<u>11.3</u>	<u>18.2</u>
Net amount now held by Bank			<u>54.1</u>

^{1/} Not yet effective.

^{2/} Includes \$25.3 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$15.6 million, fully released; \$14.0 million on loan. Unused balance available for purchases in Denmark, or for conversion into any currency at rate of \$1.4 million a year.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

\$2.5 million

Borrowers' Obligations

\$1.3 million

(e) I.F.C.

Not considered appropriate for I.F.C. financing.

(f) I.D.A.

Part I member; original subscription \$8.7 million. Second round \$7.5 million.

V. POLITICAL SITUATION

The present coalition government, headed by the Social Democrats, has been in office since the last election in November 1960. It commands only a slim majority.

In June 1963, Parliament adopted against the strong opposition of the conservative parties a complex of laws regulating land acquisition. At the demand of these parties four of the laws giving, among other things, the government the right of preemption in certain cases, were submitted to a referendum and were rejected. The government will probably try to obtain compromise legislation on the question in cooperation with the opposition parties. Failure to reach agreement could lead to elections well ahead of the scheduled date of November, 1964.

VI. ECONOMIC SITUATION (Population - 4.6 million; GNP per capita - \$1,400)

Since 1958, the Danish economy has expanded vigorously under the stimulus of rising industrial exports. Full employment was attained for the first time since the end of the war. However, a relaxation of fiscal policies and considerable wage increases caused a rise in prices and a sharp decline in foreign exchange reserves during 1961 and 1962.

Various corrective measures were applied by the National Bank of Denmark, and in August 1962, the Government introduced a stabilization program of which the most important provisions were a general sales tax of 9% and a limit on government expenditure. In March 1963, further measures were taken, including a virtual standstill in wage increases for two years.

As a result, inflationary tendencies have been checked. The tighter fiscal policy has produced a budget surplus for the fiscal year 1962/63, and the estimates for 1963/64 provide for another surplus. Wholesale prices of domestic goods have stopped rising since January 1963. These measures contributed to keeping imports at the level of the previous year while exports were 15% higher. As a result of the improvement in the trade balance and increased borrowing abroad, net foreign exchange reserves increased from \$159 million at the end of 1962 to about \$280 million at the end of July 1963. The improved economic and financial conditions caused the National Bank on August 19 to reduce the discount rate by $\frac{1}{2}$ % to 6%.

After the breakdown of the negotiations on the accession of the United Kingdom to the EEC in January 1963, Denmark, which had formally applied for membership in the Common Market, decided to stay with EFTA. Danish agricultural exports to the EEC are expected to decline; this should be offset by an increase in industrial exports, which Denmark has been very successful in developing.

At the end of June 1963, Denmark's external public debt amounted to \$402 million, of which \$65 million was contracted during 1962 and \$118 million during the first half of 1963. The servicing of the debt demands about 1.5% of current foreign exchange earnings.

On September 12, 1963, the New York quotation for Denmark's 1963 5½% issue of \$30 million due 1978 was 98½.

Finland

September 18, 1963

CONFIDENTIAL

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

FINLAND

BRIEFING PAPER

I. MEETING WITH DELEGATION

Tuesday, October 1

3:20 - 3:40 p.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Osmo P. KARTTUNEN,
Governor of Bank
* R. v. FIEANDT,
Alternate Governor of Bank

Minister of Finance

Envoy Extraordinary and
Minister Plenipotentiary

* Klaus WARIS,
Governor of Fund
* Reino ROSSI,
Alternate Governor of Fund

Governor, Bank of Finland

Member of the Board of Management,
Bank of Finland

Advisers:

* Esko REKOILA
* Richard R. SEPPALA
* Eino SUOMELA

Chief, Budget Department,
Ministry of Finance
Ambassador of Finland to the
United States
Alternate Executive Director
of Bank

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations with Finland are good. A \$7 million Bank loan to and \$150,000 IFC investment in the Industrialization Fund were made in September. A request for a highway loan is under consideration.

(b) Topics likely to be discussed by delegation:

Prospects for Bank lending for a highway project.

(c) Topics to be raised by Management:

The delegation has been informed that as a first step in the consideration of further lending we plan to send a mission to Finland in October to get a broader picture of Finland's transportation and other investment needs. Possible fields for Bank lending, and the scope and timing of the mission would be discussed in more detail with the delegation during their stay in Washington.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

	Amount (equivalent in \$ million)
Total (net of cancellations and refundings)	152.1
of which has been repaid	<u>34.2</u>
Total now outstanding	117.9
Amount sold:	35.6
of which has been repaid	<u>18.7</u>
Net amount now held by Bank	<u><u>101.0</u></u>

1/ Includes \$25.4 not yet disbursed.

Loans made since July 1, 1961

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1961	Mortgage Bank of Finland	Industry	25.0
1962	Mortgage Bank of Finland	Power	25.0

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

US \$6.8 million; entirely released; \$5.4 million on loan as of June 30, 1963; unused balance available for purchases in Finland or for conversion into any currency at rate of \$1 million a year.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$5.7 million	\$10.7 million

(e) I.F.C.

IFC has made two industrial investments: (1) \$1,875,000 in Rauma-Repola Oy (pulp, sawmilling, heavy machinery and ship-building), in which participations were \$1,290,000; entire credit has been prepaid; and (2) \$156,000 in Oy Kutomotuote A.B., Tricol Oy, Toly Oy (textiles). An IFC investment in the reorganized Industrialization Fund (TR) was approved at the Board Meeting on September 10. In view of the existence of TR, IFC will in future consider investing directly in Finnish enterprises only in special circumstances.

(f) I.D.A.

Part I member; original subscription \$3.8 million. Second round \$2.3 million.

V. POLITICAL SITUATION

The Government formed in April 1962 continued in power until very recently. It was a coalition of Agrarians, Conservatives and two other parties, headed by Ahti Karjalainen, an Agrarian, and included three trade unionists to represent the interests of industrial labor. The Government resigned at the end of August following disagreement with these trade unionists on the financing of price support for agriculture. The latter had proposed the institution of food subsidies to cost 80 million Fmk. per annum while the remaining members of the Cabinet were in favor of letting consumer prices rise.

Pending the formation of a new coalition, President Kekkonen has requested the Government to remain in office on a caretaker basis.

Although holding only 53 out of a total of 200 seats in Parliament, the Agrarian Party continues to be the dominant political force in Finland, due to its success in cooperating with the Soviet Union and to the strong personality of the President of the Republic, Kekkonen. The exclusion of the Social Democrats, the third largest party (38 seats) was due to the hostility of the Soviet Union (and the Agrarians) towards their leader, the veteran Vaino Tanner. The recent election of Rafael Paasio, a respected parliamentarian, to succeed Tanner, was expected to bring about changes in the Government coalition.

VI. ECONOMIC SITUATION - (Population - 4.5 million; GNP per capita - \$1,200)

Following three years of vigorous expansion and financial stability, the Finnish economy has been under considerable strain during the past twelve months. Weaker foreign demand for pulp and paper has temporarily checked the growth in exports. Excessive increases in wages and agricultural incomes resulted in a rise in the cost of living of 6% in 1962 and of another 1.7% during January - May 1963. The current account deficit of the balance of payments, which was \$69 million in 1961, increased to \$91 million in 1962 and caused a decline of \$41 million in the foreign exchange reserves. On June 30, 1963 the gold and foreign exchange holdings of the Bank of Finland stood at \$309 million. The Government is preparing a "stabilization program" which will be submitted to Parliament in the autumn and which is expected to include increases in taxation and cuts in expenditures. A report prepared by Dr. Waris at the request of the Government, which has just been issued, concludes that increases in wages and in agricultural prices during the next year will have to be limited if the country is not to endanger its competitive position in world markets and deplete its foreign exchange reserves. There seem good prospects that demand for pulp and paper will revive but the task of containing inflationary pressures is likely to prove difficult.

The Republic of Finland made an issue of \$12.5 million at 6% (1963-1973) in New York last spring. On September 16, 1963, these bonds were quoted at 98-7/8 in New York.

France

September 18, 1963

CONFIDENTIAL

FRANCE
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Monday, September 30

3:20 - 3:40 p.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Cavanaugh
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Valery Giscard d'Estaing,
Governor of Bank
* Maurice Perouse,
Alternate Governor of Bank

Minister of Finance and
Economic Affairs
Director of Treasury, Ministry of
Finance and Economic Affairs

Jacques Brunet,
Governor of Fund
* Andre de Lattre,
Alternate Governor of Fund

Governor, Banque de France
Director of External Finance,
Ministry of Finance and
Economic Affairs

Advisers:

* Rene Larre
* Jacques Waitzenegger
Olivier Wormser
Pierre Esteva
Claude Pierre-Brossolette
Michel Rouge

Executive Director of Bank
Alternate Executive Director of
Bank and Fund
Director of Economic and Financial
Affairs, Ministry of Foreign Affairs
Deputy Director of External Finance,
Ministry of Finance and Economic
Affairs
Deputy Director of External Finance,
Ministry of Finance and Economic
Affairs
Financial Attache in New York,
French Embassy

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. Lending prospects are nil.

France's aid to underdeveloped countries in 1962 amounted to US \$1.4 billion equivalent, or 2.2% of its gross domestic product; 71% was made up of public credits, four-fifths of which -- or 57.5% of the total -- was in the form of grants-in-aid; one-fourth of total aid went to Algeria. As a member of the India Consortium, France has committed \$80 million for the period 1961-64. In the Pakistan Consortium, France's contribution is \$32 million for the same period.

An agreement signed in Paris between France and Mexico provides for the granting to Mexico of a long-term loan of \$150 million. The bulk of the proceeds of the loan (\$110 million) will be used by PEMEX and joint PEMEX - private ventures for petrochemical plants; the balance (\$40 million) will be used for the expansion of the sugar industry. The notable features are:

- (a) the utilization is tied to the purchase of goods produced in the European Common Market countries;
- (b) the projects would have to meet technical standards satisfactory to the lenders;
- (c) the lenders would have to be satisfied with the availability of the complementary financing;
- (d) up to 1/3 of the loan can be used to cover local currency cost.

The import financing which is repayable within 13 years, including 3 years of grace, is made available by a consortium of French commercial banks at 6.5% interest with the guarantee of the French Government. The local procurement part is repayable in 5 years and is financed by the French Government at 4% through the Credit National. The operation reflects the new lending policy of combining governmental credits with state credit insurance of commercial bank loans. Such joint operations will be characterized by the availability of financing for local expenditures, by longer amortization periods for the commercial credits and lower interest rates on the governmental loans.

It is stated that this agreement will serve as a model for future aid to Spain and Greece (negotiations are under way for a \$150 million French credit to Spain) and that it embodies the principles which France intends to follow in providing foreign aid.

(b) Topics to be raised by delegation:

None.

(c) Topics to be raised by Management:

Management may want to refer to:

- (i) the recent purchase by the Banque de France of \$58.6 million representing the remaining maturities of the 1947 loan of \$250 million to the Credit National; the Banque de France had already purchased \$60.7 million in April 1963 and, together with a French savings institution, purchased \$60 million in March 1962;
- (ii) the possibility of a Bank bond issue in France;
- (iii) the interest the French Government has indicated in joint operations with the Bank in Spain and in technical cooperation between France and Spain.

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1947	Credit National	Post-war construction	250.0
1954	Overseas Railways Administration	Railway improvement	7.1
1955	Electricite et Gaz d'Algerie	Electric power development	10.0
1959	Compagnie Miniere de l'Ogooue	Manganese project	35.0
1959	SOPEG	Oil pipeline	50.0
1960	MIFERMA	Iron ore project	<u>66.0</u>
	Total (net of cancellations and refundings)		418.1
	of which has been repaid		<u>70.2</u>
	Total now outstanding		347.9
	Amount sold	341.8	
	of which has been repaid	<u>61.8</u>	<u>280.0</u>
	Net amount now held by Bank		67.9

France
SEP 27

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$94.5 million; fully released and all on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$40.0 million	\$189.2 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member; original subscription \$53.0 million. Second round \$61.8 million.

V. POLITICAL SITUATION

The October 1962 referendum, on the amendment of the 1958 constitution to provide for the direct election of the President, and the general elections that followed in November showed some decline in de Gaulle's popular appeal but, by strengthening his own party at the expense of other parties of the right, he was able to maintain a comfortable majority in the new National Assembly. De Gaulle continues to be the undisputed ruler of France. In foreign affairs his policies place the emphasis on close relations with Germany and on an independent stand vis-a-vis the United States and Britain. In economic affairs the twin objectives of a strong economy and continued growth have been pursued with considerable success. It is clear that in the immediate future French political prospects are closely bound up with de Gaulle's own prospects and decisions.

VI. ECONOMIC SITUATION - (Population - 45.7 million; GNP per capita - \$1,380)

At this time last year rising prices and a levelling off of exports seemed to indicate that the period of exceptional French economic strength, which began in 1960, might be coming to a close. So far this has not been the case.

In June 1963 wholesale prices were 3.1% higher than a year earlier and retail prices 5.7% higher. As elsewhere, wage increases (over 10%)

were the principal cause of the rise in costs. The strict fiscal policy of the previous years was continued and credit was tightened up during 1963. The Government, however, has taken a serious view of the rise in prices and especially of the threat of further price increases and has decided that even more drastic measures were needed to protect the hard-won financial stability. At the beginning of September a comprehensive stabilization program was announced by the Prime Minister which includes a stricter budget including higher taxes, further tightening up of credit, reductions in import duties on a wide range of consumer goods and a freezing of prices of manufactured goods.

During July 1962 - June 1963 exports to foreign countries were 8% higher than in the preceding twelve months, but imports were 17% higher with the result that a trade surplus of Ffrs. 617 million (\$125 million) during July 1961 - June 1962 was converted into a deficit of Ffrs. of 1,816 million (\$365 million), during July 1962 - June 1963. In spite, however, of these unfavorable developments in foreign trade and the advance repayment of \$344 million in dollar debts during 1963, the gold and foreign exchange reserves at the end of June 1963 stood at \$4,257 million, an increase of \$724 million over June 1962 (at their present level the reserves correspond to eight months' imports from foreign countries). This continued rise in reserves (a similar rise took place during 1961-1962) can only indicate that the repatriation of French capital and the inflow of foreign funds, which have been major factors in the strength of the franc in the previous three years, were even more important during 1962-63. Of the total increase in reserves of \$775 million during the past year, \$543 million was in the form of gold and \$230 million in the form of convertible currencies.

Economic expansion has been resumed after a setback early in 1963 caused by the hard winter and strikes. In June 1963 industrial production was 8% higher than a year earlier.

The results of the 1962 census have revealed profound structural changes in the French economy in the last decade. In less than eight years, employment in agriculture has declined by 1,300,000 persons, or by 25%, reducing the proportion of the labor force engaged in agriculture to 20%. Trade and services have absorbed the major part of the increase in the labor force, while the number of self-employed in these sectors has been reduced by about 25%, i.e., by as much as employment in agriculture.

Germany

September 18, 1963

CONFIDENTIAL

GERMANY

BRIEFING PAPER

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

I. MEETING WITH DELEGATION

Saturday, October 5

9:00 - 10:00 a.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Broches
Mr. Cavanaugh
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Ludger WESTRICK Alternate Governor of Bank (temporary) and Fund	Under Secretary, Ministry of Economics
* Hans HENCKEL Alternate Governor of Bank (temporary)	Assistant Secretary, Ministry of Economics
<hr/>	
* Karl BLESSING Governor of Fund	President, Deutsche Bundesbank
<u>Advisers:</u>	
* Otto DONNER	Executive Director of Bank
* Helmut ABRAMOWSKI	Alternate Executive Director of Bank
* Friedrich Karl VIALON	Under Secretary, Ministry for Economic Cooperation
* Fritz G. FECHNER	Assistant Secretary, Ministry of Finance
* Hans Georg SACHS Rolf GOCHT	Assistant Secretary, Foreign Office Deputy Assistant Secretary, Ministry of Economics
Fritz STEDTFELD	Deputy Assistant Secretary, Ministry of Economics
Werner LAMBY	Division Chief, Ministry for Economic Cooperation
* Helmut KOINZER	Division Chief, Ministry of Economics
* Miss Gerda BURRE	Interpreter, Ministry of Economics

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. Mr. Woods and Mr. Knapp separately visited Germany in March. No lending prospects.

Aid to Underdeveloped Countries - Total aid actually disbursed during 1960 to 1962 has been as follows:

	<u>1960</u> (in million DM)	<u>1961</u>	<u>1962 (prelim.)</u>
Bilateral:			
Official grants and credits	759	996	975
Direct investment	459	625	496
Export credits	670	263	214
Multilateral (all public):	424	1,143 ^{1/}	408 ^{2/}
	<u>2,312</u>	<u>3,027</u>	<u>2,093</u>
	580	750	525
	(in \$ million)		

^{1/} of which DM 920 million represent contributions to IBRD, IDA and IFC.

^{2/} of which DM 308 million represent contributions to EEC Overseas Development Fund.

During 1962, German development aid, except for India and Pakistan, became increasingly tied to projects. There was a shift in emphasis from industrial projects to infrastructure projects. The terms of development credits are determined "according to the project", and during 1962 the average rate of interest was 4.2% as compared with 4.7% during 1961, while the average maturity was increased from 14 to 17 years. Germany will probably not lower the interest rate to less than 3%.

For 1963/64, Germany has pledged \$99.5 million for the India Consortium and \$27.5 million for the Pakistan Consortium. As a member of the OECD Consortium on Turkey, Germany will make available \$40 million for 1963.

The Government-owned German Development Company which was set up in September 1962 with the purpose of facilitating German investment in developing countries has now started operations under the chairmanship of Mr. Ulrich from the Deutsche Bank AG. In June 1963 the German Development Service was founded as a German equivalent of the Peace Corps.

(b) Topics likely to be raised by delegation:

The German delegation may ask about the status of the plans concerning the International Secretariat for Conciliation and Arbitration and whether coordination will be sought in this matter with OECD, which has prepared a draft on protection of foreign property with the aim of defining the status of such property.

(c) Topics to be raised by Management:

Management may want to refer to further cooperation with Germany in overseas lending, as was the case with the Roseires Dam in the Sudan where Germany participates with \$18.4 million and the Bank and IDA with \$32.5 million. The Roseires II project (farm development and irrigation) would be a good opportunity for such cooperation. The cost of this project is estimated at roughly \$90 million, of which \$40 million is foreign exchange.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$94.5 million, fully released; \$86.7 million on loan. Unused balance available September 15, 1963.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$689.1 million	\$10.1 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member; original subscription \$53.0 million. Second round, \$72.6 million.

V. POLITICAL SITUATION

During 1962 there was increasing public dissatisfaction with the Government, mainly because of Dr. Adenauer's failure to name a successor, and of the Government's handling of the "Spiegel" affair. A reorganization of the Government took place in December 1962. Mr. Dahlgruen (Free Democrat) became the new Finance Minister. In April 1963 Dr. Erhard was named to succeed Dr. Adenauer as Chancellor after the summer recess of Parliament. Since his nomination Dr. Erhard has been successful in helping to settle a bitter conflict between management and labor in the metal-working industry and to reach a compromise in the GATT negotiations in Geneva. It is likely that Dr. Erhard's efforts as Chancellor will be directed toward bringing about an improvement in EEC - U.S. relations.

VI. ECONOMIC SITUATION - (Population - 54 million; GNP per capita - \$1,440)

At this time last year German financial circles were expressing concern about the rapid increase in prices and the leveling off of exports, and it was widely felt that the period of internal and external strength and rapid growth might be coming to a close. Developments during July 1962-June 1963 have not borne out these misgivings. Thanks to more moderate wage increases, the price level was more stable than in the preceding year (wholesale prices of industrial goods increased by only 1% and the cost of living by 3%). Exports increased somewhat less than imports (4.7% as against 6%), but the trade surplus remained substantial (it was \$1,030 million during July 1962 - June 1963 compared with \$1,215 million a year earlier). On June 30, 1963, the gold and foreign exchange assets of the Bundesbank at \$7,219 million were \$390 million higher than a year earlier. Meanwhile, however, the net foreign exchange indebtedness of the commercial banks had increased by \$228 million, indicating that the German overall external position was one of substantial balance. Government loans and private capital exports were more than offset by an inflow of foreign funds into Germany. High interest rates continued to make it profitable for banks and business to borrow abroad and attracted substantial amounts of foreign money into Germany.

There has been no relaxation in the tight credit policy pursued by the monetary authorities but a somewhat greater increase in public expenditures than in revenues resulted in a slightly easier fiscal picture.

The discount rate was maintained at 3%, but short-term rates rose sharply (the call money rate rose from 2.77% in June 1962 to 3.59% in June 1963) and bond yields increased from 5.8% or 5.9% to 6.1%. The budget deficit, which had been DM 1,360 million in 1960 and had declined to DM 1,080 million during July 1961 - June 1962, increased to DM 1,740 million during July 1962 - June 1963. (Revenues increased from DM 45.57 to DM 49.77 billion, but expenditures increased from DM 46.65 to DM 51.51 billion.)

The problem of keeping cost and price increases within reasonable limits continues to be the principal concern of the authorities and of financial circles.

In June 1963 industrial production was 6.2% higher than in June 1962 and for the year as a whole it is expected that the gross national product will increase somewhat more than in 1962, when it rose by 4.1%. This is less than the 7% average annual increase during 1959-1961 but the authorities feel that the time for consolidation of the gains made in the past has arrived and that no artificial stimulus to the economy is justified.

Greece

CONFIDENTIAL

September 18, 1963

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

GREECE

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

Lambros Eutaxias
Governor of Bank

Member of Parliament

John P. Paraskevopoulos
Alternate Governor of Bank

Deputy Governor,
National Bank of Greece

Xenophon Zolotas
Governor of Fund

Governor,
Bank of Greece

John Pasmazoglou
Alternate Governor of Fund

Deputy Governor,
Bank of Greece

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

Our relations with Greece have always been overshadowed by Greece's default on her pre-war external debt; we have therefore made no loans to Greece. The pre-war debts are estimated to amount to the equivalent of \$237 million. About one-half of this amount is probably held in Greece. A settlement would probably cost Greece some \$7 or \$8 million a year, an amount well within her capacity. The real difficulty has been that the settlement became an internal political issue. The basis of the opposition to a settlement seems to be that Greek taxpayers would have to pay for the benefit of certain Greek speculators who bought bonds at low prices. Last year the Greeks reached a five-year agreement with the U.S. Foreign Bondholders Protective Council covering the dollar bonds which amount to \$43 million. They then started discussions in London but no agreement could be reached. The British would probably have been prepared (reluctantly) to accept a settlement which would give about the same scale of payments as under the U.S. settlement if two points had been met, viz., recognition of the fixed exchange rate clause in the 6% sterling bonds of 1931 and separate sinking funds instead of a common sinking fund. The Greeks were not prepared to agree to either of these. In particular, the 1931 bonds are a major problem because they contain a "currency option" clause which was originally included to facilitate the sale of the bonds in Switzerland. The Greeks wish to ignore this clause on the grounds that gold clauses have been ignored. The British and the Swiss do not accept this view and, in view of the precedents, they certainly have the better argument.

Before the fall of the Karamanlis Government there were indications that the Greeks were moving towards a settlement. Mr. Papaligouras, former Minister of Co-ordination, had an appointment to see Mr. Woods last June but could not keep it because the Government crisis recalled him suddenly to Athens.

We have heard nothing about the debt problem since the new government of Prime Minister Pipinelis took over. The 7%, 1924-1964 New York issue was quoted at the end of August 1963 at 38-7/16, compared to 30-1/2 at the end of January 1963.

At an earlier annual meeting the Greek delegation asked whether IDA would take the same position as the Bank. Mr. Black said yes. In any event, with the current improvement in her economy, Greece is hardly eligible for IDA money.

(b) Topics likely to be raised by delegation:

We have been approached by Pechiney for assistance in financing an aluminum smelter. Pechiney understand that nothing can be done unless the debt problem is settled and, unless it is settled soon, the project may be too far advanced for us to come in.

(c) Topics to be raised by Management:

None

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

None

(b) IDA credits as of August 31, 1963

None

(c) 18% Capital Subscription

\$4.5 million. Half of 18% released subject to consultation.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$2.0 million	None

(e) I.F.C.

\$600,000 lent to AEVOL (fertilizers) 1962. Applications are presently under study for IFC investment in an integrated steel plant, a fertilizer plant, and participation with a Greek bank in three industrial enterprises. Additional applications may be forthcoming for ship repair, metal works, zinc smelter and iron ore mining projects.

(f) I.D.A.

Part II member; subscription \$2.52 million.

V. POLITICAL SITUATION

Political stability was shaken when Mr. Karamanlis resigned because he disagreed with the official visit of the King and Queen to London. However, the caretaker government of Prime Minister Pipinelis was also drawn from the right wing of Parliament and is supported mainly by Mr. Karamanlis' National Radical Union Party of which Mr. Pipinelis is himself a member. There are no indications of any important changes in policy and it is generally expected that elections will be held in the fall. Mr. Karamanlis still seems to be the unchallenged leader of his party, resisting pressure both from the King and the Centre Union Party. The Centre Union forms the main opposition in Parliament but it is now weakened by internal dissension. In view of his growing popularity, Mr. Karamanlis may well be Prime Minister again by the end of the year.

VI. ECONOMIC SITUATION (Population - 9.3 million; GNP per capita - \$300)

The economic situation in Greece continues favorable. Despite last year's bad harvest, growth in other sectors of the economy continued, demonstrating the strength of the present business upswing.

The main problem facing the Greek economy is to encourage industrialization since Greece's traditional agricultural exports cannot be increased easily. In this respect progress is slow; exports have not grown while imports have; the resulting deficit has been covered by increased earnings from shipping and tourism as well as by an inflow of capital.

Greece's association with the Common Market may provide a means of overcoming the stagnation of exports. The economy will need to import long-term capital in order to achieve a satisfactory rate of growth. The prospects for an inflow of capital have improved over the last few years; the steady rise of the foreign exchange reserves reflect the restored confidence in the Greek currency, brought about by sound monetary and budgetary policies. The inflow of private capital in 1962 of almost \$100 million was more than double the amount of 1960 and continued to grow at an annual rate of about 50% in early 1963. The EIB has so far not yet made any loan out of the \$125 million provided for within the association agreement with the EEC.

Iceland

September 18, 1963

CONFIDENTIAL

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

ICELAND

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

Thorhallur Asgeirsson,
Alternate Governor of Bank
(temporary)

Secretary General, Ministry
of Commerce

Gylfi Gislason,
Governor of Fund
Vilhjalmur Thor,
Alternate Governor of Fund

Minister of Commerce

Governor, The Central Bank
of Iceland

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations with Iceland can again be considered as good.
No lending is currently planned.

(b) Topics likely to be raised by delegation:

OECD has now completed its report on Iceland's 1963-1966 economic program. A joint review of the report between the Icelandic Government and OECD will take place early in September. The delegation may ask the Bank to review lending prospects shortly thereafter. The principal interest is likely to be in power development. More specifically, the delegation may inquire about the possibility of Bank financing of an 150 MW hydroplant to supply power to an aluminum smelter, on which negotiations are under way with U.S. and Swiss interests. Preliminary estimates indicate that the cost of the hydroplant would be \$30 to \$32 million.

(c) Topics to be raised by Management:

Iceland is the only country in the Scandinavian group which has not released the whole of its 18% subscription. Of

Iceland's 18% subscription of \$1,350,000, \$180,000 is paid and lent in dollars. At last year's Annual Meeting Mr. Cope had a discussion with the Icelandic delegation on the release of the remaining balance of \$1,170,000. At that time the Icelanders felt that the matter should be deferred until the next Annual Meeting. On October 3, 1962, Mr. Vilhjalmur Thor, the Governor of the Central Bank of Iceland, telephoned Mr. Cope and agreed to Mr. Cope's proposal that Iceland's 18% subscription would be released over five years, starting as soon as possible, but, in any event, not later than 1964. Mr. Thor thought that he could propose this to the Icelandic Government. There have been no new developments since then.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
1951	Republic of Iceland	Electric power development	2.45
1951	Republic of Iceland	Agricultural development	1.01
1952	Republic of Iceland	Fertilizer plant	0.85
1953	Iceland Bank of Development	Agricultural development	1.35
1953	Iceland Bank of Development	Construction of radio transmitter building	0.25
1962	Republic of Iceland	Hot water supply project	<u>2.00</u>
	Total (net of cancellations and refundings)		7.91 <u>1/</u>
	of which has been repaid		<u>2.09</u>
	Total now outstanding		5.82
	Amount sold (of which none repaid)		<u>0.10</u>
	Net amount now held by Bank		<u>5.72</u>

1/ Includes \$1.58 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$1.35 million; \$0.18 million paid and lent in dollars.
Balance of remaining \$1.17 million not released (see III
(c) above.)

(d) Holdings of World Bank Bonds and Borrowers' Obligations as
of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$1.6 million	\$10.1 million

(e) I.F.C.

No investments made and no applications.

(f) I.D.A.

Part II member, subscription \$100,000.

V. POLITICAL SITUATION

The coalition of Conservatives and Social Democrats which had been in power since November 1959 lost one seat in Parliament in this year's election, despite a slight gain in the popular vote. The continued popular support of the coalition is regarded as an expression of approval of the stabilization program adopted in February 1960.

VI. ECONOMIC SITUATION - (Population - 175,000; G.N.P. per capita - \$1,220)

The Government continued the fiscal and credit policies agreed upon with the International Monetary Fund in January 1960 which have ended the financial instability of the preceding ten years. Large herring catches and good markets made possible an increase in exports of 16% during 1962, following an increase of 7% in 1961. The foreign exchange position has also continued to improve. The net foreign exchange holdings of the Central Bank and the commercial banks, which had increased by \$8.7 million in July 1961 - June 1962, rose by another \$6.1 million in July 1962 - June 1963, to \$28 million, equivalent to about 4 months imports.

Against these gains must be set the continued rise in prices, due exclusively to excessive wage increases. The cost of living rose by 11% during July 1961 - June 1962 and by another 13% during July 1962 - June 1963. In the summer of 1961 the Government reacted to the large wage increases which trade unions exacted from employers

by a new devaluation of the currency. This was a courageous action, which has prevented a deterioration in the external position, but it proved extremely unpopular with the general public. It is reported that the Government is at present weighing the introduction of wage controls as a less unpalatable alternative to a new devaluation if, during the forthcoming negotiations between employers and trade unions, wage demands are again excessive.

It seems that the problem of price stability will continue to plague Iceland until a better understanding develops among the public of the harm that excessive wage increases do to the economy as well as of their futility.

September 18, 1963

CONFIDENTIAL

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

IRELAND

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

T. K. Whitaker,
Alternate Governor of Bank

Secretary, Department of Finance

Maurice Moynihan,
Alternate Governor of Fund

Governor, The Central Bank
of Ireland

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. No lending prospects.

(b) Topics likely to be raised by delegation:

A Second Program for Economic Expansion (1964-1970) has just been published and was transmitted to the Bank by the Minister of Finance with a request for comments. The Program aims at an average annual increase of 4.4% in G.N.P. from 1964 to 1970, which is the same as during 1958 to 1962. This increase is to be achieved through a 7% annual increase in industrial production and a 2.7% annual increase in agricultural production. An analysis of the results achieved during the period 1958-1963 and more detailed proposals for 1964-1970 will be issued early in 1964. The delegation may want to discuss the way in which the Bank would comment on Irish plans and policies. In the past we have been faced with requests by the Government for general endorsement of such plans and policies but with a reluctance on its part to have the Bank look into specific aspects of them. The Government seems to be wavering whether borrowing from the Bank would be appropriate. Statements contained in the program reflect this ambiguity and hesitation.

(c) Topics to be raised by Management:

None.

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$5.4 million, fully released; \$4.1 million on loan. Remainder available in annual installments of \$650,000 through January 1, 1965, convertible into any currency.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

Borrowers' Obligations

None

None

(e) I.F.C.

No investments made. A recent inquiry concerning a mining project may be reactivated should the sponsors be unable to find financing elsewhere. The possibility of reorganizing the government-owned Industrial Credit Co. has been discussed informally.

(f) I.D.A.

Part II member; subscription \$3.0 million.

V. POLITICAL SITUATION

The last general election held in October 1961 resulted in a loss of its absolute majority by the party in power, Fianna Fail, headed by Sean Lemass. Fianna Fail remained, however, the largest party (70 out of 143 seats in Parliament), and Mr. Lemass, with the aid of two independents, formed a new government which has continued in office since then.

VI. ECONOMIC SITUATION - (Population - 2.8 million; GNP per capita - \$694)

The economic expansion which characterized the three years 1959-1961 appears to have slowed down. In particular, exports of industrial

products, which had increased by 40% in 1959, 25% in 1960 and 14% in 1961, failed to increase in 1962 and, on the basis of trade returns for January - May 1963, do not appear headed for any marked expansion during the current year. It is not yet possible to determine the reasons and significance of this development, but it is clear that the high hopes that had been placed on industrial exports as the key to Ireland's economic development may take longer to be fulfilled than the earlier results had seemed to indicate. No slackening has, however, been reported so far in foreign private investment in export industries. Among the products which foreign-backed firms are manufacturing or will shortly be manufacturing in Ireland, the following are frequently mentioned in the press: transistor radios (Japanese), pianos (Dutch), heavy cranes (German), plastic containers (German), oil heaters (French), and short-haul planes (French). The principal factors in the establishment of these firms in Ireland have been the liberal incentives provided by the Government, the abundance of labor and the expectation of Common Market firms that a base in Ireland would give them easier access to the British market in case of a final split in European trade.

ITALY
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Monday, September 30

4:00 to 4:20 p.m.

Attended by: Mr. Woods
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Baum

II. MEMBERS OF DELEGATION

*Guido Carli Governor of Bank and Alternate Governor of Fund	Governor, Banca d'Italia
*Donato Menichella Alternate Governor of Bank	Honorary Governor, Banca d'Italia
<hr/>	
*Emilio Colombo Governor of Fund	Minister of the Treasury
<u>Advisers</u>	
*Salvatore Guidotti	Economic Adviser, Banca d'Italia
*Emilio Ranalli	Central Manager, Banca d'Italia
*Federico Caffè	Counsellor, Banca d'Italia
Felice Frasca	Expert in Banca d'Italia
*Francesco Masera	Head of Research Department, Banca d'Italia
*Alfredo Vernucci	Director, Ufficio Italiano dei Cambi
Antonino Zecchi	Representative of the Banca d'Italia in London
Rinaldo Ossola	Representative of the Banca d'Italia in Paris
Florio Gradi	Representative of the Ufficio Italiano dei Cambi in the U.S.
Edgardo Sogno del Vallino	Counselor, Italian Embassy
*Sergio Siglienti	Executive Director of Fund and Alternate Executive Director of the Bank
Luigi Marini	Technical Assistant to Executive Director
*Likely to attend meeting with Management.	

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSIONS

(a) State of relations, including lending prospects.

Relations are good. No loans are in prospect.

Italy participates in the Consortium on Aid to India and for 1963-1964 has pledged aid for \$45 million; for the period 1961-1962 to 1963-1964 pledges totalled \$98 million.

The Italian contribution to underdeveloped nations as a whole amounted in 1962 to \$416 million (against \$239 million in 1961) which represents about 1% of GNP. This figure, however, includes private as well as public medium and long-term loans. At the beginning of 1963 Italy also pledged aid of \$6 million to Greece and of \$10 million to Turkey, under the consortia set up by the OECD.

Dr. Carli feels that if a greater effort is to be made by Italy in the field of foreign aid, it should be better coordinated internationally and granted increasingly on a multilateral basis.

The nationalization of the electric power companies, and the transfer of their assets to a new government agency (ENEL), took place in the first half of 1963. ENEL will assume the obligations of the power companies which received Bank funds through the Cassa.

(b) Topics likely to be raised by delegation

At the annual meeting of the Bank of Italy, Dr. Carli stressed the point that a further contribution of Italy to solve the problem of international liquidity should take the form of an increase in its quota in the IMF. Moreover, Italy's present quota is considered inadequate when compared with that of the other industrialized countries and the possibility of increasing Italy's quota in the Fund, and its subscription in the Bank as well, is actively under discussion.

(c) Topics to be raised by Management

None.

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

(Please see next page)

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1951		Equipment for Development	10.0
1953	Cassa	Equipment for Development	10.0
1955	per	Power, Agriculture, Industry	68.4
1956	il	Power, Agriculture, Industry	74.6
1958	Mezzo-	Power, Agriculture, Industry	75.0
1959	giorno	Power, Industry	20.0
1959		Nuclear Power	40.0
Total (net of cancellations and refundings)			298.0 ^{1/}
of which has been repaid			39.0
Total now outstanding			259.0
Amount sold		161.9	
of which has been repaid		<u>36.6</u>	<u>125.3</u>
Net amount now held by Bank			<u>133.7</u>

^{1/} Includes \$6.3 million not yet disbursed

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$32.4 million - fully released and on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

\$56 million

Borrowers' Obligations

\$97 million
(almost all Italian debt)

In 1961 the Bank placed a fifteen-year 5% bond issue of 15 billion lire (\$24 million) on the Italian market. The issue was underwritten by a group of Italian Banks, led by the Bank of Italy. The present quotation is 94.20 to yield 5.62% to redemption. In addition, at the end of July 1963 holdings by the Italian Government and the Bank of Italy of Bank bonds denominated in U.S. dollars amounted to \$32 million.

(e) I.F.C.

1960 \$960,000 Magrini Meridionale S.A. (electrical equipment)

Not considered appropriate for further IFC financing.

(f) I.D.A.

Part I member. Original subscription \$18.2 million. Second round, \$30 million.

V. POLITICAL SITUATION

The main results of the general elections held in April of this year were a substantial loss by the Christian Democrats and a gain by the Communists.

As a whole, the voting strength of the parties of the center-left coalition (Christian Democrats, Social Democrats, Republicans and Socialists), which was in power before the elections, decreased from 62.5% to 59.6%. After the elections, the center-left parties failed to reach agreement on the formation of a new government and further discussions were postponed until after the convention of the Socialist party, to be held next October. At that time, negotiations will be reopened and it is likely that a new center-left government will be formed. In the interim, a "caretaker" government composed of Christian Democrats and led by the former Chairman of the Chamber of Deputies, Giovanni Leone, has taken over. Decisions on major issues, such as the formation of regional governments, agrarian reform and economic programming, will not be taken until the next government is formed.

VI. ECONOMIC SITUATION (Population: 51 million; GNP per capita: \$740)

The expansion of the Italian economy continued in 1962 at a sustained pace: GNP increased by 6.1%, which is lower than the rate of growth achieved in 1961 (8.1%) but still the highest among the EEC countries. Agricultural production was adversely affected by the weather, but the index of industrial production registered the same rate of increase (9.5%) as in 1961. The main events influencing the economy in 1962 were the following:

- (a) increases in wages and salaries were substantially higher than the increase in labor productivity, and prices rose about 6%.
- (b) total demand increased at about the same rate as in 1961, but consumption increased considerably more than investment.
- (c) a deficit in the external trade and service account was registered, against a surplus in 1961.

To ease the strain on the financial market, brought about by increased demand for funds by the productive sector, the monetary authorities took measures to increase liquidity. These measures helped to maintain production and employment at high levels, but at the same time contributed to inflationary pressures. There is increasing concern about this inflationary trend, which appears to have continued in the first 6 months of 1963, and particularly about its implications for the balance of payments.

The greater trade deficit in 1962 (\$878 million, against \$556 million in 1961) and the net outflow of capital (\$240 million in 1962 against a net inflow in 1961) were the main factors accounting for the reduction in the balance of payments surplus from \$577 million in 1961 to \$50 million in 1962. The deterioration continued in the first quarter of 1963. Official reserves were reduced by \$115 million, to a total of \$3.5 billion at the end of March of this year, and the banking system increased substantially its indebtedness abroad.

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

JAMAICA
BRIEFING PAPER

I. MEETING WITH DELEGATION

Tuesday, October 1

4:40 - 5:00 p.m.

Attended by: Mr. Knapp
Mr. Cope/Mr. Fontein
Mr. Calika

II. MEMBERS OF DELEGATION

*D. B. Sangster
Governor of Bank and Fund

Deputy Prime Minister and
Minister of Finance

*G. Arthur Brown
Alternate Governor of Bank

Financial Secretary, Ministry
of Finance

S. W. Payton
Alternate Governor of Fund

Governor, Bank of Jamaica

Adviser

*D. R. Clarke

Principal Assistant Secretary,
Ministry of Finance

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Jamaica became a member of the Bank in February 1963 with a capital subscription of \$26.7 million. Relations are good. Slow progress in preparation of projects remains the main problem.

A Bank mission visited Jamaica in December 1962 for an economic study and a preliminary review of projects. Completion of the mission's report was held back until September, owing to delays in the issuance of the Government's new 5-year development plan. In March and June of this year, Jamaican delegations headed by the Deputy Prime Minister and Minister of Finance, Mr. D. B. Sangster, visited the Bank and discussed projects. Mr. Calika, on his way from British Guiana, had discussions with the authorities in April 1963 on the status of the Government's work on the development plan and the projects. The new development plan was received in August, 1963. To date, no loan applications supported with project documents, have been received at the Bank.

(b) Topics likely to be raised by delegation:

Mr. Sangster is expected to give information on the status of the work on the proposed Bank projects, including the Government's latest views regarding the Kingston Port and the expansion program of the Jamaica Public Service Company, with which the Government is still negotiating a renewal of its license. He may also wish to tell about a possible borrowing in New York. The Government's new development plan does not contain any provision for expenditures on the Kingston Port, but private investors have reportedly expressed interest in providing some of the funds required for port development. Preparatory work on the Harkers' Hall multi-purpose project is progressing and a preliminary report by a U.N. expert is expected to be ready in October. The Government is considering postponing the roads project which has been discussed with us, because of the small import component of the project to which the Bank might contribute.

Mr. Sangster may request assistance from the Bank and IFC in converting the existing government-owned Development Finance Corporation into a private development corporation.

(c) Topics to be raised by Management

We should encourage the Jamaicans to take firm decisions on one or two high-priority projects and to proceed expeditiously with the preparatory work. We should also encourage them to proceed with borrowing from the market.

The new 5-year development plan (1963-1968) contemplates a total expenditure of about £91 million, of which £30 million are intended to be financed by foreign grants and soft loans. Both figures are too high.

We should tell the Government that we shall expect a release of Jamaica's 18% capital subscription in due course. We should express satisfaction that the Government has now decided to join IDA and IFC.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$2,403,000, not yet released.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

None

Borrowers' Obligations

None

(e) I.F.C.

Application for membership received and being processed.

\$224,000 lent to Jamaica Pre-Mix Limited, May 1961. The Company is presently experiencing some financial difficulties.

(f) I.D.A.

Application for membership received and being processed.

V. POLITICAL SITUATION

During its first year as an independent state, Jamaica displayed a reasonable stability in its political affairs. Unemployment in towns and poverty in rural areas continue to be major domestic issues and have been dominating the government's policy.

Jamaica has participated in a series of conferences with Trinidad and British-dependent territories in the Caribbean to discuss common economic problems and to stimulate cooperation, although the Jamaican Government still remains strongly anti-federation.

VI. ECONOMIC SITUATION (Population - 1,639,000; GNP per capita - \$440)

In 1962, GNP increased by 2% over 1961, but this represented only a small increase in real terms. In the first quarter of 1963, production was generally at a lower level than for the same period in 1962. Imports in 1962 were £79.7 million and exports £66.6 million, resulting in a visible trade deficit higher than in the previous year, but still less than in 1960. The new trend to an increased visible trade deficit continued during the first quarter of 1963, due to increased imports. The outlook for Jamaica's exports is quite good, bauxite and alumina earnings should increase steadily; sugar prices should remain buoyant for at least another year.

Because of the restrictive legislation by the United Kingdom, emigration to the United Kingdom was 23,000 in 1962, or 16,000 less than in 1961. The Jamaican Government is seeking an amendment to the U.S. immigration laws which would remove the present restrictions on Jamaicans. With a natural increase in population of over 3%, the population pressure on resources will become more pronounced in the next few years, unless the past level of emigration is restored.

September 18, 1963

CONFIDENTIAL

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

LUXEMBOURG

BRIEFING PAPER

I. MEETING WITH DELEGATION

Thursday, October 3

9:40 - 9:50 a.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Pierre Werner, Governor of Bank and Fund	Prime Minister and Minister of Finance
* Pierre Guill, Alternate Governor of Bank and Fund	Counsellor of Government, Ministry of Finance

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. No lending prospects.

(b) Topics likely to be raised by delegation:

None.

(c) Topics to be raised by Management:

Management may wish to express its gratification with the recent decision by Luxembourg to become a member of IDA as a Part I country.

(*) Likely to attend meeting with Management.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
1947	Government	Steel and Railways	12.0
	Total (net of cancellations and refundings) of which has been repaid		11.8 <u>5.9</u>
	Total now outstanding		5.9
	Amount sold of which has been repaid	10.1 <u>4.2</u>	<u>5.9</u>
	Net amount now held by Bank		<u>0.0</u>

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$1.8 million; fully released and all on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$0.2 million	\$7.7 million

(e) I.F.C.

Not appropriate for I.F.C. financing.

(f) I.D.A.

Luxembourg's initial subscription to IDA as a new member has been set at \$375,000 and its additional contribution is in the same amount.

V. POLITICAL SITUATION

Mr. Werner's government, a Christian-Social/Liberal coalition formed in February 1959, is likely to continue in office until the 1964 elections.

VI. ECONOMIC SITUATION - (Population - 315,000; GNP per capita - \$1,550)

Luxembourg has continued to be affected by the falling off of foreign demand

for steel which began in the second half of 1961. The overall situation, however, remains sound.

NetherLands
(incl. Surinam)

September 18, 1963

CONFIDENTIAL

NETHERLANDS
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Monday, September 30

4:20 - 4:40 p.m.

Attended by: Mr. Woods
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* H. J. WITTEVEEN,
Governor of Bank
* S. POSTHUMA,
Alternate Governor of Bank

Minister of Finance

Managing Director, De Neder-
landsche Bank, N. V.

M. W. HOLTROP,
Governor of Fund
E. van LENNEP,
Alternate Governor of Fund

President, De Nederlandsche
Bank, N. V.

Treasurer General,
Ministry of Finance

Advisers:

* P. LIEFTINCK,
V. M. de MIRANDA
Miss G. A. KOEN
E. A. LIEFRINCK

Executive Director,
Bank and Fund
President, Centrale Bank van
Suriname
De Nederlandsche Bank, N. V.

Financial Counselor,
Ministry of Finance

J. H. LUBBERS

Counselor, Permanent Mission of
the Netherlands to the U. N.

C. van der TAK

Head, Multilateral Affairs Dept.,
Ministry of Finance

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. No lending prospects concerning the Netherlands. The Bank may consider lending to Surinam at a later stage (see III (b)).

Dutch Foreign Aid: As a member of the India consortium, the Netherlands has provided \$11 million for each of the years 1962/63 and 1963/64. In May 1963, the Netherlands joined the Pakistan consortium as a full member and pledged \$6.6 million for 1963/64.

The Netherlands contributed Sf 72 million (\$37.4 million) to Surinam's development during 1954 to 1962 and pledged Sf 56 million (\$29.5 million) for the period 1963-1966, which will be supplemented with a contribution of the same amount by the EEC.

It was reported that between 1963 and 1966 the Netherlands will contribute f. 370 million (\$100 million) to the development of Curacao and the other Dutch West Indian Islands.

(b) Topics likely to be raised by delegation:

(i) SURINAM - Saramacca Hydroelectric Project - In July 1962 Mr. Lithgow (TOD) visited Surinam to appraise the country's power program and to decide whether the Saramacca Hydroelectric Project would be a sound choice among alternative sources of additional power. The conclusion was that the project might be justified if part of the total investment could be charged to benefits other than power. In May 1963 a mission went to Surinam to assess these benefits. Its report concludes that the expected benefits would be large enough to warrant a detailed study of the project. The mission also discussed with the Surinamese authorities the desirability of transforming the existing Bureau of Hydroelectric Power of the Ministry of General Affairs into an autonomous entity. The report concludes that an autonomous water and power development authority should be established.

(ii) SURINAM - Transportation and Siltation Study: The Bank was asked by the UN Special Fund to comment on a request from the Surinamese Government to finance a study of siltation conditions and transportation policy in Surinam. Our answer was that a study could be worth while provided the scope of the transportation study could be more clearly defined, and we have informed the Special Fund that we would be prepared to help in this respect.

- (c) Topics to be raised by Management:
None.

IV. BACKGROUND INFORMATION

- (a) Bank Loans as of August 31, 1963 - ^{1/}

	<u>Amount</u> (equivalent in \$ million)
Total (net of cancellations and refundings)	236.5
of which has been repaid	<u>202.1</u>
Total now outstanding:	34.4
Amount sold: 128.6	
of which has been repaid: <u>94.2</u>	<u>34.4</u>
Net amount now held by Bank:	<u>0.0</u>

1/ Last loan to Netherlands in 1957 (\$15 million to Herstelbank)

- (b) IDA Credits as of August 31, 1963

None.

- (c) 18% Capital Subscription

\$49.5 million, fully convertible and all on loan.

- (d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$52.8 million	\$109.2 million

(New 8/24)

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member; original subscription \$27.7 million. Second round \$16.5 million.

V. POLITICAL SITUATION

Elections were held on May 15, 1963, with the Catholics winning one-third of the seats and consolidating their position as the biggest single party. The Socialists came second, losing 5 seats. The three Protestant parties maintained their relative position while the Liberals, who had gained in 1959, lost 3 seats.

A cabinet was formed in July with the same composition as the outgoing one; 6 Catholics, 4 Protestants and 3 Liberals, with the outgoing Minister of Agriculture, Dr. Victor Marijnen, as Prime-Minister. 13 Ministers are newcomers. The new Minister of Finance is a Liberal, Professor H. J. Witteveen. Economic affairs are under the responsibility of a Protestant, J. A. Andriessen. The new team is likely to continue the moderate policy of the previous cabinet although greater priority may be given to housing, agriculture, and the extension of social measures such as an increase in old-age pensions. Except for a serious housing and labor shortage, the new administration inherits a sound economy.

VI. ECONOMIC SITUATION - (Population - 11.9 million; GNP per capita - \$1,110)

The revaluation of the guilder in March 1961 has forced the Netherlands to tighten up its financial policies and accept a slower rate of growth than in the past and than in most other Western European countries. During July 1962 - June 1963, however, exports staged a recovery, rising by 7% over the preceeding twelve months and allowing industrial production to increase by 3.7%. As during 1961-62 the gold and foreign exchange holdings of the Bank of the Netherlands remained virtually unchanged during July 1962 - June 1963 and were \$2,036 million at the end of June 1963. At the same time there was a substantial increase in the net foreign exchange holdings of the commercial banks. The Government has announced that it will effect an early redemption of \$70 million of US loans.

The Netherlands has been one of the main protagonists for British entry into the Common Market and deeply concerned about General de Gaulle's veto of it.

The Bank has made four bond issues in the Netherlands for a total of f. 170 million. The two last ones were placed in 1961 and 1962 and were for 20 years with a 4-1/2% coupon. On August 23, their yields were 4.44% each.

New Zealand

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

CONFIDENTIAL

September 25, 1963

NEW ZEALAND

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

H. R. Lake
Governor of Bank and Fund

Minister of Finance

E. L. Greensmith
Alternate Governor of Bank

Secretary to the Treasury

G. Wilson
Alternate Governor of Fund

Governor, Reserve Bank of
New Zealand

Advisers:

N. R. Davis

Assistant Secretary to the
Treasury

A. C. Shailes

First Secretary, New Zealand
Embassy

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects.

Membership in the Fund and Bank became a political issue in New Zealand and there is still some feeling against both institutions within the opposition Labor Party. In fact, the Labor Party has stated that if it should win the November general election the question of membership in the Bank and Fund will be re-examined. Hence the Government party is anxious to obtain a Bank loan before the elections. Although relations are still good the New Zealanders feel that Bank loans take a long time. This is largely due to circumstances connected with the three projects which we are considering.

- i) The Ports Loan. This is a loan for works at seven ports and has involved the appraisal of what is essentially seven projects. Because of the necessity to deal with seven ports it has had to be negotiated in New Zealand and this has meant a further delay. However, negotiations have now been substantially completed and we expect to make the loan in October or November. It will probably be between \$10 and \$13 million.

- ii) The Loan for the "Inter-island" Cable Link. A delegation headed by the Minister of Finance, the Hon. H. R. Lake, and including Mr. B. McKenzie, General Manager of the Electricity Department, visited the Bank on September 18. Mr. Cope explained the Bank's position on lending for electric power stressing that the decisive consideration for us was the danger of creating a precedent which would make it difficult to deal with other countries in similar circumstances. We would, however, be prepared to consider a loan for the inter-island cable. The foreign cost of this project is about \$33.4 million.

Mr. Lake and Mr. McKenzie presented some arguments in favor of the Manapouri project but admitted that, had it not been for the possible smelter the project would not have been started for another 5 or 6 years. Mr. Lake expressed appreciation of the Bank's willingness to lend for the cable project. He said that for

political reasons he would prefer to leave negotiations until after the elections on November 30 unless the loan could be signed before that date. Mr. Cope said it would be difficult to sign before the elections but that, if negotiations were held after the elections the loan could probably be signed in December or January.

iii) Loan for Railways. This would have been difficult in any case since we have had to ask the Government to come forward with proposals to improve the financial position of the railways. Government officials have told us that no proposals are likely to be approved by the Government until after the election.

(b) Topics likely to be raised by delegation:

The delegation is likely to urge the importance of completing a loan or loans as soon as possible. We may expect the ports loan to be made before the election but the power loan may take until December.

(c) Topics to be raised by Management:

We should ask for release of New Zealand's 18% subscription of \$15 million, adding that we would understand if they preferred to do it immediately after the elections, rather than now.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

None

(b) IDA Credits as of August 31, 1963

Not a member.

(c) 18% Capital Subscription

\$15 million. No release; see III (c)

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

None

Borrowers' Obligations

None

(e) IFC

No operations.

(f) IDA

Not a member.

V. POLITICAL SITUATION

The forthcoming elections in November are not likely to bring important changes, since there is little difference between the policies of the two leading parties. At present the National Party holds 46 and the Labor Party 34 seats in Parliament. Although elections in New Zealand are usually close it is expected that the National Party will remain in power.

VI. ECONOMIC SITUATION (Population - 2.4 million; GNP per capita - \$1,520)

Over the last twelve months a substantial rise in virtually all New Zealand's traditional exports, combined with higher export prices, has provided a general stimulus to employment and production. Foreign exchange reserves have therefore increased and now cover roughly four months' imports.

Despite this short-term improvement in the balance of payments, New Zealand's long-term problem still remains -- to diversify the economy and so reduce its dependence upon the export of agricultural products to the U.K. The U.K. takes over 60% of New Zealand's meat exports and about 90% of its exports of butter and cheese. Of all Commonwealth countries New Zealand would be the most affected if the U.K. were to join the Common Market. The absence of any agreement on this subject therefore provides New Zealand with more time to make adjustments.

The external debt is low and New Zealand could service substantial additional debt without difficulty.

Norway

September 18, 1963

CONFIDENTIAL

NORWAY

BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Tuesday, October 1

3:40 - 4:00 p.m.

Attended by: Mr. Woods
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* Kare WILLOCH
Governor of Bank

Minister of Commerce and
Shipping

* Thomas LOVOLD
Alternate Governor of Bank

Director, Royal Ministry of
Commerce and Shipping

* Erik BROFOSS
Governor of Fund

Governor, Norges Bank

* Christian BRINCH
Alternate Governor of Fund

Secretary General, Royal Ministry
of Commerce and Shipping

Advisers:

Erling BORRESEN
Gabriel KIELLAND

Director, Norges Bank
Director, Norges Bank

(*) Likely to attend meeting with Management.

Norway

SEP 27 1963

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. Negotiations for a \$25 million power loan to NVE were just completed. The loan should be submitted for consideration by the Executive Directors in October.

(b) Topics likely to be raised by delegation:

The delegation may inquire about the prospects for further Bank lending. Our reply should be that Norway has to be regarded as a marginal case as far as Bank lending is concerned. We would, however, be prepared to consider lending to Norway when conditions in the private markets do not allow Norway to satisfy its reasonable needs for external capital. The delegation may also wish to discuss a proposal for the establishment of an industrial finance corporation in Norway about which the Bank was approached in a letter from Mr. Viig to Mr. Knapp. The proposal was already briefly discussed between Mr. Knapp, Mr. Cope and Mr. Brinch of the Norwegian delegation.

(c) Topics to be raised by Management:

None.

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1954	Kingdom of Norway	General development	25.0
1955	Kingdom of Norway	General development	25.0
1956	Kingdom of Norway	Power	25.0
1959	Kingdom of Norway	Power	20.0
1960	Kingdom of Norway	Power	25.0
Total (net of cancellations and refundings)			120.0 ^{1/}
of which has been repaid			<u>14.6</u>
Total now outstanding			105.4
Amount sold:		47.6	
of which has been repaid:		<u>14.6</u>	<u>33.0</u>
Net amount now held by Bank			<u>72.4</u>

^{1/} Includes \$20.1 not yet disbursed.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$12.0 million; entirely released, convertible into any currency.
Entire amount on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$5.5 million	\$12.5 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member; initial subscription \$6.7 million. Second round \$6.6 million.

V. POLITICAL SITUATION

The Labor Government, which had been in power for 28 years, was defeated last month by a vote of 76 to 74 on a no-confidence motion. The debate arose from charges that official negligence had led to the death of 21 coal miners in Spitzbergen last November but the attacks on the Government during the past year have also reflected the feeling that it had been too long in power and had become complacent in the process.

The leader of the Conservative Party, John Lyng, a judge, accepted the task of forming a new Government, in coalition with the other opposition parties but after 23 days in office was defeated in Parliament again by a vote of 76 to 74. Municipal elections held a few days after the Government's defeat have indicated a strengthening of the Labor Party in the country (it received 46.5% of the vote compared with 43.97% in the 1959 municipal election). Einar Gerhardsen has once more formed a Labor Government with virtually the same members as the one that was defeated in August.

On foreign policy and international economic cooperation the Government can count on the support of the conservative opposition. On domestic policy issues the reluctance of the conservative opposition to join forces with the two extreme leftwing deputies who hold the balance in Parliament and vice versa is also an assurance that on the principal measures the Government can get a majority in Parliament. New elections are not due until September 1965 and cannot be held before then under the constitution.

VI. ECONOMIC SITUATION - (Population - 3.6 million; GNP per capita \$1,450)

Greater moderation in wage demands and tighter fiscal and credit policies have improved the internal and external financial situation during the past year. Increases in prices have been small and the foreign exchange reserves of the Bank of Norway, which had declined to \$255 million on June 30, 1962, stood at \$356 million on June 30, 1963. (This increase reflects in part a decline in the foreign exchange holdings of commercial banks.) Both domestic production and exports have been rising at a relatively satisfactory rate. In June 1963 industrial production was 5% higher than a year earlier. During the first half of 1963, the value of exports increased by 5% over the first half of 1962.

Norway has availed itself of the easier conditions which have characterized capital markets since the end of 1962 to step up its foreign borrowing. During 1962 new issues abroad by the Government and the municipalities totalled \$39 million. During the first half of 1963 they reached \$82 million. Most of the borrowings were made in the United States, Sweden and Switzerland.

On September 12, 1963 Government of Norway Bonds 1977 at 5 $\frac{1}{8}$ % were quoted at 101 $\frac{5}{8}$ in New York. Norway is one of the countries to which the tax proposals of the U.S. Administration concerning the purchase of securities by U.S. nationals would apply.

Portugal

CONFIDENTIAL
September 18, 1963

PORTUGAL
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Tuesday, October 1

4:20 to 4:40 p.m.

Attended by: Mr. Knapp
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Baum

II. MEMBERS OF DELEGATION

*Antonio M. PINTO BARBOSA
Governor of Bank

Minister of Finance

*Luis M. TEIXEIRA PINTO
Alternate Governor of Bank

Minister of Economy

Manuel JACINTO NUNES
Governor of Fund

Vice Governor, Banco de Portugal

Advisers

Antonio Alves SALGADO

Director, Banco de Portugal

Antonio Jose BRANDAO

Director, Banco de Portugal

*Armenio FONSECA LOPES

Head, International Relations
Department, Banco de Portugal

*Joaquim A. GODINHO COSTA

Secretary of the Minister of
Finance

*Albino Cabral PESSOA

Financial Counselor, Embassy
of Portugal

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects.

Portugal became a member of the Bank two and a half years ago. In 1961 an economic mission visited Portugal; it found the economy creditworthy, but in view of the political uncertainties surrounding the succession to Dr. Salazar and the fate of the Overseas Provinces it recommended that lending be limited initially to \$25 million for electric power in Metropolitan Portugal. A project appraisal and economic mission visited Portugal early this year to study specific power projects and review the economy. It was decided to lend \$20 million for two hydroelectric power projects (Bemposta and Carrapatelo) of Hidroelectrica do Douro (HED) and \$5 million for a thermal power project of Empresa Termoelectrica Portuguesa (ETP) in Northern Portugal.

Subsequent to the appraisal mission, the Government decided to revise the power expansion program along the lines of suggestions made by the Bank, postponing the start of Carrapatelo and introducing in its stead a new thermal plant in the South to be constructed by ETP. Negotiations on the basis of the revised program were completed early in August. The first loan will amount to \$12.5 million: \$7.5 million to HED for Bemposta and \$5 million to ETP for the Northern thermal plant. It is expected that the loan will be signed in October after the Annual Meeting and before the U.N. Secretary General's report on Angola and Mozambique. The loan to ETP includes a preliminary engineering study for the Southern thermal plant, and the Bank has agreed to consider a loan of \$12.5 million for the project when it is ready. This would complete the \$25 million program agreed with the Portuguese.

The Government has recently requested technical assistance from the Bank in the financing of economic development. An expert's report is desired, covering the fields of budgetary and tax policy, the capital market, and banking and credit policy. It is expected that a team of two or three specialists will be necessary, and that the report would take four to six months. The Bank is favorably disposed towards this request, which is now being discussed with the Fund.

(b) Topics likely to be raised by the delegation

The delegation may wish to ascertain when the second loan to ETP for the thermal power station in the South will be made. Its timing will depend on the completion of the engineering study to be prepared by consultants, but the project is not likely to be ready for appraisal before next Spring.

The Portuguese delegation may also inquire about the possibility of a loan in 1964 or early 1965 for the Carrapatelo project. Management might reply that we expect Carrapatelo to be a good project but that we wish to conclude the first loans before considering further operations.

The status of the technical assistance request may also be raised. The Management should indicate that we are favorably disposed, and are now taking the preliminary steps. When the head of the team of specialists has been selected, he should go to Portugal to discuss the terms of reference before final agreement on the technical assistance project is reached.

(c) Topics to be raised by Management

Reform of tariff for electric power

The Government is considering a major reform of its tariff system for electric power as a result of the increases in rates necessary for the Bank loans. While the loan and guarantee agreements provide the assurance of adequate revenues for HED and ETP, we are concerned that the general reform may be proceeding on the wrong basis; provisions for self-financed expansion, which were proposed by the Bank for the two borrowers, would be applied automatically throughout the system, including companies for which this arrangement would clearly not be appropriate. During loan negotiations the Bank therefore offered its help in arranging technical assistance on the tariff reform, and the negotiating team agreed to raise the point in Lisbon. The Management might stress the importance of establishing the new tariff system on a sound basis, and renew its offer to be of assistance.

IFC Membership

On the occasion of Mr. Woods' visit to Portugal last April, the Government expressed an interest in becoming a member of IFC. The matter has not been raised again.

18% Capital Subscription

About two years ago the Minister of Finance agreed to consider a release of the 18% subscription. Nothing further has been done by Portugal, and with the first loan in the offing the Management might raise this question with the delegation. A release over several (say five) years would be appropriate.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$7.2 million. No release (see III (c)).

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

Borrowers' Obligations

None

None

(e) I.F.C.

Not a member (see III (c)).

(f) I.D.A.

Not a member (presumably Portugal would be a Part II country, like Spain).

V. POLITICAL SITUATION

The internal political situation appears stable. However, the succession to Dr. Salazar (now 74) remains unresolved, and events in the Overseas Provinces could have a major impact. The Government continues to affirm its intention to hold the Provinces as an integral part of the Portuguese State, although some steps have recently been taken to grant the local governments greater autonomy. The disorders in Angola, which broke out in 1961, have now been localized. Portugal has taken advantage of the sharp dissensions among the rebel factions, but the opposition appears to be consolidating its forces and it is securing increased financial and political support from the independent African States. In Guinea, the rebels have increased substantially their activity in the last six months and succeeded in seizing control of a part (perhaps 15%) of the territory.

The resolution recently adopted by the U.N. Security Council requests all States to refrain from offering Portugal assistance in maintaining its regime in the Provinces and particularly from supplying Portugal with military equipment. The Secretary General is to report on the implementation of the resolution by October 31st, at which time stronger resolutions may be advanced in the General Assembly.

VI. ECONOMIC SITUATION (Population: Metropolitan Portugal - 9.2 million; Overseas Provinces - 14-15 million; GNP per capita of Metropolitan Portugal: \$300)

Although the growth of the Portuguese economy was less rapid in 1962 than in the two preceding years, the annual rate of expansion of GNP in 1960-62 averaged 7%. Manufacturing industry led

the economic expansion, while agriculture remained the most backward sector. A start on land reform is expected shortly; it will be combined with a large-scale irrigation program which will increase the total irrigated area by about 40%. The emphasis in government policy is gradually shifting from the traditional concern with financial stability to the need for accelerating economic growth. However, the combination of an expanded development effort with the higher military expenditures necessitated by the situation in the Provinces, is straining Government finances. Military expenditures have risen to 40% of the budgetary expenditures; as a result the budget deficit has increased and additional taxation is envisaged.

In 1962 Portugal resorted to extensive borrowing from abroad for development purposes; \$55 million from Eximbank, \$37.5 from the German Government, \$20 million from Dillon Read and other U.S. banks. The external debt of Portugal is nevertheless relatively low. The financial crisis in 1961, arising from events in Angola, Goa, and elsewhere, resulted in a large external payments' deficit for Metropolitan Portugal. The balance of payments position was strengthened substantially in 1962, owing to the large capital inflow, to an increase in exports (by 13%) and to a drop in imports (by 11%). The Overseas Provinces absorb about one-fourth of the goods exported by Metropolitan Portugal, which has a large surplus in its trade and payments with the Provinces. This surplus enables Metropolitan Portugal to acquire a substantial portion of the foreign exchange earned by the Overseas Provinces from their relations with the rest of the world. The reserves of the Bank of Portugal amounted to \$783 million at the end of June 1963.

South Africa

modest a return). We indicated that the Bank would consider lending in South Africa up to \$25 million for acceptable projects other than the Orange River scheme (such as ESCOM), but have not so far received any loan applications. In discussions with the South Africans last year, we made it clear that, if not taken up within a reasonable period, the Bank might reconsider its offer.

On general economic grounds, South Africa continues to be a relatively good credit risk. Its gold and foreign exchange reserves are at an all-time high and, although the economy is not growing at the rate it achieved in the post-war decade, its prosperity is likely to continue. The main risk in investing in South Africa is the possibility of disruption of the economy by widespread interracial strife. The authorities are well prepared to combat such an eventuality and it seems unlikely that, in the foreseeable future, the racial conflict would attain such proportion as to hamper South Africa's ability to meet its external debt obligations. The Afro-Asian boycott of the South African trade has made little economic impact as South Africa's major trade partners (the U.S. and Western Europe) have not supported it. The Afro-Asian pressure in the U.N. (Security Council) is mounting and there may be a concerted effort to bar any assistance to South Africa through the U.N. specialized Agencies. The Governing Body of the International Labor Office and the Assembly of the World Health Organization have already taken measures against South Africa. South Africa has withdrawn from the U.N. Economic Commission for Africa. When we made the last two loans in South Africa in December, 1961, two Executive Directors (representing respectively India and a group of largely Moslem countries) cast unfavorable votes and one (also representing certain Moslem countries) abstained. Executive Directors may now take a more critical view of new Bank lending in this country. Moreover, African representation in the Board has since increased.

Mainly because of the restrictive measures taken by the Government in 1961 to halt capital outflow and to curtail imports, domestic savings in South Africa have been increasing and there seems to be no serious shortage of investment funds. South Africa may not need to borrow from the Bank during the next year or so.

(b) Topics likely to be raised by delegation

Dr. Dönges' call will be a courtesy visit. He might wish to emphasize his Government's desire to maintain close ties with the Bank.

(c) Topics to be raised by Management

None.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
1951	Union of South Africa	Transport	20.0
1951	Electricity Supply Commission	Electric power	30.0
1953	Union of South Africa	Transport	30.0
1953	Electricity Supply Commission	Electric power	30.0
1955	Union of South Africa	Transport	25.2
1957	Union of South Africa	Railways	25.0
1958	Union of South Africa	Railways	25.0
1959	Union of South Africa	Railways	11.6
1961	Republic of South Africa	Transport	11.0
1961	Electricity Supply Commission	Electric power	<u>14.0</u>
Total (net of cancellations and refundings)			221.8 ^{1/}
of which has been repaid			<u>119.1</u>
Total now outstanding			102.7
Amount sold		121.2	
of which has been repaid		<u>83.7</u>	<u>37.5</u>
Net Amount now held by Bank			<u>65.2</u>

^{1/} Includes \$1.5 million not yet disbursed.

(b) IDA Credits as of June 30, 1963

None.

(c) 18% Capital Subscription

\$18 million fully released and all on loan.

(d) Holding of Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

\$2.75 million

Borrowers' obligations

\$20.2 million
(mainly South African maturities)

(e) I.F.C.

Not considered appropriate for I.F.C. financing.

(f) I.D.A.

Part I Member: original subscription \$10.1 million. Second round: \$4 million.

V. POLITICAL SITUATION

Tightening of restrictions against political activities by African nationalist groups and political leaders continued in 1962 and 1963. African political parties, now banned, have gone underground. The "Poqo" and the "Spear of the Nation", the most active African organizations, have been resorting to violence (they were responsible for some violence which occurred in the Cape Province late in 1962). Independent African countries are supporting the underground movements. The Government imprisoned a large number of alleged terrorists and has probably been able to arrest the growth of the terrorist organizations. The situation, however, remains tense. The Government has substantially increased its police and defence budgets. The growing threat has brought the Afrikaner and the English-speaking South Africans closer to each other.

On the international scene, the opposition to South Africa's apartheid policy is stiffening. Last November the U.N. General Assembly passed a resolution inviting Member States to refrain from trading with South Africa, to break diplomatic relations, and to forbid harbor and landing rights to South African vessels and airplanes. The resolution, which was carried against the opposition of most Western European and North American Governments, has been put into force mainly by the Afro-Asian group of the U.N. Member countries. In August, 1963, the U.N. Security Council asked for a world-wide arms embargo against South Africa.

VI. ECONOMIC SITUATION (Population - 16.0 million; GNP per capita - \$490)

Despite the recent increase in export proceeds and external reserves, South Africa's gross national product showed only a modest growth in both 1961 and 1962. The rate of increase in the real per capita GNP may have just been over 1% per year in these years. Both personal consumption and gross capital formation increased only moderately, while domestic savings increased substantially. The Government's 1963/64 budget was designed, through selective tax reliefs and higher public spending, to spur both consumption and investment. In the first half of 1963 the economy experienced a mild boom, with an increase in imports at a rate much faster than in 1962. Despite this, the gold and foreign exchange reserves stood, at the end of June 1963, at \$686 million equivalent, an all time record. This indicates a slowdown in the rate of capital outflow which continued (though at somewhat reduced rate) despite the Government's restrictive measures introduced in 1961.

SPAIN
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Tuesday, October 1, 1963

12:00 to 12:40 p.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Cope/Mr. Fontein
Mr. Aldewereld
Mr. Miller
Mr. Baum

II. MEMBERS OF DELEGATION

*Mariano NAVARRO RUBIO
Governor of Bank

Minister of Finance

*Juan Antonio ORTIZ Gracia,
Alternate Governor of Bank

Director General, Institute of
Medium and Long Term Credit,
Ministry of Finance

Alberto ULLASTRES
Governor of Fund

Minister of Commerce

Manuel VARELA
Alternate Governor of Fund

Technical General Secretary
Ministry of Commerce

Advisers

*Jose Miguel RUIZ MORALES

Director General of Foreign
Financing, Ministry of Finance

*Francisco GIMENEZ TORRES

Vice Governor, Banco de Espana

Huberto VILLAR Sarraillet

Managing Director, Instituto Espanol
de Moneda Extranjera

J. Francisco MARTI de Basterrechea

Deputy Commissioner for the Develop-
ment Plan

Enrique MANZANARES

Chief, Technical Department, Ministry
of Commerce

Juan SARDA

Chief, Research Department, Banco de
Espana

Tomas LAMAMIE de CLAIRAC

Assistant Director, Instituto Espanol
de Moneda Extranjera

Jose M. FERNANDEZ BENJUMEA

Chief, Public Relations Department,
Banco de Espana.

*Joaquin GUTIERREZ CANO

Executive Director of Bank

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

The Bank is now in the first phase of a program of lending reaching perhaps \$300 million over the next several years. Negotiations for a first loan - \$33 million for a highway improvement and maintenance program - were completed in August. However, the Government has not yet approved the draft loan documents, and on the most controversial point - price escalation in public works contracts - a decree was adopted by the Government while the negotiations were under way which is inconsistent with the agreement reached in Washington. The Spanish delegation will no doubt wish to raise this and perhaps other points in the loan documents at the Annual Meeting.

Other projects which we have agreed to consider are also in the transportation field.

- (i) RENFE: The report of the consultants, Sofrerail, on the modernization of the railroads is now being studied and a meeting with Sr. Mendoza, head of RENFE, and Sr. Sanchez Cortes, Undersecretary of the Ministry of Finance, is due to be held in the Bank shortly after the Annual Meeting. If these discussions on the "Master Plan" for RENFE are satisfactory, an appraisal mission might visit Spain in November/December with a view to a first railroad loan of about \$50-60 million early in 1964. Concerning further participation in RENFE's investment program, it is possible that, given adequate progress on reforms and execution of works, our contribution could reach a total of \$150-200 million in perhaps three loans over a period of years. The total cost of RENFE's ten-year modernization plan (1964-1973) is expected to be about \$1 billion.
- (ii) Autopista: The Bank has agreed to consider a loan of perhaps \$20-25 million for the first section (40 km or more) of the 160 km highway between Barcelona and the French frontier. The Government has just received a report from Dorsch, the consultants, on the key question of the alignment of the first segment north of Barcelona. A decision on the best route is to be made during September, but the project is unlikely to be ready for appraisal until 1964. Subsequently, the autopista will presumably continue to be built in stages (both towards the frontier and southwards along the east coast), and we may wish to consider lending for one or more of these stages.
- (iii) Ports: We are prepared to consider lending for the development of several major ports, linked with reforms in port administration and financing, and possibly for general port equipment, e.g. dredges. We have tentatively set a range of \$20-25 million

for such a loan although it might in the end prove to be somewhat larger. We are now studying an interim report on port investment during the Development Plan, 1964-67, and a detailed port plan is due to be completed in December. We have yet to decide whether the present report provides a sufficient basis for project appraisal or whether we shall have to await the final report later this year. We have already been asked informally to advise on the preparation of the latter report.

The first highway loan, together with the first railway, autopista, and port loans referred to above, could result in lending of \$125-150 million by the end of 1964. There is scope for further investment in railways, in the autopista, and in other highway projects, which together could readily absorb all the remaining funds presently envisaged for operations in Spain. We have therefore discouraged the submission of projects in sectors other than transportation.

(b) Topics likely to be raised by delegation

Procurement and Contracting Procedures: The issues outstanding on the first loan (notably, price escalation) are likely to be raised by the delegation, and a separate memorandum has been prepared on the subject (copy attached).

Future lending: The delegation may ask the Bank's help in bridging the gap in the balance of payments during the 1964-1967 development plan. The deficit may average \$300-400 million annually.

The Planning Commissioner, Lopez Rodo, appears anxious to involve the Bank as heavily as possible; but the Minister of Finance is inclined to favor a cautious project-by-project approach. The Bank's operations may average \$75 million per year during the plan period, but we have been careful not to commit ourselves to any specific figure in conversations with the Spaniards. The French Government has indicated an interest in joint operations with the Bank in Spain. There are reasonable prospects that the remainder of the gap may be filled by increased private investment from abroad and by substantial inflows of public capital, particularly from France and the United States. There are reports that Spain has been contemplating a New York issue through Dillon Read, but nothing has materialized.

Interest and commitment charges: The Minister of Finance may renew his criticism of the Bank's interest rates and of the commitment charge.

Interest equalization tax: The Minister may convey his concern at the impact of the proposed U.S. tax on Spain's access to the U.S. capital market. He may also ask its relevance to the Bank's loans through its effects on the sale of maturities and bonds.

Invitation for Mr. Woods to visit Spain: The Minister may extend this invitation, as he did last year to Mr. Black.

(c) Topics to be raised by Management

Management might express its pleasure at the response accorded the report of the Survey Mission and at the progress in implementing its recommendations. The Bank is disposed to help in development, particularly when its participation will assist in implementing needed economic reforms. This approach is true of the present road project and of our involvement in the plans for modernizing RENFE; it also holds for any consideration we might give to a port development plan.

RENFE: Depending on our review of the findings of the Sofrerail report, Management may want to raise some of the general issues involved in the light of the Bank's position on the reforms needed.

Porto Pi and Barcelona Traction: The Porto Pi Company has agreed to the request of the Spanish petroleum monopoly, CAMPSA, that there be a further round of discussions in September. If there is then no agreement on compensation, the case will return to the Spanish Court for an assessment of the amount of compensation payable. CAMPSA has agreed not to appeal such a ruling. The position therefore appears satisfactory, but will require review prior to the submission of the first loan to the Executive Directors.

The Barcelona Traction case is before the International Court at the Hague. Should the Court decide it lacks jurisdiction on technical grounds which do not affect the merits of the case, the Bank has advised the Government that it would expect to raise the matter again with it. No further action appears necessary at this time.

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$18.0 million. Fully released and available in 5 annual installments of \$3.6 million through October 1, 1966, convertible into any currency. The first \$3.6 million is on loan.

(d) Holding of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$8.1 million	None

(e) I.F.C.

1962 \$3.0 million FEMSA (automotive electrical equipment)
1963 \$0.3 million BANDESCO (equity investment in a new industrial
development bank)

Under consideration

Financing of electrical equipment and cement plants.

(f) I.D.A.

Part II member. Subscription - \$10.1 million

V. POLITICAL SITUATION

Spain continues the policy of increasing its contacts with other Western countries. While the 1962 request for negotiations with the European Economic Community has been deferred, Spain has become a member of the GATT. An economic cooperation agreement has been made with Germany. Close ties are maintained with France, e.g., in planning, and a \$150 million loan is being negotiated, reportedly in the form of generous supplier credits. Discussions with the United States on military bases and economic assistance are under way. Foreign investment has been substantially freed from restrictions.

The Franco regime is firmly entrenched and there is no open, active opposition. The important question of succession is unresolved, although Franco appointed an army general as his deputy. He has not proceeded further towards re-establishment of the monarchy.

The Government continues its policies of internal economic reform and liberalization, although there is strong resistance to change in agriculture, labor regulation and state industry. There is also opposition to the development plan: the Sindicatos (government-organized groupings of workers and employers, important in labor questions and providing one-third of members of parliament) have consistently attacked the Plan and the Bank report. Promised relaxations of control over the press and religion have not materialized. Despite large wage increases and new "democratic" elections of labor officials, labor unrest continues, and a number of strikes and lock-outs have been reported, especially in the industrial north, over the last few months.

VI. ECONOMIC SITUATION (Population - 31 million; GNP per capita - \$410.)

Since the stabilization in 1959-1960, Spain has maintained a high rate of growth, averaging some 6% per annum. Restrictions on private investment have been eased, a number of other measures have been relaxed as a preliminary to the 1964-1967 development plan, and the draft plan (aiming at 6%

growth per annum) has been submitted for final approval by the Government. The Minister of Finance is at present very much involved in getting his tax reform bill through the parliament (Cortes); details have yet to be made public. Apart from structural problems, there are two challenges posed by the recent economic expansion: strong upward pressures on prices and wage rates and a growing trade deficit.

Both wholesale prices and the cost of living rose 10% between March 1962 and March 1963, though prices apparently stabilized in the second quarter of 1963. Many wage rates are 20% or more above 1962 levels. Shortfalls in farm production and expansion of credit to private business have also made for price increases. Although bank advances rose 11% in the January-July period, there are press reports of some shortage of credit. The liquidity ratio of the commercial banks was raised in April and again in June. The Government is resolved to maintain the stability achieved since 1959, and there are adequate measures available - fiscal and financial - for control of prices and credit.

Following an increase in imports by 45% in 1962, a further rise of 20-30% is likely in 1963. External reserves reached \$1,076 million in August 1962, and there has since been a slight decline to \$1,068 million (July 1963). The growing trade deficit is largely offset by increased receipts from tourism and emigrants and by a substantial inflow of private capital (\$150 million in 1962). Exports have been reduced by crop failures in 1962-1963, but there are good prospects for increases over the next few years. Nevertheless, if investment is to continue at a high rate, the payments gap during the Development Plan may be between \$300 million and \$400 million annually.

Mr. J. Burke Knapp

September 16, 1963

S. R. Cope

Spain: Issues Outstanding on the Proposed Highway Loan

1. It now appears that the first loan to Spain, for highway improvement and maintenance, will not be signed before the Annual Meeting. While the loan negotiations were in process last month, the Government adopted a decree on the most controversial point (price escalation in public works contracts) which is apparently inconsistent with the loan documents as negotiated. Finance Minister Navarro Rubio will probably raise this question with Mr. Woods and you during the Annual Meeting. It is possible that he will also reopen other points.

2. The principal issues in this first loan concern Spain's obsolete contracting procedures, which have caused serious delays in public contracting work over many years. The Survey Mission report was critical of the long periods necessary to complete public projects (irrigation projects, for example, are often under construction for 15-25 years) and of the many projects started but never finished. It has since become apparent that contracting procedures are an important factor. The Government has come to recognize that a thorough reform is necessary and it was included among the various liberalization measures proposed last November. The reform has proven difficult to carry out, and while we had hoped to assist in a general revision of contracting procedures which would also be suitable for Bank operations in Spain, the Government now intends to adopt special legislation for the Bank loan, with the idea of using it as a "model" for a subsequent and more general reform. In the case of price escalation, however, the Government had in mind a general decree which would apply to all public works contracts, including those financed by the Bank.

3. The draft loan documents, as agreed during negotiations, contain a number of provisions concerning contracting procedures. In addition to requiring an adequate price escalation clause (discussed below), the documents provide as follows:

(a) The Government will follow international competitive bidding for both the improvement and maintenance parts of the project, and wherever possible contracts for both improvement works and maintenance equipment will be large enough to interest foreign bidders. (At present, it is not possible for foreign firms to bid on public works contracts and equipment must be bought from national producers, except in special cases.) There will be no margin of preference to local firms for improvement works. For maintenance equipment, there will be a preference of no more than 15% (in lieu of customs duties which would otherwise apply) to the lowest Spanish bidder offering satisfactory terms and conditions. The Spanish delegation sought a preference of 20%, and this point may be reopened by Sr. Navarro Rubio.

(b) The Government will retain at least 10% of the contract price until final reception of each completed portion of work. The contractor will also furnish a performance bond of at least 10%. We regard the 10% bond as a minimal figure; the present Spanish requirement is a 4% performance bond, with no retention of funds.

(c) Pre-qualification of bidders will take place at an early stage, and there will be no requirement that contractors register prior to bidding.

(d) Contracts will normally be unit price contracts, with payments based on the unit prices submitted by the successful bidder. At present, large contracts are not awarded to the lowest bidder but to the one closest to and below the average of all bids which are below or equal to the government estimate. Payments are not made on the basis of contractors' unit prices, but of estimated government prices which may be quite different.

4. There is no provision in public works contracts to permit contractors to adjust their prices to increases in costs over the life of the contract. A price escalation provision existed a number of years ago, but it was not well conceived and was subsequently abandoned. For the past year, many public work projects have been halted completely while contractors argued with the Government over adjustments to take account of the substantial price increases of 1962-1963. An across-the-board adjustment has now been allowed, but the problem remains for the future. In a number of recent public works projects, there have been no bids from private contractors for want of a price escalation formula.

5. Opinion in Spain is divided on the kind of price escalation to adopt. The Ministry of Finance considers price escalation to be inflationary, and Sr. Navarro Rubio will no doubt take this position. The draft legislation prepared by the Ministry (see paragraph 7 below) provides for minimal adjustments. The Ministry of Public Works considers that an adequate escalation formula is essential to persuade contractors (particularly foreign) to bid on public works contracts and to carry them out on schedule. Sr. Mortes, then head of the Highway Department, has described the draft legislation as "catastrophic" and urged us to help him oppose it.

6. During negotiations we took the position that we fully shared the Government's desire to avoid inflation. However, it appeared to us that a broad and automatic price escalation formula was less inflationary than the limited formula proposed by the Ministry of Finance, for the following reasons:

(a) In the absence of adequate price escalation, contractors are obliged, in order to protect themselves, to discount in advance the price rises they expect during the life of the contract and to in-

crease the initial contract bid accordingly. The inflationary process, instead of being slowed down, is thereby accelerated.

(b) Since there are some risks in hedging contracts in this way, contractors will be reluctant to bid. This has already proven to be the case, especially for foreign contractors who will have to be attracted to Spain in larger numbers if the ambitious construction program of the development plan is to be carried out. The lack of effective competition among contractors will tend to raise contract prices.

(c) As in the past, contractors will slow down or halt their projects if costs are rising and there is no arrangement for adjusting prices. This has, of course, inflationary consequences.

7. The draft legislation prepared by the Ministry of Finance contained the following provisions:

(a) Price escalation would apply only to contracts of more than two years' duration and there would be no adjustment during the first two years. As an exception, escalation would apply during the first two years or to a contract of less than two years if the increase in costs was attributable to government policies (e.g. a rise in statutory minimum wages).

(b) No price adjustment would be made for work behind schedule, unless the delay was not attributable to the contractor.

(c) Certain fixed charges (e.g., indirect taxes, interest and depreciation) would not be subject to escalation.

(d) Escalation would apply only after prices had risen 5%, and the price index and escalation formula would be adjusted only quarterly.

(e) Having calculated the amount of additional compensation payable to a contractor under the formula, the Government would deduct 10% from the sum so determined before making the payment.

8. A compromise solution was worked out during the negotiations which, while less broad and automatic in its application than we would have wished, appeared reasonable. It provided that:

(a) There would be no time limit on the contracts to which price escalation would apply. To exclude small contracts, escalation would not apply to works of less than 5 million pesetas (\$83,000).

(b) Escalation would not apply to the first 20% of work completed and it would apply only to work on schedule. (This provision is designed to encourage contractors to get the work done on time. On a two-year contract, it would generally mean that there would be no price adjustment during the first four to six months.)

(c) Indirect taxes would not be included in the fixed charges, and the fixed part of the formula would be limited to about 15% of the total.

(d) The escalation formula would come into operation after prices had risen 2 $\frac{1}{2}$ %. Calculation of the index would be made monthly. The contractor would absorb the first 2 $\frac{1}{2}$ % rise in prices; thereafter, the adjustment would be made monthly and would correspond to the actual price increases.

(e) There would be no deduction from the amount payable to the contractor under the formula.

9. We have not been told and do not know what legislation was approved by the Cabinet prior to the return of the negotiators. From Sr. Navarro Rubio's letter to you of August 11th, it seems likely that the legislation was adopted as originally drafted. In any event, the letter indicates that it was possible to take account of the Bank's views only to a limited extent before the decree was finalized. There is little reason to believe that the Government was unaware of the Bank's interest in this question; it was raised on several occasions during the visit of the appraisal mission in March and communicated officially in a letter on contracting procedures in April which was also referred to when negotiators were invited in July.

10. The Working Party feels, and Mr. Aldewereld and I agree:

(a) that the original Spanish price escalation proposal is unacceptable;

(b) that the compromise solution reached during negotiations already represents a considerable concession on our part; and

(c) that the Spaniards, if they reopen the question, should be informed that we shall wish to start from the original Bank position on price escalation, not from the compromise solution.

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: September 26, 1963

FROM: S. R. Cope

SUBJECT: Inquiry by The First Boston Corporation on financing prospects for permanent traffic link between Denmark and Sweden.

1. Mr. Denis Newman of the First Boston Corporation, in his letter to you of September 4, 1963, has inquired about the possibility of the Bank joining U.S. private interests in the financing of the above project which is under consideration in the two Scandinavian countries. I have had Mr. Waern discuss the matter informally with Swedish officials.

2. In March 1954, the Governments of Denmark and Sweden appointed a committee of experts from each country to study the technical and financial aspects of proposals for the establishment of a bridge or tunnel (or both) across the Sound between the two countries. A report of the committee was published on November 23, 1962, and its principal findings are commented on below.

3. The report starts by saying that traffic across the Sound has been increasing rapidly and will necessitate large investments in new ferries and other installations in the coming years. In view of this, the construction of permanent links would represent a more advantageous alternative. The following table illustrates the growth in traffic during 1952-1961 and the expected increase during 1960-2000 if no permanent links are built:

	<u>1952</u>	<u>1961</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>2000</u>
Passengers, million	4.9 ^{1/}	11.2 ^{1/}	6.6 ^{2/}	8.9 ^{2/}	10.4 ^{2/}	12.5 ^{2/}
Motor vehicles, '000	170	586	440	800	950	1,100
Tonnage carried by rail, '000 tons	800	1,200	1,040	2,000	2,650	4,300
Tonnage carried by trucks, '000 tons	100	400	300	800	1,500	2,500

The report estimates that traffic will increase faster if a permanent link is built, especially in the case of private cars. By 1970 private car traffic is likely to be 50% to 100% higher than estimated above for ferry service, even if tolls at the level of the ferry charges are levied.

4. The report gives no breakdown of traffic either as to country of origin or as to destination. It shows, however, that in 1961, 51% of passenger cars carried by ferries across the Sound were Swedish and 31% Danish. No attempt is made to estimate which of the two countries would benefit more from a permanent link.

^{1/} Includes journeys assumed to have been due to tax-free sale of goods on board of ferries, differences in prices between two countries, etc.

^{2/} Excludes above journeys.

5. The committee estimated the cost of operating increased ferry services during 1970-1979 at S. Kr. 523 million and net income from ferries in that period at S. Kr. 122 million, indicating a rate of return of 2.3%.

Present average charges for use of ferries are:

	<u>S. Kr.</u>	<u>Equiv. in US\$</u>
Individuals, one way	1.50	0.30
Passenger cars, one way	7.50 (driver and passengers pay individual fares)	1.50
Buses, one way	55.00	11.00
Rail cargo/ton	6.75 (gross, incl. car)	1.30
Truck cargo/ton	15.00 (gross, incl. car)	3.00

The ferries are owned and operated by the Danish and the Swedish State Railroads.

6. Construction costs and revenues for the principal proposals considered by the committee have been estimated as follows:

	<u>Construction costs (incl. interest during construction)</u>		<u>Average net income per annum 1980-1989</u>		<u>Average return on investment</u>
	<u>equiv.</u>		<u>equiv.</u>		<u>%</u>
	<u>S.Kr.</u> (million)	<u>US\$</u>	<u>S.Kr.</u> (million)	<u>US\$</u>	
a. Copenhagen-Malmö Motorway only	594	115	16.8	3.25	2.8
b. Motorway and railway	1,170	226	16.6	3.21	1.4
b. Helsingør-Halsingborg Motorway and railway	719	139	36.8	7.00	5.1
c. Copenhagen-Malmö Motor- way and Helsingør- Halsingborg Railway	1,000	194	26.4	5.10	2.7
d. Copenhagen-Malmö Motor- way and Helsingør- Halsingborg Motorway and Railway	1,313	254	20.2	3.90	1.5

7. The committee concluded that the proposal under (b) above was clearly the most advantageous as a first stage in a long-term plan that might include other links at later stages.
8. The link under (b) above would consist of a bridge of about 5 km with a four-lane motorway and a single-track railway line. The depth of water is considerable in most parts of this stretch of the Sound, and soil conditions may be unsatisfactory. It is proposed that the bridge shall have five spans with a clearance over the main fairway of 55 m.
9. The committee estimated that such a link would be needed by the middle of the 1970's. The preparatory work would take at least three years and the actual construction seven years. Thus, a final decision on the project would have to be made by the middle of the 1960's.
10. The report of the committee contains the following comments on financing. If purely government funds were used, costs should be divided equally between the two countries. An alternative would be private financing, possibly with the aid of foreign capital, with or without government participation. In view of the keen interest expressed by industry and commerce in the project, there might be scope for private participation. The committee suggested that in this case the principles followed in setting up the Scandinavian Airlines System might be adopted.
11. There is reason to believe that the Swedes would prefer to finance their share of the project through budget appropriations. It seems likely that the Danes would be interested in outside finance for part of their share.
12. The report does not refer to another proposal, closely connected with the Sound project, which is now under active study and which, if decided upon, would enhance the economic and financial value of the Sound project. A group of industrial enterprises in Sweden, the Netherlands, France and Germany is reported to be interested in the construction of a bridge between the Danish island of Lolland and Germany, and a study sponsored by the group has just been completed. The study concludes that such a bridge (which would be the largest in Europe, 19.3 km, and cost about \$325 million) would be necessary to handle the expected volume of traffic, but only on the assumption that the Sound link between Denmark and Sweden will also be built.
13. I propose to discuss the project informally with the Danish delegation at the Annual Meeting and keep in touch with developments.

cc: Mr. Knapp
Mr. Wilson
Mr. Aldewereld
Mr. Chauffournier



September 18, 1963

CONFIDENTIAL

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

SWEDEN

BRIEFING PAPER

I. MEETING WITH DELEGATION

Monday, September 30

4:40 - 5:00 p.m.

Attended by: Mr. Woods
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Cavanaugh
Mr. Miller
Mr. Nurick
Mr. Chauffournier

II. MEMBERS OF DELEGATION

* G. E. STRAENG,
Governor of Bank

Minister of Finance

* N. G. LANGE,
Alternate Governor of Bank

Minister of Commerce

Per ASBRINK,
Governor of Fund

Governor, Sveriges Riksbank

S. F. JOGE,
Alternate Governor of Fund

Deputy Governor, Sveriges Riksbank

Advisers:

* H. K. WICKMAN,

Under Secretary of State,
Ministry of Finance

* H. W. A. de BESCHE

Deputy Secretary-General,
Ministry for Foreign Affairs

Kaj SUNDBERG

Commercial Counselor,
Embassy of Sweden

(*) Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations with Sweden are good. In past months Sweden has channelled its increased multilateral assistance through IDA and has sought ways of increasing cooperation with IDA and the Bank. No lending prospects.

(b) Topics likely to be raised by delegation:

(i) At the last Annual Meeting, Mr. G. E. Straeng, the Swedish Minister of Finance, indicated his Government's interest in joint operations with the Bank or IDA. In a subsequent exchange of letters, the Swedish Government stated it would be prepared to allocate up to US \$3 million equivalent for such operations for the fiscal year 1963-64. The terms proposed were: 2% interest per annum, 20 year amortization including 5 years of grace. The funds would not be tied to the purchase of Swedish goods. Sweden, however, would welcome a device which would associate the funds with projects in which Sweden had a special interest. The Swedish Government has now indicated they would consider the Managil Part V Irrigation Project in the Sudan appropriate for a loan of up to \$4 million equivalent on the terms described above. We have informed the Swedish Government that the start of this project is likely to be delayed, and we are exploring with them other possibilities.

(ii) In April 1963, the Swedish central bank inquired of Miss Brun whether "Sweden's paper gifts" to India and Pakistan of \$1.5 million and \$0.5 million respectively could be considered as sufficient contributions within the consortia. Miss Brun spoke to Mr. Escott Reid who told her, after consulting with Mr. Knapp and Mr. Fontein, that there was no minimum fee for membership in the consortia but that the Swedish contribution would look small in comparison with others. (The smallest annual pledges for 1963/64 are from Austria with \$7 million each for the India and Pakistan consortia.)

(c) Topics to be raised by Management:

(i) Sweden's special contribution to IDA. - At the Annual Meeting in 1962, Mr. Black expressed his appreciation for a special supplementary contribution of Sweden to IDA in an amount of \$5.8 million which had been considered and approved by the Executive Directors at their meeting held on March 26, 1962. Since then, Sweden has made an additional contribution of \$4.3 million which was approved by the Executive Directors at a meeting held on January 31, 1963. The funds have been made available in freely convertible Swedish Kronor, untied to Swedish exports and not restricted to use in any specific country.

(ii) Management may want to raise the possibility of a Bank bond issue. Preliminary discussions were held by Mr. Cavanaugh and Mr. Miller in Sweden last June. Since then, however, financial conditions, which had been easing for about a year, are becoming more stringent again.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

None.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$18 million, fully convertible and all on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$1.1 million	\$0.1 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I member; subscription \$20.2 million (including \$10.1 million supplemental contribution). Second round \$15 million.

V. POLITICAL SITUATION

The Social Democratic Government, in power for 30 years, has gradually adopted a reasonable and understanding attitude towards private enterprise and its decisive importance as an earner of foreign exchange. The result has been a more conservative policy in fiscal and monetary matters. The domestic political issues between the Government and the three major opposition parties are therefore at present insignificant. Communist influence is negligible. The Government's foreign policy and its dedication towards the furthering of a strong national defense has very broad political support. The Prime Minister, Mr. Tage Erlander, has

been in office since 1946 and the next Parliamentary elections will be in the fall of 1964. As of now, there seems no likelihood of a change in the predominant position of the Social Democratic Party.

VI. ECONOMIC SITUATION - (Population - 7.5 million; GNP per capita - \$1,781)

Swedish economic and financial policies have recently been commended by OECD and other sources and been held as a model for other countries seeking to combine growth with financial stability. These favorable comments have been prompted by the success of Swedish fiscal and credit measures in checking inflationary tendencies during the 1960-61 boom and stimulating the economy during the past twelve months (July 1962 - June 1963) when a slackness in industrial production and investment developed, mainly as a result of a slowing down in export expansion.

During the recent boom increased taxation and cuts in public investment plans had converted an overall budget deficit of 1,428 million Kr. in 1958-59 and 1,632 million Kr. in 1959-60 into surpluses of 381 million Kr. in 1960-61 and 527 million Kr. in 1961-62. Now the Government has again budgeted for a deficit of 386 million Kr. in 1962-63 and of 1,018 million Kr. in 1963-64. Similarly bank credit which had increased by only 7% during July 1961 - June 1962 was allowed to increase by 18.5% during July 1962 - May 1963. Large amounts of investment reserves were released by the authorities (investment reserves are a device used in Sweden to induce businesses to build up reserves during booms and spend them during recessions), and the bond market was virtually freed, resulting in a doubling of bond issues within a year.

These measures provided sufficient stimulus to building activity and private consumption to make up for the slackness in industrial production and investment. The tight labor situation which began to develop last May and the tendency of foreign exchange reserves to decline (they had been rising continuously since 1960) were interpreted as signs that the fiscal and credit ease of the preceding months should be checked. The discount rate of the Bank of Sweden, which had been reduced from 4.5% to 4% in June 1962 and to 3.5% in January 1963, was again raised to 4% in June 1963. Commercial banks have been instructed to heed once more the prescribed liquidity rates, which they had been allowed for a while to disregard. The Government bond yields, which had declined from 4.51% during the first quarter of 1962 to 4.23% in February 1963, have been rising since then. In May 1963 they were 4.47%, and they have been rising since then. During the last week of August interest rates on mortgage bonds of home financing institutions were increased from the level of between 5 and 5-1/4% prevailing until then, which was described as having become unrealistic, to between 5-1/4% and 5-1/2%. This was interpreted as official acceptance of higher interest rates without a further raising of the discount rate.

Since a revival of export demand is to be expected in the last part of 1963 and in 1964, the need for special stimuli to the economy seems to be over and concern with the price level and with the foreign exchange reserves is likely to dictate cautious fiscal and credit policies in the next twelve months. During July 1961 - June 1962 wholesale prices had increased by 1% and the cost of living by 5%. During July 1962 - June 1963 wholesale prices increased by 3% and the cost of living also by 3%. The gold and foreign exchange holdings of the Bank of Sweden stood at \$791 million on June 30, 1963.

In the early part of 1963 the Swedish authorities felt that the easier conditions which had developed in the economy justified some relaxation of the restrictions on foreign issues. Both Norway and Denmark were allowed to raise funds in the Swedish capital market (50 million S. Kr. each at 5-1/4% for 20 years) and consideration was being given to permitting a World Bank issue. Recent developments, however, suggest that the possibilities of foreign borrowing in Sweden in the coming year will be more limited than during the past six months.

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

TRINIDAD AND TOBAGO

BRIEFING PAPER

I. MEETING WITH DELEGATION

Friday, October 4

9:00 - 9:20 a.m.

Attended by: Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Calika

II. MEMBERS OF DELEGATION

*A. N. R. Robinson
Governor of Bank and Fund

Minister of Finance

*Harold Fraser
Alternate Governor of Bank

Deputy Secretary (Budget)
Ministry of Finance

George Rampersad
Alternate Governor of Fund

Acting Senior Economist
Ministry of Finance

Advisers

John Pierce

Leonard Williams

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Trinidad became a member of the Bank in September, 1963 with a capital subscription of \$26.7 million. Relations are good.

In 1961, we made a loan of \$23.5 million to Trinidad for the Trinidad and Tobago Electricity Commission project. The execution of the project is proceeding satisfactorily. However, some expatriate staff have recently left the Electricity Commission, mainly because of dissatisfaction with present salary levels. This problem seems to be affecting the Commission's efficiency and we are taking it up with the authorities.

Delegations headed by the Minister of Finance, Mr. A. N. R. Robinson, visited the Bank for general discussions in June and July, 1963. On the latter occasion, Mr. Robinson indicated the Government's desire to obtain Bank assistance in financing some of the projects in the new 1964-1968 five year plan, including a new electricity project. He asked for a Bank mission to study the economic position, including a new draft 5-year development plan and to make a preliminary review of possible projects. We expect that such a mission would probably visit Trinidad in October.

During his visits to the Bank, Mr. Robinson explained his Government's desire to raise funds in the New York market. He had made arrangements with the Paribas Corporation for raising up to U.S. \$30.0 million. Equitable Life has agreed to take \$7.5 million of the proposed issue, subject to Paribas placing the balance with other financial institutions. Paribas is now negotiating with other organizations. The exact amount of the proposed issue is not certain; if successful, it will probably be \$20-25 million rather than \$30 million.

(b) Topics likely to be raised by delegation:

The Minister may wish the Bank to confirm plans for sending the proposed mission to Trinidad. Barring unforeseen developments, we can tell him that we plan for such a mission in October. He may also wish to report about the latest developments regarding the proposed New York borrowing.

(c) Topics to be raised by Management:

We should encourage Trinidad to join IFC and IDA. We should explain that the Bank expects its members to release their 18% capital subscription.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1961	Trinidad and Tobago	Electric power	<u>23.5</u>
	Total (net of cancellations and refundings)		23.5 ^{1/}
	of which has been repaid		---
	Total now outstanding		<u>23.5</u>
	Amount sold	15.3	
	of which has been repaid	---	<u>15.3</u>
	Net Amount now held by Bank		<u>8.2</u>

^{1/} Includes \$15.9 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$2,403,000, not yet released.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

Borrowers' obligations

None

None

(e) I.F.C.

Membership not applied for.

(f) I.D.A.

Membership not applied for.

V. POLITICAL SITUATION

Committee work to study Grenada's joining Trinidad and Tobago is in progress. Major uncertainties are whether the United Kingdom would continue financial assistance to Grenada, and whether the amendment to the Trinidad and Tobago constitution, requiring the support of the Opposition party, could be achieved. The Government has been making

efforts to realize the maximum possible collaboration with other English-speaking areas in the Caribbean (Jamaica, British Caribbean dependencies and British Guiana). Conferences were held to discuss common affairs, including trade policies.

Unemployment and labor disputes disturb the domestic arena, but the Government continues to have popular support.

VI. ECONOMIC SITUATION (Population - 894,000; GNP per capita \$620)

Trinidad remains one of the most prosperous parts of the Caribbean, but now faces some major uncertainties. Decreases in oil prices lead to a trade deficit of \$12 million in 1962, but this was offset by inflows of capital. Growth in crude oil production, which stimulated an annual 8.5% real rate of growth in the economy during 1951-1961, is slowing down; no large additions to refining capacity are planned.

The recently announced draft 1964-1968 development plan proposes a major structural change in the economy, so that the existing dependence on petroleum would be reduced by the development of the agricultural manufacturing sectors. The Government, which was strongly in favor of the British membership in the Common Market and itself sought associate status, is now apprehensive about the competitive position of its export products in the Common Market. It is conducting direct negotiations with some Western European countries on trade relations, and possible European investments in Trinidad.

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

CONFIDENTIAL

September 18, 1963

TURKEY

BRIEFING PAPER

I. MEETING WITH DELEGATION

Tuesday, October 1, 1963

9:40 - 10:00 a.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Collier

II. MEMBERS OF DELEGATION

* Ferit Melen
Governor of Bank

Minister of Finance

* Ziya Kayla
Alternate Governor of Bank

Director General, Central Bank
of Turkey

Ekrem Alican
Governor of Fund

Deputy Prime Minister

* Memduh Aytur
Alternate Governor of Fund

Undersecretary, Ministry of
Finance

* Munir Mostar
Alternate Governor of
Fund (temporary)

Head of the Turkish Delegation
to OECD.

Advisers:

Kemal Siber

Chairman of the Board of Counselors
for Economic Affairs, Turkish
Embassy

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects

Our relations with Turkey have improved since we have agreed to provide some IDA funds. We have now made three IDA credits for a total of \$26.7 million. In view of the scarcity of IDA funds this seems reasonable although small when measured against Turkey's needs.

Lending prospects are determined by the amount of IDA funds which can be spared for Turkey. As of now there is only one project, the Mersin power project, which is likely to come up for consideration in 1963/64. It would be for \$6 - \$7 million. In 1964/65, however, three projects may be ready; a second irrigation project in the Seyhan area, a hydro plant known as Kadincik and another credit for the Industrial Development Bank. Together these might amount to about \$25 million. Lending over the next two years would therefore average about \$16 million per year.

(b) Topics likely to be raised by delegation

They may raise the question of lending prospects. While the shortage of IDA funds will preclude any substantial increase in the overall lending rate, we might look at another project for 1963/64 if the Turks can put one forward.

The Turks may also ask for more Bank support for the OECD Consortium. They have made statements to this effect before but always in general terms. We might ask whether they have anything specific in mind, pointing out that we have made available two people for the Expert Group which is preparing a report for the October meeting of the Consortium. In view of the restrictions on our lending, our role in the Consortium will necessarily be limited. Since our last economic report dates back to October 1961, we might consider doing a full scale review of the Turkish economy in the near future, the results of which could be made available to the Consortium.

Mr. Siber has approached us informally to ask whether the Bank could organize a study of the Turkish electric power system. We are sympathetic to this idea and are exploring it.

(c) Topics to be raised by Management

None

IV. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1950	Turkey	Grain storage	3.9
1950	Turkey	Port construction	12.5
1950	Industrial Development Bank	Private industry	8.7
1952	Turkey	Seyhan Dam: Multi-purpose Project	22.8
1953	Industrial Development Bank	Private industry	9.0
1954	Turkey	Port construction	3.8
Total (net of cancellations and refundings)			60.7
of which has been repaid			<u>19.6</u>
Total now outstanding			41.1
Amount sold		0.1	
of which has been repaid		<u>0.1</u>	<u>0.0</u>
Net amount now held by Bank			41.1

(b) IDA Credits as of August 31, 1963

Date	Borrower	Purpose	Amount (equivalent in \$ million)
Nov. 23/62	Turkey	Private industry	5.0
Feb. 1/63	Turkey	Cukurova Power project	1.7
May 31/63	Turkey	Seyhan Irrigation project	20.0
Total			26.7 ^{1/}

^{1/} Includes \$6.3 million not yet disbursed.
Includes \$20.0 million not yet effective.

(c) 18% Capital Subscription

\$10.4 million. Original \$7.7 million was released in annual installments of \$1.8 million for purchases in Turkey. Nothing has been used.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
None	None

(e) I.F.C.

IFC Management discussions are planned at the Annual Meeting with the Turkish delegation.

IFC has made no investments in Turkey. Three applications are presently under consideration; cement plant (\$2 - 2.5 million), concrete pipe plant (\$670,000), and a cable factory (\$1,500,000). A mission is planned for September to appraise the cement project and to discuss possible terms of investment. Preliminary inquiries have been received concerning a possible investment in a \$24 million kraft pulp and paper project.

Investment of TL 8.25 million (\$920,000) in the Turkish Industrial Development Bank was agreed by the Board in September.

(f) I.D.A.

Part II member. Subscription \$5.8 million.

V. POLITICAL SITUATION

Despite the İnönü Government's success in obtaining parliamentary approval of the Five-Year Plan and in introducing new and higher taxes, parliamentary support for its program is uncertain. An attempted coup by the military in May again revealed the clash between the demands of those who wish to push ahead with more drastic measures, if necessary at the expense of democratic procedures, and the slow advance under present political conditions. Although some unpopular but badly needed measures may be adopted despite party rivalries, the prospects for a liberal and dynamic leadership are not too favorable.

VI. ECONOMIC SITUATION (Population - 28 million; GNP per capita - \$200)

After a prolonged recession following the stabilization of 1958, the gradual revival of the economy -- which became apparent in the second half of 1962 -- has continued in 1963. This has been reflected in a substantial rise in exports as well as in increased government revenues. Much of this gain, however, was the result of a good harvest in 1962, which in turn favored business confidence and brought about a rise of production in large parts of industry. Since agriculture plays such an important role in the Turkish economy, this economic improvement is still far from being permanently reassuring, and in fact, important export crops (tobacco, cotton) have been hit this year by pest and adverse weather. It is therefore unlikely that the Plan's target of an annual growth rate of 7% will be achieved in 1963. The rise of GNP by about 6% in 1962 was largely due to fortuitous circumstances and to substantial foreign aid. Because of the high rate of population growth (3%) national income per head improved only slightly and was still below the 1960 figure. Nor was there any noticeable relief of the unemployment problem.

Despite the favorable developments in 1962 and 1963, Turkey's balance of payments position has not improved. The deficit for 1963 and 1964 is expected to be greater than that for 1962, since the realization of the Plan requires greatly increased imports and exports are unlikely to keep pace. The overall balance of payments gap for 1963 is estimated at \$1440 million, of which about \$330 million has to be met by foreign aid other than PL 480 and private capital inflow. The OECD Consortium has been formed in an effort to provide the necessary aid. The members of the Consortium have agreed to provide sufficient aid to meet Turkey's needs for 1963. A meeting to study the position in 1964 will be held towards the end of October.

An agreement has been reached providing for the association of Turkey with the Common Market. After a five-year preparatory period there will be a gradual transition to a customs union over a twelve-year period. Thus the effect of the association will not be really noticeable until the early 1970's and a full customs union would not be reached until 1980. After the customs union has been achieved, Turkey could become a full member of EEC.

United Kingdom

UNITED KINGDOM
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

Monday, September 30

3:40 - 4:00 p.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Calika

II. MEMBERS OF DELEGATION

*The Rt. Hon. The Earl of Cromer, M.B.E. Governor, Bank of England
Governor of Bank

*Sir Denis Rickett, K.C.M.G., C.B.
Alternate Governor of Bank

E.D.L. du Cann, M.P. Economic Secretary
Alternate Governor of Bank and Fund
(temporary)

Sir Eric Roll, K.C.M.G., C.B.
Alternate Governor of Bank and Fund
(temporary)

*The Rt. Hon. Reginald Maudling, M.P. Chancellor of the Exchequer
Governor of Fund

M. H. Parsons Executive Director, Bank
Alternate Governor of Fund of England

Advisers

N.M.P. Reilly, C.M.G. Alternate Executive Director
of Bank

D.J. Mitchell Private Secretary to the
Chancellor

A.K. Cairncross, C.M.G. H. M. Treasury

C. Raphael, O.B.E. H. M. Treasury

D.F. Hubback H. M. Treasury

T. Fitzgerald H. M. Treasury

Advisers (cont.)

A.W. Wyatt	H. M. Treasury
Lord Hankey, K.C.M.G., K.C.V.O.	H. M. Treasury
L.P. Thompson-McCausland	Bank of England
F.J. Portsmore	Bank of England
Capt. Rt. Hon. T.M. O'Neill, D.L., M.P.	Prime Minister of Northern Ireland
R.F.R. Dunbar, O.B.E.	Permanent Secretary of the Ministry of Finance, Northern Ireland
A.W.D. Eves	British Information Services
Miss J.M. Forsyth, M.C. Kennedy, A.G.H. Wright, C. Wilson	

* Expected to attend the meeting.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects:

Relations are good. Three loans, all for electric power development, were made in British dependent territories in the period May-September 1963 - Singapore (\$15 million), Swaziland (\$4.2 million), Malta (\$7.5 million). These were the first Bank loans in these territories. A loan to Mauritius is now under consideration and will be presented to the Executive Directors on September 19. The loan should be signed before the end of September. (Singapore, where we have under consideration a water supply project, will soon become a part of the new Malaysian state.)

The following is a summary of IDA projects under consideration in the British dependent territories, arranged in order of expected realization (for further details see the separate brief on each territory).

<u>Basutoland</u>	<u>\$ Million</u>	<u>Probable timing of the Negotiations</u>
Roads (awaiting project information)	about 3.0	Nov./Dec.
<u>Bechuanaland</u>		
Roads (awaiting project information)	up to 3.0	Dec./Jan.1964
<u>Bechuanaland</u>		
Agricultural Credit (awaiting presentation of project and credit application)	about 1.0	Early 1964

In 1962, the United Kingdom's aid to developing countries (mostly Commonwealth) totaled \$412 million (in loans (48%), grants (37%), and technical assistance (15%)). In the current fiscal year the United Kingdom's aid to its colonies is expected to be about \$252 million. Commitments under the Indian and Pakistan Consortia are \$84 million and \$22 million respectively; initial assistance of \$42 million has been committed to Nigeria's development plan. Other aid to developing countries, such as Turkey, has yet to be determined.

(b) Topics likely to be raised by delegation:

None.

(c) Topics to be raised by Management:

None.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

	Amount (equivalent in \$ million)
Total (net of cancellations and refundings)	265.0 ^{1/}
of which has been repaid	<u>26.0</u>
Total now outstanding	239.0
Amount sold	136.1
of which has been repaid	<u>25.5</u>
Net amount now held by Bank	<u>128.4</u>

^{1/} Includes \$46.9 million not yet disbursed.

Loans made since July 1, 1961

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1961	Kenya	Land settlement and development	8.4
1961	Uganda	Electric power	8.4
1961	British Guiana	Agricultural credit	1.3
1961	Trinidad & Tobago	Electric power	23.5
1963	Singapore	Electric power	15.0
1963	Swaziland	Electric power	4.2
1963	Malta	Electric power	7.5 ^{1/}
1963	Mauritius	Electric power	7.0 ^{2/}

^{1/} Signed on September 6, 1963.

^{2/} To be signed before the Annual Meeting.

(b) IDA Credits as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
March 14/62	Swaziland	Highway Construction	<u>2.8</u>
		Total	2.8 ^{1/}

^{1/} Includes \$0.6 million not yet disbursed.

(c) 18% Capital Subscription

\$234.0 million fully released, convertible into any currency.
All on loan.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank bonds</u>	<u>Borrowers' obligations</u>
\$67.9 million	\$14.5 million

(e) I.F.C.

Not considered appropriate for IFC financing.

(f) I.D.A.

Part I Member: Original subscription \$131.1 million. Second round: \$96.6 million.

V. POLITICAL SITUATION

A general election is due not later than October, 1964 and will probably take place before this date. If Mr. Macmillan retires before the election, Mr. Maudling is, at present, considered his likely successor to head the Conservative party. Recent by-election results and public opinion polls suggest a Labor party victory; possible major achievements in the international field and a reduction in unemployment could improve the prospects for the Conservatives.

VI. ECONOMIC SITUATION (Population - 53.0 million; GNP per capita - \$1,450)

With his 1963-64 Budget, the Chancellor of Exchequer introduced changes in taxation and income tax cuts as incentives for spending and investment, to obtain "expansion without inflation" and to achieve an annual growth of 4% in the United Kingdom's gross national product. The National Economic Development Council and the National Incomes Commission, both established in 1962, are designed to achieve these goals.

In the first quarter of 1963, consumer demand, bank advances, and exports increased significantly over the same period in 1962. The 1963 balance of payments on current account showed a considerable improvement, with a surplus of £67 million. The long-term capital account, which - exceptionally - had shown a net inflow in 1961, reverted in 1962 to an outflow, totalling £92 million. Partly because of repayments to IMF, the gold and dollar reserves declined by about £183 million in 1962. Reflecting the steady improvement in the United Kingdom's external monetary position during 1963, the sterling area's gold and convertible currency reserves stood at \$2,713 million in August.

High Commission
Territories

CONFIDENTIAL
September 18, 1963

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

HIGH COMMISSION TERRITORIES

BRIEFING PAPERS

BASUTOLAND

BECHUANALAND

SWAZILAND

CONFIDENTIAL
September 18, 1963

BASUTOLAND
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

In February 1963, the Government made an application to IDA for a credit of \$2.8 million for roads. The project was appraised in May. A revision of the cost estimates for the project is now under way. Subject to the completion of this work by the Government, it is expected that an IDA credit for this project would be negotiated by the end of this year.

POLITICAL SITUATION

A commission which was established to review the 1959 Constitution and to make proposals on a constitutional reform is about to report on its findings. It may recommend a form of responsible government for the territory.

Completely surrounded by the Republic of South Africa, and with political leaders who now freely express their sympathies to African political movements in the Republic, Basutoland's relations with South Africa are becoming delicate. The border controls being established by South Africa have heightened feelings.

ECONOMIC SITUATION (Population - 840,000; Estimated Income per capita - \$55)

The markets for wool and mohair, the principal cash products, have been strong and prices obtained were 5-15% above last year's. A draft development plan has been prepared for 1963-1968; no specific details are known, but it apparently emphasizes economic services and infrastructure.

Commercial diamond digging by Basutos has resulted in the discovery of commercial class stones, but so far only a few small gem diamonds have been found. A Progressive Farmers Scheme has been launched to give aid to the more efficient African farmers. This scheme should help to establish a base from which to develop the territory's farming economy. The Commonwealth Development Corporation (CDC) has made a loan to the Government to increase electric power for rural centres and potential industrial use.

South African immigration controls introduced in July are likely to reduce the numbers of Basuto casual immigrant workers in the Republic. This problem is causing concern in the territory.

BECHUANALAND
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

An application for an IDA credit for roads was submitted in April, 1963. The project was appraised by a technical mission which visited Bechuanaland in June. We are now awaiting the report of a consulting firm on local materials to be used for a large road in the project, and the revised cost estimates. The amount of the credit may range from \$1.5 - 3.0 million.

An IDA credit application of around \$1.0 million for development of water supplies for cattle, and agricultural credit, is expected shortly.

POLITICAL SITUATION

The 1961 Constitution, which provides for a Legislative Council of both elected and nominated members, is reported to be working well. A new constitution is being prepared to give full representation to political parties by 1965. The two main parties are the multiracial Bechuanaland Democratic Party, headed by Mr. Seretse Khama, and the Bechuanaland People's Party. The latter is reputedly supported by Ghana. Construction of a new capital at Gaborone has been started and the transfer of the administrative headquarters from Mafeking, in South Africa, will begin in March, 1965. The present administration has been cooperating with the Government of South Africa in its policy to establish controls on the movement of people between the two countries.

ECONOMIC SITUATION (Population - 350,000; Estimated Income per capita - \$60)

A new draft 1963-1968 development program, providing for a total expenditure of £11.5 million is at present being examined by the British Government. It is unlikely that this amount would be provided by the British Government as grants or loans. The program emphasizes infrastructure and development of the agricultural sector, to make the territory economically viable. Expansion of the livestock industry continues and beef exports have been buoyant.

SWAZILAND
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

A loan of \$4.2 million for the Edwaleni Power Project was made to Swaziland in July, 1963.

The construction of highways, financed in part by an IDA credit of \$2.8 million which was made in March, 1962, is progressing satisfactorily; the disbursements under the credit agreement are ahead of schedule.

BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1963	Swaziland	Electric power	4.2
		Total (net of cancellations and refundings)	4.2 ^{1/}
		of which has been repaid	---
		Total now outstanding	4.2
		Amount sold	0.4
		of which has been repaid	---
		Net Amount now held by Bank	3.8

^{1/} Includes \$4.2 million not yet disbursed.

(b) IDA Credits as of August 31, 1963

Date	Borrower	Purpose	Amount (equivalent in \$ million)
March 14/62	Swaziland	Highway Construction	2.8
		Total	2.8 ^{1/}

^{1/} Includes \$0.8 million not yet disbursed.

POLITICAL SITUATION

A constitutional conference was held in London in February, 1963 to give Swaziland Africans greater representation. It failed mainly because of a disagreement between the African traditionalists and the

emerging African nationalists. The British Government subsequently drew up a new constitution which was announced in June. It is based on the principle of universal adult suffrage and will probably result in an African majority in the legislature. A general strike which started in the asbestos mines and spread quickly was chiefly economic in origin, but became political when the strikers asked for the rejection of the proposed new constitution. African nationalists are critical of the proposed division of legislature seats between the races, and the related system of voting, which could create a majority alliance of African traditionalists and the Europeans. No date has been set for elections, but these are likely to take place in the early part of 1964.

ECONOMIC SITUATION (Population - 270,000; Estimated Income per Capita - \$70)

Swaziland has been making satisfactory economic progress, with the expansion of agriculture, mainly sugar and fruits, the development of the forestry and pulp industry, and the commencement of iron-ore mining. Construction of a railway for transportation of the iron-ore to the coast is proceeding on schedule, and should be completed by the end of 1964.

Rhodesia & Nyasaland
(Federation of)

FEDERATION OF RHODESIA AND NYASALAND

BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

No representative expected.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

Since 1960, the Bank has made no loans in the Federation, pending a clarification of the political future of the three territories concerned.

In April, 1963, Mr. Wenzell visited Salisbury for discussions of the financial aspects of the Kariba Project. In May, the Chairman and Deputy General Manager of the Federal Power Board visited the Bank for an exchange of views about the Kariba Project in the light of the impending break-up of the Federation. In March, May and August, 1963, several Nyasaland ministers visited the Bank to inquire about possible assistance by the Bank and IDA. We told them that IDA would be prepared to send an exploratory mission to Nyasaland as soon as a firm base (including financial arrangements with the Federation and the United Kingdom) for an economic appraisal had been laid.

In connection with the Bank's offer to help in working out measures to continue the Federal Power Board and the Rhodesia Railways as common services at the dissolution of the Federation, Mr. Rist and Mr. Calika visited Salisbury late in August 1963 for exploratory discussions. They found that representatives of Southern Rhodesia, Northern Rhodesia and the United Kingdom, who constitute a special "Committee B" set up by the Victoria Falls Conference, have agreed to maintain the Federal Power Board with minimum change in its organization and powers. The Committee has also been considering measures to retain the Rhodesia Railways as a single unit servicing both Rhodesias, although the Committee's work on this matter may be difficult and time consuming. At least for the time being, the Committee does not require technical assistance from the Bank, but it is anxious to know of the Bank's views on certain financial aspects of the Kariba project and on contractual arrangements with the Rhodesias which may replace the Federal Government's guarantee of our Kariba loan. The Bank may require informal contacts with the United Kingdom, CDC and CDFC, before taking any firm position on these matters. The Committee proposes that the Bank nominate arbitrators to settle possible disputes between Southern Rhodesia and Northern Rhodesia on the Kariba operations. The Northern Rhodesia Government has asked the Bank to conduct a feasibility study for the proposed railway extension to Tanganyika. Our response to these requests is being considered within the Bank.

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1952	Southern Rhodesia	Electric power	28.0
1953	Northern Rhodesia	Railway improvements	14.0
1956	Federal Power Board - Rhodesia and Nyasaland	Electric power	80.0
1958	Rhodesia and Nyasaland	Railway	19.0
1960	Rhodesia and Nyasaland	Agriculture	5.6
Total (net of cancellations and refundings)			146.6
of which has been repaid			18.4
Total now outstanding			128.2
Amount sold		76.3	
of which has been repaid		18.1	58.2
Net amount now held by Bank			70.0

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

Not a member.

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

Bank Bonds

None

Borrowers' Obligations

None

(e) I.F.C.

No operations.

(f) I.D.A.

No operations.

V. POLITICAL SITUATION

The arrangements for the dissolution of the Federation, which were discussed at the Victoria Falls Conference, are being implemented. The Federation will cease to exist by December 31, 1963. Both Nyasaland and Northern Rhodesia are expected to become independent by mid-1964;

before granting independence to Southern Rhodesia, the United Kingdom may require increased political rights for the Colony's African population. Events during and shortly after the dissolution of the Federation, particularly the maintenance or severance of close economic links between Northern and Southern Rhodesia will be of crucial importance. The territories have already agreed to have separate currencies and central banks. The European civil servants are leaving Nyasaland and, if they are not replaced by others, efficiency of government may seriously decline.

VI. ECONOMIC SITUATION (Population - 9.5 million; GNP per capita - \$150)

Due to political events, the domestic economy has been stagnating. In contrast, exports, primarily copper, beef and sugar have been buoyant, resulting in a favorable balance of trade. Bank deposits are near record levels. Emigration of Europeans continues and may affect economic growth adversely. Reports indicate a move of companies from Southern into Northern Rhodesia in expectation of tariff barriers arising between the two territories. Unless there is a sudden deterioration in copper prices, the general economic prospects for Northern Rhodesia are good, those for Southern Rhodesia and Nyasaland less certain.

Other British
Dependencies

CONFIDENTIAL
September 18, 1963

OTHER BRITISH DEPENDENCIES

BRIEFING PAPERS

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

BARBADOS, LEEWARD AND WINDWARD ISLANDS

BRITISH GUIANA

MALTA

MAURITIUS

BARBADOS, LEEWARD AND WINDWARD ISLANDS

BRIEFING PAPER

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

There have been no Bank or IDA operations in the area.

POLITICAL SITUATION

The constitutional conference, scheduled to take place in London last June to form a new East Caribbean Federation (The Little Eight, or the Little Seven, excluding Grenada) was postponed, due to some new proposals being put forward to the British Government by the governments involved. The Chief Ministers of the islands proposed, among other things, that the new Federation should be independent as of its date of inauguration. The constitutional conference is expected to take place later this year.

ECONOMIC SITUATION (Population - 680,000; Estimated Income per Capita \$200-250)

Sugar production is reported at record levels and tourist expenditures have been well maintained. The Barbados Government, which is now the most active supporter of the proposed Federation, made in December a successful London issue of £1.3 million in 6-3/4% stock due 1972-74.

BRITISH GUIANA

BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

Bank Loans as of August 31, 1963

<u>Year of Loan</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (equivalent in \$ million)</u>
1961	Colony of British Guiana	Agriculture	1.25
	Total (net of cancellations and refundings)		1.25 ^{1/}
	of which has been repaid		---
	Total now outstanding		1.25 ^{1/}
	Amount sold (not yet called by the Bank)	1.00	

1/ Includes \$1.0 million not yet disbursed.

So far, less than \$220,000 has been disbursed under the Agricultural Credit Corporation loan. A Bank mission, which visited British Guiana in April, 1963, reported that demand for credit by farmers had virtually stopped, mainly because of the difficult political and economic situation. The mission advised against a postponement of the present closing date (September 30, 1963). The mission also reported that the authorities planned to submit to the Bank before the closing date withdrawal applications in a substantial amount in respect of agricultural machinery imported by the Corporation and in use in the government-sponsored settlement areas. The authorities planned to transfer this equipment, on the basis of loan agreements with the Credit Corporation, to cooperative societies reportedly set up by the farmers in the area.

In July, 1963, the Government formally asked for a postponement of the closing date and inquired whether the Bank would be prepared to reimburse the Corporation for the following amounts:

- (a) \$700,000, representing the cost of rice mills imported by the Corporation and operated by farmers' cooperatives in settlement areas;
- (b) \$265,000, representing the cost of rice harvesting machinery imported by the Credit Corporation and operated by the Government's Rice Development Company in settlement areas;

(c) \$30,000, representing small loans made by the Corporation,

for a total of \$995,000. While the amount under (c) has been disbursed, any decision under (a) will have to wait for supplementary information already asked by the Bank. The request under (b) has been turned down as being outside the purposes of the Bank loan.

No formal approaches to the Bank or IDA for further lending have been made.

POLITICAL SITUATION

A constitutional conference which was held in London in November, 1962 to decide on British Guiana's independence, broke down in disagreement, as the rival political parties differed deeply on questions of the electoral system and on whether new elections should be held before independence. In April, 1963, a general strike was called by the Trade Unions - which oppose Dr. Jagan's Government - to protest the Government's Labor Bill which would regulate trade union representation. This strike, after much violence and disruption to the economy, ended in July. Tension between the two major racial groups (the East Indians and the Africans) remains high. Efforts by the United Kingdom for a conciliation between Dr. Jagan (leader of the People's Progressive Party, supported mainly by East Indians) and Mr. Burnham (leader of the People's National Congress, supported mainly by Africans) have not been demonstrably successful. The British Government has recently announced that it would convene a new constitutional conference in October of this year. During the past year Dr. Jagan's Government has strengthened its economic ties with Cuba, Soviet Russia and other Eastern bloc countries.

ECONOMIC SITUATION (Population - 590,000; GNP per capita - \$250)

As a consequence of the political strife, the economic situation has seriously deteriorated. It is estimated that gross domestic product declined by about 10% in 1962, as against an increase of 7% in the previous year. A further decline in the gross domestic product is likely in 1963. Inflow of private capital has virtually stopped and both private and public investment have declined substantially. The outflow of capital, which was around \$3 million in 1962, may have continued in 1963, notwithstanding exchange controls. Unemployment, already high before the recent crisis, may have further increased. Exports rose by about 17% in 1961 and 16% in the first half of 1962, mainly as a result of the start of alumina shipments by a subsidiary of Aluminium of Canada, Ltd., and of increased exports of rice, particularly to Cuba. The recent strike extended to the sugar estates and to the bauxite mines and 1963 exports may be affected.

The Government's financial position remains tight, notwithstanding recent substantial increases in taxation. Current budget surpluses, invariably achieved until 1962, may have given way to a deficit. Expenditure on the current Plan in 1961 and 1962 has been far short of the target.

MALTA
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

A Bank loan of \$7.5 million to Malta was made to the Government in September, 1963 for the Malta Electricity Board project. It will assist in the construction of a new thermal power station and a sea water distillation plant. The United Kingdom has guaranteed the loan. Virtually all the maturities of the loan have been sold to participants.

No further lending is contemplated at present.

POLITICAL SITUATION

Late in 1962, the British Government announced its intention of reducing gradually its military establishment in Malta, including a reduction by 1967 in the employment by the British Navy (by some 5,000 men to about 11,000). Following this announcement, and a failure to reach agreement on this subject and on British financial assistance to Malta, the Malta Government asked the United Kingdom to grant Malta immediate independence within the Commonwealth. At the Constitutional Conference held in London in July/August, 1963, the date for independence was set at May 31, 1964, but Maltese political parties disagree among themselves on major political issues, such as the Constitution, the elections, the status of the Church and the proposed link with the Commonwealth.

ECONOMIC SITUATION (Population - 329,000; GNP per capita - \$460)

The reduction in employment by the British military establishment, together with a consequent reduction of employment in tertiary activities, has resulted in a rise of the rate of unemployment (now about 6-7% of the total labor force). Emigration also rose considerably (in 1962 about 5,000 people left the islands).

The first contracts for the conversion of the former Navy dockyard (Bailey (Malta) Ltd.) to commercial use, were placed in mid-1962. In February this year, following an investigation by the British Government into Bailey (Malta) Ltd.'s financial affairs, the Malta Legislature entrusted the administration of the dockyard to a Council of Administration appointed by the Maltese Government. The Council has engaged a British ship-building firm (Swan, Hunter) as managing agents.

In the year 1962, the new Malta Government revised the 1959/1964 development program, mainly by increasing the allocation for public works, in order to offset, as much as possible, rising unemployment. The emphasis remains on development of secondary industries, but it is now more likely that the industrial targets set by the previous administration in the original estimates will not be attained. The new industries so far established are, with few exceptions, small and without assured

export outlets. The efforts to attract foreign tourists have been handicapped by, among other factors, a lack of modern hotels. A new development plan for the period 1964/69 is now being prepared with the assistance of a United Nations (TAB) expert.

MAURITIUS
BRIEFING PAPER

DECLASSIFIED
APR 25 2012
WBG ARCHIVES

STATE OF RELATIONS, INCLUDING LENDING PROSPECTS

Relations are very good. A loan of \$7.0 million to the Government will be made in September 1963, for the Mauritius Central Electricity Board project (the construction of a new generation station and the expansion of transmission and distribution systems). It is guaranteed by the United Kingdom.

POLITICAL SITUATION

There has been no political development of major significance since the last Annual Meeting. General elections will be held late in 1963 or early in 1964. There is little doubt that the Mauritius Labor Party, presently in power, will again obtain a majority of the elected seats in the Legislative Assembly. A constitutional conference might thereafter be called to consider steps which may lead to full internal self-government. Independence, which involves difficult questions of minority guarantees, may not be forthcoming before 1966.

ECONOMIC SITUATION (Population - 690,000; GNP per capita - \$250)

The economy of Mauritius is heavily dependent on sugar, which provides over 95% of total exports and nearly one-third of gross domestic product. Starting with the last quarter of 1962, the world sugar price increased dramatically and still remains at a level nearly twice as high as that which prevailed in the first three quarters of 1962. This increase will certainly benefit Mauritius' sugar exports, although the extent of the gain may not be proportionate to the increase in the price level. The 1963 sugar crop appears to be a record high.

The Government is pursuing its policy of encouraging industrialization and the development of crops other than sugar. Success so far has been rather limited. A reorganization of the Mauritius Agricultural Bank to widen the scope of its lending to industrial ventures is under way.

The execution of the Government's 1960/1965 development program is proceeding satisfactorily, although there is some lag (10%) in the expenditure compared with the original forecasts.

Government wages and salaries were increased substantially in 1962. The resultant reduction in the current budget surplus, which is applied to the capital expenditure program, may be offset by higher tax revenue deriving from the increased yield of the tax on sugar exports. To help finance its capital expenditure program the Government plans to place a bond issue, in an amount of about U.S. \$4 million equivalent, on the London market before the end of this year.

Yugoslavia

CONFIDENTIAL

September 18, 1963

YUGOSLAVIA

BRIEFING PAPER

I. MEETING WITH DELEGATION

Friday, September 27, 1963

3:00 - 3:40 p.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Cope/Mr. Fontein
Mr. Miller
Mr. Collier

II. MEMBERS OF DELEGATION

*Kiro Gligorov
Governor of Bank

Federal Secretary for Finances

*Zoran Zagar
Alternate Governor of Bank

General Manager,
Yugoslav Investment Bank

*Nikola Miljanic
Governor of Fund

Governor,
National Bank of Yugoslavia

*Branko Vukajlovic
Alternate Governor of Fund

Republican Secretary for Finances
Secretariat for Finances of SR Serbia

*Likely to attend meeting with Management.

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of relations, including lending prospects.

Relations are good. We have just completed negotiations for a railway loan of \$35 million. We have told the Yugoslavs that we feel that Bank lending to Yugoslavia should amount to about \$30 million per year. This undertaking would have been met for 1963/64 by a loan of only \$25 million, since the Bank lent \$35 million in 1962/63. We raised the amount for 1963/64 from \$25 to \$35 million as a special gesture in view of the Skopje earthquake. Even apart from the earthquake, however, the Yugoslavs are likely to press us to increase our lending rate. Bank loans are particularly useful to Yugoslavia because they are long-term. The Yugoslavs may argue that, from a creditworthiness point of view, it is better for them to borrow from the Bank than to use supplier credits on shorter terms. However, we shall shortly have lent \$130 million to Yugoslavia since February 1961, so we would be justified in resisting any pressure for another loan during this fiscal year. The delegation which was here to negotiate the railway loan informed us that they would like the Bank to consider a loan for a railway equipment project (mostly rolling stock). No amount was mentioned. We told the delegation that the Bank could not consider any further lending to Yugoslavia during the current fiscal year, but that an appraisal mission might go out early next year to look at this and other possible projects to provide a basis for a loan in 1964/65.

(b) Topics likely to be raised by delegation:

The Yugoslavs are trying to interest Pechiney in an aluminum smelter to use Yugoslav bauxite. We do not know very much about this project but since Pechiney is now building a smelter in Greece, they are not likely to move very fast in Yugoslavia just at the moment. However, we have expressed informally our willingness to look at any proposals which the Yugoslavs put forward.

When Mr. Cope was in Yugoslavia in July (before the earthquake) he reached a provisional understanding with the Yugoslavs that they would release the balance of their 18% capital subscription, in dollars, over a period of years. They may feel, however, that after the Skopje disaster they should wait a little longer. If they do, we should accept their position.

(c) Topics to be raised by Management:

None

IV. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1963

Year of Loan	Borrower	Purpose	Amount (equivalent in \$ million)
1949	Yugoslavia	Equipment for timber production	2.7
1951	Yugoslavia	Power, agriculture, industry and transport	28.0
1953	Yugoslavia	Power, agriculture, industry and transport	30.0
1961	Yugoslav Investment Bank	Electric power	30.0
1962	Yugoslav Investment Bank	Electric power	30.0
1963	Yugoslav Investment Bank	Roads	35.0
Total (net of cancellations and refundings)			<u>155.7^{1/}</u>
of which has been repaid			<u>17.4</u>
Total now outstanding			138.3
Amount sold		0.7	
of which has been repaid		-	<u>0.7</u>
Net amount now held by Bank			<u>137.6</u>

^{1/} Includes \$35.9 million not yet disbursed.
Includes \$35 million not yet effective.

(b) IDA Credits as of August 31, 1963

None.

(c) 18% Capital Subscription

\$9.6 million. \$1.85 million released for purchases in Yugoslavia, subject to use of two dinars' worth of transferable currency for each 18% dinar used (See under III (c)).

(d) Holdings of World Bank Bonds and Borrowers' Obligations as of August 31, 1963

<u>Bank Bonds</u>	<u>Borrowers' Obligations</u>
\$0.5 million	None

(e) I.F.C.

Not a member.

(f) I.D.A.

Part II member. Subscription \$4 million.

V. POLITICAL SITUATION

Yugoslavia continues to be the champion and symbol of the "revisionist" wing of the Communist movement as opposed to the "dogmatist" or Chinese wing at the opposite extreme. The Soviet break with China has brought the Soviet position much closer to that of the Yugoslavs and this has recently been exemplified by the visit of Khrushchev to Yugoslavia. However, the Yugoslavs have striven to counteract any suspicions that they might abandon their basic neutralist policy and have given the U.S. renewed assurances of their neutrality.

VI. ECONOMIC SITUATION (Population - 19 million; GNP per head - \$235)

During 1961 and 1962 the Yugoslav economy went through a difficult period; production and exports lagged and there was a rapid rise in prices. The Government introduced a number of corrective measures which have now had time to produce results. By mid-1963 the situation was greatly improved and the targets for production and exports laid down in the 1963 Plan seem likely to be met. There has been a particular improvement in the balance of payments over the last year which has enabled Yugoslavia to increase its reserves and to repay some dollars to the IMF.

The economy has thus resumed its rapid growth and continues to import substantial amounts of capital. Perhaps its most important problem is the development of foreign trade. The unification of the exchange rate in 1961 provides the basis for increased trade with the west but Yugoslavia has to face the problem of relations with the Common Market and, if the U.S. Administration cannot persuade Congress to change its position, the loss of most-favored nation treatment by the U.S.

The economic losses from the Skopje earthquake are reported to have been very great but the impact on the economy as a whole will be spread over many years. The immediate problem will be the diversion of resources from other projects, what is bound to bring additional costs to an economy working at full capacity. The IMF has agreed to a \$30 million drawing towards the end of September and postponement of the repayment of one installment of \$15 million on account of previous drawings from January 1964 to January 1966. The re-purchase of \$60 million falling due during the course of the next two years has not been changed.

European Investment
Bank

DECLASSIFIED

APR 25 2012

WBG ARCHIVES

CONFIDENTIAL
September 16, 1963

EUROPEAN INVESTMENT BANK

BRIEFING PAPER

I. MEETING WITH DELEGATION

NO MEETING SCHEDULED

II. MEMBERS OF DELEGATION

Paride FORMENTINI
Hans Karl von MANGOLDT-REIBOLDT
Giandomenico SERTOLI
Guy TRANCART

President
Vice President
Manager of the Finance Department
Manager of the Loans in Associated
Countries Department

III. STATE OF RELATIONS AND TOPICS FOR DISCUSSION

(a) State of Relations:

The EIB and the IBRD have been in one joint operation: in April 1959, each made a loan of \$20 million to the Cassa per il Mezzogiorno for a group of three projects. The EIB terms were the same as ours, except that our interest rate of 5 3/4% was 1/8% higher. In 1962, both institutions agreed to defer the closing date from December 1962 to December 1964. The EIB also deferred the first amortization; we adhered to the original date of July 1963. (At June 30, 1963, some \$3.7 million of the Bank's loan was undisbursed.)

No other joint operations have been discussed, apart from the Vianden project in Luxembourg which was financed instead by Germany in 1959.

(b) Topics likely to be raised by the delegation:

None.

(c) Topics to be raised by Management:

Joint IBRD/IDA-EIB operations in Africa. The EEC and the Associated African States have agreed on a Convention of Association for 1963-1967. This provides for \$730 million of financial assistance, mostly through FEDOM, the EEC's development fund for these countries. The aid will also include \$64 million of EIB loans. Amortization may be extended over as long as 25 years and the EIB's normal interest rate (currently 5 7/8%) may be subsidized by the Six to the extent of 3%. A further \$6 million may be lent to dependent territories and overseas departments of the Six on similar terms. A special department of EIB was created in

1962 to manage loans to associated states; its chief is Guy Trancart, formerly with IBRD. Extension of EIB activity to Africa raises the question of aid coordination and possibilities of joint operations. At the 1962 Annual Meeting, Bank staff asked about EIB's interest in joint loans, with the Bank/IDA providing the foreign exchange component and EIB part of the local currency. EIB said this would be possible: their attitude would depend on the particular circumstances of a project. EIB policy towards African development banks had still to be defined.

EIB lending in Greece and Turkey. In agreements of association between EEC and Greece (July 1961) and Turkey (September 1963), provision is made for EIB lending in these countries. Joint operations with the Bank/IDA are therefore a possibility, even if not in the near future.

Greece. The EEC is to provide \$125 million of economic aid through the EIB during the first 5 years of association. Of this, \$50 million is to be made available in 1963-1964. Losses are to be borne by the Six and they may subsidize the rate of interest to the extent of 3%. The agreement to lend did not require any settlement of Greece's pre-war debt. No loan has yet been made, but projects in transportation and electric power have been appraised, and road and irrigation projects are under consideration.

Turkey. Over the next 5 years, the EEC is granting, through the EIB, \$175 million of long-term low interest loans for projects in the Turkish development plan. Special conditions with respect to interest rates and amortization periods are to be provided. The loans will be financed by special national contributions by the Six.

Interest rates and borrowing policies. The whole paid-up capital of EIB (\$250 million) is now committed and the EIB is therefore having to resort increasingly to the capital market for its funds. Reflecting the situation in European markets, the EIB has raised its interest rate from 5 5/8% to 5 7/8%. Last May, President Formentini said EIB would try to borrow at no more than 5%. This would appear difficult in most markets - Italy, Germany, France - but it is hoped to make issues in Switzerland and perhaps in Belgium and the Netherlands. Mr. Formentini said the EIB would not tap the U.S. market, at least until 1964, for two reasons: it wanted to establish an extensive record of success in European markets; and it wanted to adhere to the EEC policy of supporting the dollar by not drawing on the U.S. market at present.

IV. BACKGROUND INFORMATION

(d) Holdings of World Bank Bonds

None. In October 1959, the EIB purchased at par special 2-year 4 1/2% IBRD notes for \$2.5 million and also DM 10 million (\$2.4 million) of IBRD notes on the same terms. These have matured and were not renewed.

V. STRUCTURE AND OPERATIONS OF THE EIB

The EIB came into being on January 1, 1958 with the creation of the European Economic Community. Its purpose is threefold: to assist the development of the less-advanced regions of the EEC; to finance projects of common interest to several member countries; and to facilitate the adaptation of enterprises in the Community to the new economic conditions resulting from the growth of the EEC. The EIB was authorized to extend its operations to Greece in July 1961, to the Associated Overseas Territories in Africa in July 1962 and to Turkey in September 1963.

The capital is \$1 billion, of which \$250 million is paid up. Germany and France each has a quota of 30%, Italy's is 24% and that of Benelux 16%. The unpaid capital serves the same function as in the IBRD. The EIB may also borrow on the capital markets of member and non-member countries. Loans are customarily made for individual projects and are tied to expenditure in member countries. The EIB is intended to provide supplementary finance only. It does not buy shares or assume managerial responsibilities.

The EIB stepped up its lending in 1961 and again in 1962. By the end of 1962, it had approved 37 loans totalling \$254 million, of which 15 loans (all but one in Italy) for a total of \$94 million were contracted in 1962. Effective loans were \$212 million, and disbursements \$141 million. The borrowing countries were: Italy (64%), France (21%), Germany (11%), Belgium and Luxembourg (2% each). Most of the loans were for industry, chiefly chemicals and steel (53%), transportation (26%), and power (17%). Agriculture accounted for the remaining 4%. Amortization of industrial projects extends over 11 to 15 years; for infrastructure and agriculture, repayment is required over 16 to 20 years.

The EIB raised \$53.7 million on the capital markets of the Netherlands, Switzerland and Italy during 1961 and 1962. The loans were as follows:

- \$5.5 million by a 7-year $4\frac{1}{2}\%$ loan from Dutch banks (1961)
- \$13.8 million by a 20-year $4\frac{1}{2}\%$ bond issue in the Netherlands (1961)
- \$2.1 million by a 6-year borrowing from a Swiss bank (1961)
- \$24.0 million by a 15-year 5% bond issue in Italy (1962)
- \$8.3 million by a 20-year $4\frac{3}{4}\%$ bond issue in the Netherlands (1962)

The 1961 Netherlands issue was quoted on September 12 at 101 $\frac{3}{4}$ to yield 4.36%.

The 1962 Netherlands issue was quoted on September 12 at 100 $\frac{9}{16}$ to yield 4.71%.

The 1962 Italian issue was quoted on September 6 at 93.30 to yield 5.70%.