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THE WORLD BANK

Washington, D.C.

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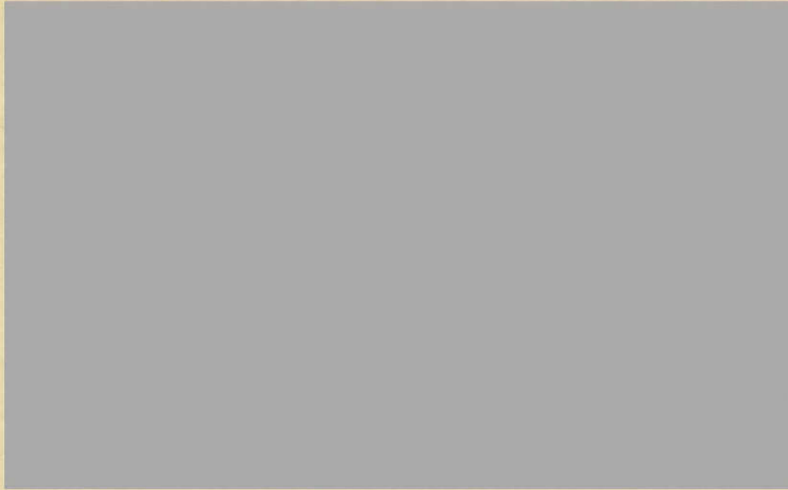
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President G.D. Woods Briefs - 20th Annual Meeting
Europe & Middle East

1965



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Annual Meeting briefing papers, 1965 - Europe and Middle East - Briefing papers

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

GDW MEETINGS - EUROPE/MIDDLE EAST

✓ Belgium (Gov. Ansiaux)	Wed., Sep. 29 - 4:00 pm
✓ Netherlands	Thu., Sep. 30 - 9:00 am
✓ Spain	Mon., Sep. 27 - 3:00 pm
✓ Turkey	Fri., Sep. 24 - 3:00 pm
✓ UAR (El Kaissouni)	Sat., Oct. 2 - 11:00 am
✓ Yugoslavia	Sat., Sep. 25 - 4:00 pm
✓ Banque de Bruxelles (Mr. Camu)	Wed., Sep. 29 - 3:00 pm
✓ European Investment Bk (Mr. Formentini)	Wed., Sep. 29 - 9:30 am
✓ Kredietbank, s.a., Brussels (Mr. F. Collin)	Wed., Sep. 29 - 4:30 pm

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September 15, 1965

BRIEFING PAPER - 1965

AUSTRIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Wolfgang Schmitz
Governor of Bank

Federal Minister of Finance

Hugo Rottky
Alternate Governor of Bank

Section Chief, Federal Ministry
of Finance

Reinhard Kamitz
Governor of Fund

President, Austrian National
Bank

Ludwig Seiberl
Alternate Governor of Fund

General Manager, Austrian
National Bank

Advisers:

Othmar Haushofer

Alternative Executive Director
of Bank

Rudolf Horak

Secretary, Federal Ministry of
Finance

Walter Neudorfer

Counselor, Federal Ministry of
Finance

Franz Fuchs

Chief Secretary, Austrian
National Bank

Bruno Liskar

Chief, Foreign Research Dept.,
Austrian National Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

There are no prospects for Bank lending since the economic situation continues to be very favourable and foreign exchange reserves continue to increase. The capital market shows some improvement but there does not appear to be a possibility for Bank borrowing in the near future because of the high interest rates and of the narrowness of the market.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None

(c) Topics likely to be raised by the Delegation:

None

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

	(US \$ Millions)	
	Amount less Cancellations	Undisbursed Balance
Loans fully disbursed	104.8	-
of which has been repaid	<u>17.9</u>	
Total outstanding	86.9	
Amount sold	41.5	
of which has been repaid	<u>12.9</u>	<u>28.6</u>
Net amount held by Bank	<u>58.3</u>	

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Austria borrowed \$ 18 million in the London market in 1964 (at 6% with 20 year maturity issued at 99). The underwriters were Warburg, Hambros and Rothschild. In June and July, 1965 two private issues, both guaranteed by the Republic of Austria, were made - the first of \$12 million (at 5 3/4% for 20 years issued at 97 with principal underwriters Banque Lambert, Credit-banque Luxembourgeois, White Weld and Co. of New York) and the second of S.F. 40 million (at 5% for 15 years with principal underwriters Credit Suisse, Societe de Banque Suisse and Union de Banques Suisses).

(e) Bank 9% Capital Subscription

Amount: \$ 9.0 million. Entire amount released and freely convertible.

(f) IDA Subscription

Part I member.	Original subscription	\$ 5.04 million
	Replenishment	<u>\$ 5.04 million</u>
	Total	\$10.08 million

(g) Holdings of Bank Bonds

\$ 18.50 million

(h) I.F.C.

I.F.C. has made no investments in Austria.

VI. POLITICAL SITUATION

The traditional coalition between the Socialists and the Peoples Party (conservative) is likely to continue for the time being. However, the dispute over the possible return of former Arch Duke Otto von Habsburg might threaten stability again and the Common Market question - the Socialists favour EFTA and the Conservatives EEC - could endanger the coalition. Elections are

due to be held before the fall of 1966. They could show gains for the Peoples Party, because of voters' concern about the small Communist Party which recently decided to support the Socialists.

VII. ECONOMIC SITUATION

Population: 7.2 million

GNP per capita: \$1,170

Gold and Foreign Exchange Reserves (June 1965): \$1.3 billion

The vigorous upswing of the economy has continued. Booming exports, increasing tourism and the steady growth of domestic consumption resulted in heavy investment activity. All these factors contributed to a rise of real GNP in 1964 of about 6%. This rate was appreciably higher than in the three preceding years and was exceeded only in the boom years of 1955 and 1960. No slackening of the expansionary forces is yet apparent. With the economy operating at full capacity, the possibility of price and wage increases has been of major concern to the authorities. However, increases have so far been fairly moderate. The average cost of living in the first half of 1965 was about 5% above the level a year ago and wage increases have started to exceed productivity gains. The 1965 budget is likely to be neutral in an effort to preserve stability.

1964 brought about a moderate decrease in the surplus on current account. Imports rose somewhat more than exports, but the trade deficit was more than covered by the continued vigorous growth of receipts from tourism. Following further liberalization of exchange controls, capital exports increased. Since capital imports decreased, partly as a result of restraint in borrowing abroad by the public sector, the capital account closed with a slight deficit. Present foreign exchange reserves cover about eight months' imports.

The domestic monetary situation was characterized by a large inflow of mainly short-term funds. The banks were abundantly liquid despite a substantial expansion of credit. In order to sterilize excess liquidity, reserve requirements were raised in the fall of 1964 and an agreement was reached between the Austrian National Bank and a number of credit institutions to limit foreign deposits. Due to the ample supply of funds, capital market rates fell further, approaching the levels prevailing in Western Europe. Most issues had a 6% coupon and were placed without difficulty. Measures to improve the efficiency of the capital market, which have been contemplated for years, therefore appear less urgent.

Negotiations between Austria and the Common Market started in the spring. Austria aims at a special arrangement which would safeguard her economic interests but avoid full membership in view of her political status.

Belgium

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September 15, 1965

BRIEFING PAPER - 1965

BELGIUM

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

G. Eyskens
Governor of Bank

Minister of Finance

Hubert Ansiaux
Alternate Governor of Bank

Governor, Banque Nationale
de Belgique

Hubert Ansiaux
Governor of Fund

Governor, Banque Nationale
de Belgique

M. D'Haeze
Alternate Governor of Fund

General Manager, Administration
of the Treasury and Public Debt

Advisers

Andre van Campenhout

Executive Director Bank and Fund

Maurice Toussaint

Alternate Executive Director
Fund

Cecil de Strycker

Director, Banque Nationale de
Belgique

Jacques Mertens de Wilmars

Adviser to the Board, Banque
Nationale de Belgique

Louis Plum

Technical Assistant Fund

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1949	Belgium	Industry and Power	16.00	
1951	Belgium	Equipment for Development	30.00	
1954	Belgium	Water Transport	20.00	
1957	Belgium	Water Transport	10.00	
1951	Congo	Equipment for Development	40.00	
1957	Congo	Roads	40.00	
1957	Ruanda-Urundi	Road and Port	4.80	
1960	Congo	Agriculture	0.35	
1960	Congo	Roads, Ports and Waterways	7.17	
1960	Otraco Congo	Transport Equipment	4.06	
	Total		172.40	
		of which has been repaid	62.4	
		Total outstanding	110.0	
		Amount sold	131.7	
		of which has been repaid	61.4	70.3
		Net amount held by Bank	39.7	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Amount: \$40.5 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$8.25 million
	Replenishment	<u>\$8.25 million</u>
	Total	\$16.50 million

(g) Holdings of Bank Bonds

\$10.75 million

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

In the June 1965 election both the Social Democrats and the Christian Democrats, which had formed a coalition government, during four years, suffered heavy losses. The conservative liberal party, which was opposed to the government's fiscal policies and political reform program, gained several seats. As a result, the proposed constitutional amendments granting some cultural autonomy to the Flemish and Walloon parts of the country, cannot be voted, as they require a two-thirds majority in Parliament.

Nevertheless, Christian Democrats and Social Democrats together retained control of Parliament; they formed a new coalition government which is likely to remain in office for some time. The present government is headed by Mr. Pierre Harmel belonging to the Christian Democrats.

VII. ECONOMIC SITUATION

Population, 1964: 9.70 million;

GNP per capita, 1963: \$1,450;

Gold and Foreign Exchange Reserves of National Bank,
June 1965: \$2,264 million;

Net Foreign Exchange Position of Commercial Banks,
March 1965: -\$464 million;

Imports (c.i.f.), 1964: \$5,900 million.

The inflationary pressures which developed in 1964 have been checked by a more restrictive budget and credit policy which, however, has also slowed down the growth of the economy. GNP rose by 5.5% in 1964 but is expected to rise by no more than 3.5% while industrial production, which increased by 7% in 1964, expanded very little during the first quarter of 1965.

As part of the tightening of credit, interest rates were substantially raised. The average yield on government bonds increased from 4.6% in March 1963 to 5.5% in March 1964 and during the remainder of 1964 ranged as high as 5.7%. In June 1965 the yield was 5.6%.

The slower growth of the economy was reflected in the foreign trade balance. During the first quarter of 1965 exports were 14% above the corresponding period of 1964 while imports were only 1% higher. This was the main factor in the increase in foreign exchange reserves during July 1964-June 1965 of over \$300 million.

No foreign issues in Belgium have been reported during 1964 or the first half of 1965.

Cyprus

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BRIEFING PAPER - 1965

CYPRUS

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

R. Solomides Governor of Bank	Minister of Finance
A. J. Philippou Temporary Alternate Governor of Bank	Accountant, Treasury
<hr/>	
C. C. Stephani Governor of Fund	Accountant-General
K. Lazarides Temporary Alternate Governor of Fund	Manager, Economic Research Department, Central Bank of Cyprus

III. BANK/IDA PROSPECTIVE OPERATIONS

No new loans are under consideration.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

There has been no release of the 9 per cent capital subscription (\$1.35 million). In 1964 the position was taken that an approach would be inappropriate in view of the political situation. An effort could be made this time.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

The Government may decide to finance the watershed studies from its own resources in order to avoid possible delays through Special Fund financing and it may request our advice for the studies. If this subject is raised, we should explain that the Bank was not in a position to finance the studies because of its policy to leave to the Special Fund the financing of those studies in which it expresses an interest. However, we are prepared to assist in working out terms of reference and selecting consultants and to advise during the implementation.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1963	Electricity Authority of Cyprus	Electric power	20.5	13.2
	Amount sold		<u>1.2</u>	
	Net amount held by Bank		<u>19.3</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

Advice has been given on watershed planning studies.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Subscription

Amount: \$1.35 million. No release (see IV(a)).

(f) IDA Subscription

Part II member. Subscription (90%): \$684,000.
Release has been refused.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

IFC has made no investments in Cyprus and there are no applications.

In response to the Government's request for assistance in finding a senior adviser to the Cyprus Development Corporation, we put forward the name of Mr. H. J. M. Peeperkorn, a retired member of the managing group of the Herstelbank in the Netherlands. We have not heard whether Mr. Peeperkorn was engaged.

VI. POLITICAL SITUATION

Open hostilities between the Greek and Turkish communities have been virtually eliminated by the U. N. peace-keeping force. However, no real progress has been made in solving the fundamental issues and the relatively quiet situation seems due only to the presence of the U. N. forces. The report of the U. N. mediator, Mr. Galo Plaza, suggests the resumption of talks between the two communities without indicating possible directions in which a solution could be found. While the Greek Cypriots are inclined to give favourable consideration to the suggestion, Turkish Cypriots reject it. A "dialogue" between the governments of Athens and Ankara was started in June, believed to be an indication of Greece getting cooler towards enosis (unification) and tending more towards some form of continued independence for the island.

VII. ECONOMIC SITUATION

Population: 600,000;

GNP per capita: \$550-\$600;

Gold and Foreign Exchange Reserves (March 1965): \$77 million.

The difficult political conditions and at times open hostilities have been the major causes of the decline of GDP in 1964, estimated at 12%. Tourism, most promising before, virtually disappeared but trade and construction were also affected. In addition, agricultural production suffered from bad weather.

Monetary stability was surprisingly well maintained. The monetary authorities kept the Cyprus pound convertible, no exchange restrictions were imposed and confidence in the national currency was maintained. As a result, funds were kept in liquid form by postponing consumption and investment. In 1964 savings and time deposits increased by 6 per cent and credits by only 1 per cent. The retail price index of May 1965 was 1 per cent above May 1964. Overall Government spending increased moderately, but revenue declined by about 10 per cent, mainly due to a decrease in customs revenues. As a result, Government saving was reduced to 10-15 per cent of total receipts, compared to about one-third in earlier years.

Although exports declined by about 7 per cent in 1964 and invisible earnings were substantially reduced, the balance of payments again showed a surplus, due to a fall in imports by about 20 per cent and substantial expenditures by the U. N. forces. Total foreign exchange reserves of \$78 million at the end of 1964 were equivalent to more than a year's imports.

Denmark

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DENMARK

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Otto Muller
Governor of Bank

Permanent Under-Secretary of
State, Ministry of Commerce

Karl Otto Bredarl
Alternate Governor of Bank

Secretary for the Public Debt,
Ministry of Finance

Erik Hoffmeyer
Governor of Fund

Governor, Denmarks Nationalbank

Einar Dige
Alternate Governor of Fund

Permanent Secretary, Ministry
of Finance

Advisers

Torben Friis

Manager, Denmarks Nationalbank

Flemming Agerup

Minister Counselor, Embassy
of Denmark

Einar Kallsberg

First Secretary, Embassy of
Denmark

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication that Delegation would raise any questions.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1947	Denmark	Reconstruction	40.0	
1959	Denmark	Power	20.0	
1963	Denmark	Power	<u>25.0</u>	<u>5.8</u>
	Total		85.0	5.8
		of which has been repaid	<u>18.1</u>	
		Total outstanding	66.9	
		Amount sold	39.1	
		of which has been repaid	<u>16.7</u>	<u>22.4</u>
		Net amount held by Bank	<u>44.5</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

During 1964 the Central Government and various local authorities were able to raise \$140 million abroad (compared with \$125 million in 1963), mostly in the form of privately placed bonds. Only one public issue was made in that year. Details of the issues are given in the Annex hereto.

The only reported borrowing during the first half of 1965 is a public issue of \$20 million made in New York last June by the Kingdom of Denmark at 6%, price of issue 99, maturity 1965-1985.

<u>Bankers:</u>	<u>U.S.A.</u>	<u>Europe</u>
	Harriman, Ripley & Co.	Hambros Bank Ltd.
	Kuhn Loeb and Co.	S.G. Warburg and Co. Ltd.
	Lazard Freres and Co.	
	Smith, Barney and Co.	

(e) Bank 9% Capital Subscription

Amount: \$15.60 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$8.74 million
	Replenishment	<u>\$7.50 million</u>
	Total	\$16.24 million

(g) Holdings of Bank Bonds

\$4.00 million

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

General elections were held in September 1964. The Government then in power was a coalition of Social Democrats and Radicals under the Social Democratic leader, Jens Otto Krag. The Social Democrats retained their 76 seats in a total of 179 but the Radicals who held 11 seats in the previous Parliament lost one and refused to participate in a new coalition. A new wholly Social Democratic Government was formed by Krag after the elections. Although in a minority, the new government has been able to rely on sufficient support from small parties to function effectively.

VII. ECONOMIC SITUATION

Population, 1963: 4.68 million;

GNP per capita: \$1,700;

Gold and Foreign Exchange Assets of Central Bank, June 1965: \$510 million;

Imports (c.i.f.), 1964: \$2,614 million.

A continued expansion in exports and in domestic demand has maintained economic activity at high levels during the past year. GNP rose by an estimated 6.7% in 1964 and is expected to increase by 4% in 1965. Both credit and fiscal policies have had to be tightened to check the inflationary pressures that developed in the course of 1964 as a result of overfull employment. The discount rate was raised in June 1964 from 5.5% to 6.5% and the yield on government bonds rose from 6% during the first quarter of 1964 to 7.6% in May 1965.

While the increase in prices has been viewed with concern (the cost of living rose by nearly 5% between the first months of 1964 and the first months of 1965) no weakening in the country's competitive position seems to have taken place. There was no change in the foreign exchange position during this period, the current account deficit having been covered by an inflow of capital.

The public external debt totalled \$546 million on December 31, 1964 and its service will require \$48 million in 1965. This corresponds to less than 2% of current foreign exchange earnings.

ANNEX

Danish Bond Issues AbroadJanuary-December 1964

<u>Borrower</u>	<u>Month</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
<u>Privately placed bonds</u>					
City of Copenhagen	June	DM75 million	5-3/4%	100	1964-198
Copenhagen Telephone Co.	February	\$12 million	5-3/4%	96	1964-198
Copenhagen Telephone Co.	July	\$15 million	5-3/4%	100	1964-198
<u>Associated Municipalities of Denmark</u>					
	June	\$15 million	5-3/4%	99-1/4	1964-1984
Midtkraft Electricity	July	\$ 8 million	5-3/4%	99	1964-1979
Other		\$42 million			

Total \$110.75 million equivalent

Public issue

Kingdom of Denmark	April	\$25 million	5-1/2%	98-1/2	1964-1981
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<u>Borrowings from banks</u>		\$ 5 million			
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Total 1964 \$140.75 million equivalent

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BRIEFING PAPER - 1965

FINLAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

R. v. Fieandt
Governor of Bank

Envoy Extraordinary and
Minister Plenipotentiary

Esko Rokola
Alternate Governor of Bank

Chief of the Prime Minister's
Office

Klaus Waris
Governor of Fund

Governor, Bank of Finland

Reino Rossi
Alternate Governor of Fund

Member, Board of Management,
Bank of Finland

Advisers

Olavi Munkki

Ambassador of Finland to
the United States

Jouko J. Voutilainen

Secretary, Bank of Finland

III. BANK/IDA PROSPECTIVE OPERATIONS

A second road project is being appraised and a loan of about \$20 million may be signed at the beginning of 1966. There may be further lending to Finland in 1966.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Inquire about borrowing plans and outlook in coming year. Mention current thinking about widening the circle of countries in the near future.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

Inquiry about future Bank lending and suggestions for suitable projects.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1949	Finland	Industry	2.1	
1949	Bank of Finland	Power and Industry	12.5	
1952	Bank of Finland	Power, Industry and Agriculture	20.0	
1952	Bank of Finland	Industry	3.5	
1955	Bank of Finland	Power and Industry	12.0	
1956	Mortgage Bank of Finland Oy	Power	15.0	
1959	Mortgage Bank of Finland Oy	Industry	37.0	
1961	Mortgage Bank of Finland Oy	Industry	25.0	
1962	Mortgage Bank of Finland Oy	Power	25.0	5.8
1963	Teollistamisra- hasto Oy	Industry	7.0	2.1
1964	Finland	Roads	28.5	26.4
1965	Teollistamisra- hasto Oy	Industry	<u>14.0</u>	<u>14.0</u>
	Total		201.6	48.3
		of which has been repaid	<u>46.3</u>	
		Total outstanding	155.3	
		Amount sold	53.0	
		of which has been repaid	<u>29.6</u>	<u>23.4</u>
		Net Amount held by Bank	<u>131.9</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

Part of the finance provided under the road loan of 1964 is for a study of a coordinated transport program for the next ten years, to be supported by permanent coordinating machinery within the administration.

In September 1964 a contract was signed with the Dutch consulting firm NEDECO to undertake the study by six experts. A special office has been established within the National Board of Roads and Waterways to assist the experts in obtaining data and information. An interim report is expected shortly, followed by a final report in October this year.

(d) Access to Private Capital Markets

Until 1964 Finland has been able to make only two issues in the private market, one in Switzerland in 1961 (\$7.5 million equivalent) and one in New York in 1963 (\$12.5 million). In 1964, the greater liquidity of international capital markets and the relaxation of cold war tensions, which had been responsible for the hesitation to lend to a country so close to the Soviet Union, enabled Finland to raise over \$100 million through bond issues, mainly in Germany and the U.S. In 1965, however, only two issues have been made so far, totalling \$21 million. Details of the issues are given in the Annex hereto.

Borrowing from U.S. banks was \$4 million in 1964 but ceased in 1965.

Finland is still exempt from U.S. interest equalization tax.

New York quotation of Finnish bonds 1963-1973 on August 19, 1965:97.

<u>Bankers:</u>	<u>U.S.A.,</u>	<u>Europe</u>
	Harriman, Ripley & Co.	Dresdner Bank AG
	Kuhn, Loeb & Co.	Berliner Handels -
	Lazard Freres & Co.	Gesellschaft
	Smith, Barney & Co.	Deutsche Bank
	White, Weld and Co.	Hambros Bank Ltd.
		S. G. Warburg & Co. Ltd.

(e) Bank 9% Capital Subscription

Amount: \$6.84 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$3.83 million
	Replenishment	<u>\$2.29 million</u>
	Total	\$6.12 million

(g) Holdings of Bank Bonds

\$6.65 million

(h) I. F. C.

Industrial Investments

IFC (with other participants: \$1,922,514) has made three industrial investments in Finland: textiles (\$156,000), pulp, sawmilling, heavy machinery and shipbuilding (\$1,875,000), and pharmaceutical products (\$799,357). The first two investments have been repaid. IBRD and IFC are considering a request for joint financing of a linerboard project (Kemi Oy).

VI. POLITICAL SITUATION

The caretaker government under Reino Lehto, which took office in December 1963 following inability to form a political government, was replaced in September 1964 by a coalition of Agrarians and small non-left parties under the Agrarian leader Johannes Virolainen. Municipal elections in October 1964 brought, however, large gains to the Social Democrats.

The basic political difficulty in Finland is that there are four major parties, none commanding an absolute majority, among which cooperation has proved unstable and short-lived. Another difficulty is the insistence of President Kekkonen, an Agrarian, that any government formed be predominantly Agrarian.

New general elections are due at the beginning of 1966.

VII. ECONOMIC SITUATION

Population: 4.6 million;

GNP per capita: \$1,300;

Gold and Foreign Exchange Reserves (net holdings of Bank of Finland, end May 1965): \$284 million;

Imports (c.i.f.) 1964: \$1,500 million.

High foreign demand for pulp and paper has continued to be the main factor in the growth of the Finnish economy. During July 1964 - March 1965 exports increased by 9.5% over the corresponding period of 1963-64. As in previous booms imports increased even more (by 18%), but this time no foreign exchange difficulties developed because of the large inflow of capital.

The tightening up of capital markets during 1965 has now sharply reduced the opportunities of external borrowing. The net foreign exchange reserves of the Bank of Finland, which reached a peak of \$335 million in December, 1964, fell to \$284 million in May 1965. However, they are only slightly less than a year ago and considerably above the level at the end of 1963. The reduced liquidity of the economy, resulting from the decline in reserves during 1965 and from the recent adoption of stricter credit and budget measures, is likely to slow down the growth of production and improve the trade balance.

The rise in domestic prices, which had been alarming during 1964, has been checked, probably temporarily. Wholesale prices and the cost of living rose by 11% during 1964 but remained virtually unchanged during the first five months of 1965. This has prevented a further deterioration in the country's competitive position (a year ago the currency was on the verge of becoming overvalued), but the present level of costs makes the tasks of adjusting to increased EFTA competition and of developing new export products far from easy. However, industry continues to grow at nearly 8% a year and most branches have been sharing in this growth; this suggests that difficulties are being overcome.

The public external debt amounted to \$587 million on December 31, 1964 and its service of \$68 million will absorb some 4% of current foreign exchange earnings in 1965.

ANNEX

Finnish Bond Issues Abroad

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>January-June 1964</u>	
			<u>Price of Issue</u>	<u>Maturity</u>
Republic of Finland	DM10 million	6-1/4%	98	1964-1979
Industrial Mortgage Bank	DM10 million	6-1/4%	98-1/4	1964-1979
Republic of Finland	\$15 million	6%	98	1964-1976
Rantaruukki Oy (guaranteed by Republic of Finland)	\$8 million	6-1/2%	98-1/2	1964-1979
Kesko Oy (guaranteed by Kansallis Bank)	\$8 million	6-1/2%	98-3/4	1964-1976

Total \$51 million equivalent

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>July-December 1964</u>	
			<u>Price of Issue</u>	<u>Maturity</u>
Republic of Finland	DM50 million	6%	98-1/4	1964-1980
Republic of Finland	\$15 million	6%	97-1/2	1964-1979
Rauma-Repola Oy (guaranteed by Kan- sallis Bank)	\$10 million	6-1/2%	98-1/4	1964-1979
Rantaruukki Oy (guaranteed by Republic of Finland)	£1.45 million	6-1/2%	95	1964-1981
Osuuskassojen Keskus Oy (guaranteed by Republic of Finland)	DM60 million	6-1/4%	98	1964-1979

Total \$66.5 million equivalent

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>January-June 1965</u>	
			<u>Price of Issue</u>	<u>Maturity</u>
Enso-Gutzeit Oy (guaranteed by Kansallis Bank)	£4 million	6-1/2%	97-3/4	1965-1980
City of Helsinki (guaranteed by Republic of Finland)	\$10 million	6-1/4%	98-3/4	1965-1977

Total \$21 million equivalent

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FRANCE

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Valery Giscard d'Estaing
Governor of Bank

Minister of Finance and
Economic Affairs

Bernard Clappier
Alternate Governor of Bank

Deputy Governor, Banque de
France

Jacques Brunet
Governor of Fund

Governor, Banque de France

Maurice Perouse
Alternate Governor of Fund

Director of Treasury, Ministry
of Finance and Economic Affairs

Advisers

Rene Larre

Executive Director Bank and Fund

Jean Malaplate

Alternate Executive Director Bank

Gerard Teyssier

Alternate Executive Director Fund

Claude Pierre-Brossolette

Deputy Director of Treasury

Gilbert Bouchet

Director General, Foreign
Department, Banque de France

Rene Lapautre

Special Assistant to the Minister
of Finance

Pierre M. Viaud

Financial Counselor, French
Delegation to the United Nations

Louis L. Bruneau

Financial Counselor for Latin
America, Ministry of Finance
and Economic Affairs

Daniel Deguen

Assistant Director of Treasury,
Ministry of Finance and Economic
Affairs

Jean du Pre de Saint-Maur

Financial Attache in New York,
French Embassy

Andre Robert

Representative of Banque de
France in New York

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1947	Credit National	Reconstruction	250.0	
1954	Overseas Railways Administration	Railways	7.1	
1955	Electricite et Gaz d'Algerie, Algeria	Power	10.0	
1959	Comilog, Gabon, Congo-Brazil	Manganese Ore Mining	35.0	
1959	SOPEG, Algeria	Pipeline	50.0	
1960	MIFERMA, Mauritania	Iron Ore Mining	66.0	
	Total		418.1	
	of which has been repaid		109.7	
	Total outstanding		308.4	
	Amount sold	356.4		
	of which has been repaid	93.3	263.1	
	Net amount held by Bank		45.3	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Amount: \$94.5 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$52.96 million
	Replenishment	<u>\$61.87 million</u>
	Total	\$114.83 million

(g) Holdings of Bank Bonds

\$37.80 million

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

Presidential elections are due in December 1965 and Parliamentary elections at the end of 1966.

The effort of Gaston Deferre, Mayor of Marseilles and Socialist candidate for the Presidency, to unite the Gaullist opposition has failed. President de Gaulle has not yet announced whether he will seek reelection. If, as seems probable, he does, his reelection is a foregone conclusion.

VII. ECONOMIC SITUATION

Population, 1963: 49 million;

GNP per capita: \$1,630;

Gold and Foreign Exchange Reserves (June 1965): \$6,153 million;

Imports (c.i.f.), 1964: \$10,070 million.

The stricter financial policies enforced since the middle of 1964 have succeeded in checking the rise in prices and the deterioration in the trade balance but, as was to be expected, they have also slowed down the growth in internal demand and hence in production. GNP, which rose by 5.4% in 1964, is expected to rise by only 2.5% this year. During the first quarter of 1965 industrial production was slightly below the level of the corresponding months in 1964. In its recent annual review, the OECD has criticized the French authorities for overdoing things and has urged a reflation. Some relaxation of financial policy was recently announced by the Minister of Finance, who expressed confidence that the growth in production would be resumed in the near future.

The success of the stabilization is shown by the fact that during the first half of 1965 wholesale prices and the cost of living were only 2% higher than in the corresponding period of 1964 (a year earlier, the rise in the cost of living had been 3.6%) and that the trade deficit (imports c.i.f.) was reduced from \$730 million to \$300 million (exports increased by 8% while imports declined by 1.5%). This, together with the continued net inflow of capital, led to an increase which was larger than in the previous two years in the gold and foreign exchange reserves:

Increase in Gold and Foreign Exchange Holdings
(million \$)

<u>July-June</u>	<u>Gold</u>	<u>Foreign Exchange</u> (mainly dollars)	<u>IMF</u> <u>Position</u>	<u>Total</u> <u>Increase</u>
1962-1963	543	230	- 52	721
1963-1964	637	- 157	111	591
1964-1965	982	- 369	256	869

Due to the sharp reduction in the budget deficit, the demand for funds eased and the authorities were able to tighten credit without increasing interest rates, as in other countries. The yield on government bonds in March 1965 was 5.3% compared with 5% in March 1964 and March 1963 while short-term rates actually eased. In March 1965 the Electricite de France issued long-term 5.75% bonds at par.

There has been no relaxation of the ban on foreign issues in France. During 1964 only one borrowing was allowed, a 150 million franc issue by the European Coal and Steel Community at 5% (price of issue 98.3, maturity 1964-1984). No information is available yet for 1965.

Details on French foreign aid are given in the Annex hereto.

French Foreign Aid
(Million \$)

I. Summary

<u>Budgetary appropriations</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Algeria		236	207	166
Other		<u>553</u>	<u>575</u>	<u>542</u>
Total		789	782	708
 <u>Disbursements</u>				
Official				
Bilateral	861	821	826	
Multilateral	116	29	17	
Private				
	<u>311</u>	<u>335</u>	<u>453</u>	
Total	1,288	1,185	1,296	

II. Official Bilateral (Disbursements)

Algeria	358	239	191
Other Franc Zone	475	537	562
Other, including Cambodia, Laos and Vietnam	<u>29</u>	<u>45</u>	<u>73</u>
Total	862	821	826

III. Private (Disbursements)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
1. <u>Government-guaranteed export credits of over 5 years</u>				
Franc Zone	-	-	2	
Other	<u>14</u>	<u>38</u>	<u>98</u>	
Total	14	38	100	
2. <u>Net lending and direct investments</u>				
Algeria	172	179	183	
Other Franc Zone	79	54	81	
Other, including Cambodia, Laos and Vietnam	<u>45</u>	<u>64</u>	<u>89</u>	
Total	296	297	353	
Grand Total	<u>310</u>	<u>335</u>	<u>453</u>	

Franc Zone Aid (Disbursements) (Million \$)

1. <u>Grants</u>			
a. <u>For Capital Expenditures</u>			
Algeria	234	92	78
Other	<u>110</u>	<u>115</u>	<u>135</u>
Total	344	207	213
b. <u>For Current Expenditures</u>			
Algeria	81	117	90
Other	<u>303</u>	<u>327</u>	<u>329</u>
Total	384	444	419
2. <u>Loans (net)</u>			
Algeria	43	31	23
Other	<u>54</u>	<u>94</u>	<u>98</u>
Total	97	125	121
Undistributed	<u>7</u>	-	-
Grand Total	<u>832</u>	<u>776</u>	<u>753</u>

Sources: OECD Paris May 21, 1965 DAC/AR (65) 1/38
 OECD Paris May 25, 1965 DAC/AR (65) 2/38

Germany

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BRIEFING PAPER - 1965

GERMANY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Wolfram Langer
Temporary Alternate Governor
Bank

Deputy Minister, Ministry
of Economic Affairs

Fritz G. Fechner
Temporary Alternate Governor
Bank

Assistant Secretary, Ministry
of Finance

Ernst vom Hofe
Temporary Alternate Governor
Bank

Deputy Assistant Secretary,
Ministry of Economic Affairs

Karl Blessing
Governor of Fund

President, Deutsche Bundesbank

Wolfram Langer
Alternate Governor of Fund

Deputy Minister, Ministry of
Economic Affairs

Advisers

Otto Donner

Executive Director Bank

Ulrich Beelitz

Executive Director Fund

Miss Helga Steeg

Alternate Executive Director Bank

Walter O. Habermeier

Alternate Executive Director Fund

Ministry of Economic Affairs

Rolf Gocht	Assistant Secretary
Guenter Keiser	Assistant Secretary
Helmut Koinzer	Division Chief
Miss Lore Fuenfgelt	Chief of Section
Bernhard Braubach	Personal Assistant to Deputy Minister Langer

Ministry for Economic Cooperation

Gustav Adolf Sonnenhol	Assistant Secretary
	<u>Deutsche Bundesbank</u>
Otmar Emminger	Member, Board of Directors
Carl Wagenhoefer	President, Landeszentralbank in Bavaria
Harald Joerges	Director

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Amount: \$94.50 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$52.96 million
	Replenishment	<u>\$72.60 million</u>
	Total	\$125.56 million

(g) Holdings of Bank Bonds

\$797.9 million.

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

Elections are due in September. While the public opinion polls are indecisive between the two main parties, the Christian Democrats and the Social Democrats, Erhard, who succeeded Adenauer as Chancellor in April 1963, has a personal lead over Brandt of 22%.

VII. ECONOMIC SITUATION

Population, 1963: 58 million;

GNP per capita: \$1,780;

Imports (c.i.f.), 1964: \$14,618 million;

Gold and foreign exchange assets and other claims of Central Bank (June 1965): \$8,152 million;

Liabilities of Commercial Banks (net) (May 1965): \$573 million.

GNP rose by 6.5% in 1964 (3.2% in 1963) and is expected to rise by 5% in 1965. The value of exports, which had increased by 10% in 1963 and 11% in 1964, increased by 8% during the first half of 1965 over the corresponding period of 1964. The much larger rise in imports during the first half of 1965 (23%) has been the main factor in the shift from a current account surplus of \$200 million in the whole of 1964 to a current account deficit of \$680 million in the first half of 1965. In both periods capital transactions offset the current account balance and the gold and foreign position remained virtually unchanged. Recently a weakening of the Deutsche Mark has been reported in response to the developments in foreign exchange markets. While comments in the German press indicate a serious concern about the change in the external position, it is likely that the end of the German surplus mainly reflects the efforts of deficit countries (U.K. and Italy) to right their external unbalance and of France to slow down the rise in prices.

The strong internal demand for funds, the end of the accumulation of foreign exchange reserves, larger borrowings by the Länder and local authorities, a smaller inflow of foreign funds as a result of the imposition of the 25% withholding tax on interest payable for non-resident holders of German bonds, and a more restrictive credit policy combined to cause a further tightening of the German capital market during the past year. The yield on government bonds increased from 5.8% in March 1964

to 6.9% in May 1965 and to over 7% at present. On August 13, 1965 the discount rate of the Deutsche Bundesbank was raised from 3-1/2% to 4%.

German prices have continued to rise more moderately than in other major European countries. Industrial wholesale prices and the cost of living rose by about 2% in 1964 and by another 1% during the first half of 1965.

Foreign issues in Germany increased from only \$27 million equivalent in 1963 to well over \$200 million in 1964. It is estimated that three-fifths of this total was purchased by non-residents.

The principal issues in 1964 and in the first half of 1965 are shown in Annex A and the major facts on German foreign aid in most recent years in Annex B.

ANNEX A

Principal Foreign Bond Issues in Germany

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>January-June 1964</u>	
			<u>Price of Issue</u>	<u>Maturity</u>
City of Copenhagen	DM75 million	5-3/4%	100	1964-1984
European Coal and Steel Community	DM100 million	5-1/2%	98-1/2	1964-1979
European Investment Bank	DM80 million	5-1/2%	99	1964-1974
Industrial Mortgage Bank of Finland	DM40 million	6-1/4%	98-3/4	1964-1979
Republic of Finland	DM40 million	6-1/4%	98	1964-1979
Government of Japan	DM200 million	6%	99	1964-1979
Osaka, Japan	DM100 million	6-1/2%	99-3/4	1964-1979
City of Oslo	DM40 million	6%	99-1/2	1964-1979

Total DM675 million (\$168.75 million equivalent).

<u>July-December 1964</u>				
EUROFIMA	DM50 million	6-1/4%	97-3/4	1964-1979
Finnish Central Bank of Savings and Loan Institutions Co. Ltd.	DM60 million	6-1/4%	98	1964-1979
Republic of Finland	DM50 million	6%	98-1/4	1964-1980
Inter-American Development Bank	DM60 million	5-1/2%	96-3/4	1964-1979

Total DM220 million (\$55 million equivalent).

<u>January-June 1965</u>				
Osaka, Japan	DM100 million	6-1/4%	99	1965-1980
City of Oslo	DM50 million	5-3/4%	100	1965-1980
IBRD	DM250 million	5-1/2%	100	1965-1985
British Petroleum Co. London	DM100 million	5-1/2%	97	1965-1980
European Coal and Steel Community	DM150 million	5-1/2%	99	1965-1983

Total DM650 million (\$162.5 million equivalent).

ANNEX BGerman Foreign Aid
(Million \$)

<u>A. Official</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
1. <u>Bilateral Budgetary commitment authorizations</u>	412	349	268	203
<u>Cash payment authorizations</u>	364	364	321	300
<u>Capital market funds and KfW resources</u>	75	75	50	50
<u>New disbursements (gross):</u>				
(a) grants	38	69	86.5	
(b) reparations	70	70	62.5	
(c) loans	245	299	350	
Total disbursements	354.0	440.5	499.3	
<u>Amortization received</u>	29.3	34.0	48.7	
2. <u>Multilateral (net)</u>				
Commitments	28.6	21.7	281.1	
Disbursements	102.4	25.3	23.8	
Total official (net)	<u>427.0</u>	<u>421.5</u>	<u>474.4</u>	
B. <u>Private Long-term (net)</u>				
Direct investments	92.6	88.9	81.0	
Bilateral portfolio investments	49.9	-0.3	22.3	
Trade credits over five years	112.4	36.1	123.8	
Portfolio investment in multilateral agencies	<u>-0.4</u>	<u>11.4</u>	<u>13.5</u>	
Total private	<u>254.5</u>	<u>136.1</u>	<u>240.5</u>	
Total official and private (net)	<u>681.5</u>	<u>557.6</u>	<u>714.9</u>	

Major Recipients of German Bilateral
Government Aid and Long-Term Capital
(Million \$)

	<u>1963</u>	<u>1964</u>
India	40.7	69.1
Pakistan	35.3	40.6
Israel	62.5	62.5
Egypt	9.8	20.2
Brazil	16.5	
Turkey	28.4	16.0
Lebanon	21.5	8.9
Other	<u>184.3</u>	<u>190.2</u>
Total	399.0	407.5

Average Terms of Official Loans

	<u>1962</u>	<u>1963</u>	<u>1964</u>
Interest rate %	4.2	4.3	4.0
Maturity (years)	17	19	18-1/4
Grace period (years)	5	4-3/4	4-1/2

Purpose of Loans Committed
(Million \$)

	<u>1963</u>	<u>1964</u>
General purpose contributions	-	-
<u>Project financing</u>		
Social infrastructure	0.7	4.8
Economic infrastructure	285	127
Other capital projects	209	99
Import credits	<u>13</u>	<u>47</u>
Total	507.7	277.8

Tied aid

It is officially stated that the share of new loan commitments tied to deliveries from Germany diminished from 55% in 1963 to 42% in 1964 (including export credits). Although it is still the basic policy of the German Government to tie assistance to specific projects, 11% of total new loan commitments were granted for maintenance support - mainly to consortia countries.

Size of future aid

Comments by DAC Secretariat:

"In view of a substantial amount of outstanding budgetary commitment authorizations which have been allocated under general Government agreements but for which firm commitments remain to be made, it can be made, it can be expected that new commitments in 1965 will rise from their relatively low level of 1964.

The longer-term prospects for further increases in German official assistance appear less certain, especially for development loans. Budgetary commitment authorizations, which are the financial basis for Government agreements and firm loan agreements, have shown a persistent decline since the massive authorizations in 1961. The present rate of new budgetary commitment authorizations falls substantially short of the rate of current new loan commitments. There is also some uncertainty about the future of the funds used for indemnification payments."

German statement on size of aid:

"It is inevitable that the extent of commitment authorizations for development assistance is being reviewed critically from the point of view of whether it is necessary to maintain the present rate of disbursements."

.....

"Moreover, the Federal Republic will grant sums amounting to a total of DM 23.7 million to various international organizations whose activities include the extension of technical assistance to less-developed countries. Furthermore, §23 of the Budget Law 1965 enables the Federal Government to assume guarantees to the amount of DM25 billion and this is almost exclusively to the advantage of the developing countries."

Sources: OECD 13th April 1965 DAC/AR (65)1/01
OECD 27th April 1965 DAC/AR (65)2/01
OECD 4th May 1965 DAC/AR (65)2/01

Greece

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BRIEFING PAPER - 1965

GREECE

I. MEETING WITH DELEGATION

Monday, October 4, 1965

10:30 - 11:30 a.m.

Attended by: Mr. Knapp
Mr. Cope
Mr. Miller
Mr. Thompson
Mr. Hartwich

Mr. Cochran

II. MEMBERS OF DELEGATION

George J. Mavros
Governor of Bank

Governor, National Bank of Greece

John P. Paraskevopoulos
Alternate Governor of Bank

Deputy Governor, National Bank of
Greece

Xenophon Zolotas
Governor of Fund

Governor, Bank of Greece

John S. Pasmazoglu
Alternate Governor of Fund

Deputy Governor, Bank of Greece

Advisers:

Costa P. Garanicas

Economic Minister, Greek Embassy;
Alternate Executive Director of Fund

Nicolas Kyriazidis

Economic Adviser, National Bank
of Greece

III. BANK/IDA PROSPECTIVE OPERATIONS

Following the economic mission to Greece in November 1964, Mr. Woods wrote indicating that we would consider a \$20 million Bank loan for highways, assuming continued satisfactory progress in settling the remaining pre-war external debt. We have offered technical assistance in a study of the agricultural sector and advice on a study of the railways (see Annex).

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

If no reply to Mr. Woods' letter has been received, we should inquire about the Government's reaction and the status of preparing the various schemes. We should say, however, that we expect tangible further progress in debt settlement by the time a first loan is made.

We should also say that, assuming the political situation permits, we have scheduled an operational mission for the fall to discuss the proposed operation. If the five-year development plan is sufficiently advanced, an economic mission would visit Greece at the same time to review it.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

Release of \$4.5 million of Bank 9% to be followed by release of \$2.3 million of IDA 90%. (\$1 million a year would be reasonable).

(c) Topics likely to be raised by the Delegation:

None

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

Assistance in a study of agriculture and a review of the five-year development plan are possibilities (see III and IV (a) above).

(d) Access to Private Capital Markets

No access at present.

(e) Bank 9% Capital Subscription

Amount: \$4.50 million. Half released subject to consultation.

(f) IDA Subscription

Part II member. Subscription (90%): \$2,268,000

No reply to request for release.

(g) Holdings of Bank Bonds

\$ 1.00 million

(h) I.F.C.

IFC management plans discussions at the Annual Meeting with the Greek Delegation.

A \$703,000 IFC investment in the National Investment Bank for Industrial Development (NIBID), 55% of whose share capital is owned by the National Bank of Greece, is at an advanced stage of negotiation. In April 1965 Professor S. G. Andreadis, President and Chairman of the Board of Directors of the Investment Bank, a development finance company associated with the Commercial Bank of Greece, invited IFC to participate in its share capital. This invitation was declined for the present, in view of IFC's proposed investment in NIBID.

VI. POLITICAL SITUATION

In elections held in February 1964, the Center Union Party led by elder statesman G. Papandreou obtained a substantial majority. Prospects for political stability were considered reasonably good, although substantial differences existed within the Center Union Party which was primarily united in opposition to the National Radical party of Karamanlis, previously in power.

However, in July 1965 Papandreou resigned after a conflict with the King over the dismissal of right-wing army officers. The King and Papandreou's political opponents charged that the dismissals were

designed to open the army to left-wing influence and to divert attention from serious weaknesses of the Papandreu regime. The King's action has raised the question of the role of the monarchy which is traditionally not very popular in Greece. No solution to the crisis is yet in sight.

In June informal talks began between Greece and Turkey about Cyprus which may indicate that instead of advocating enosis (union between Greece and Cyprus), Greece is prepared to support some form of continued independence for the island.

VII. ECONOMIC SITUATION:

Population: 8.4 million

GNP per capita: \$550

Gold and Foreign Exchange Reserves (June 1965): \$264 million

Economic growth continued during 1964. Despite the year of low yield in the olive production cycle, overall agricultural output was unusually good, largely due to a bumper wheat crop. Since output of manufacturing, construction and public utilities increased at around 10%, gross domestic product grew by about 8% in 1964.

Exports increased by 6.5% in 1964, noticeably less than in 1963, when unusually large tobacco sales at high prices led to an increase in exports of 12%. Imports increased by more than 10%, leaving a substantially higher trade deficit. Receipts from tourism declined as a result of the Cyprus crisis. Large remittances from workers abroad and from international shipping, as well as an increased inflow of private and official capital, were not sufficient to prevent some decline of external reserves. Official gold and foreign exchange reserves at the end of June totalled \$263.6 million, 12% below the level of a year earlier and the equivalent of about four months' imports.

In the monetary sector, inflationary tendencies were kept under control. Wholesale prices increased by about 4% in 1964, while the cost of living index went up only by 1%. However, the Government's attempt to fulfill promises given during the election campaign has accelerated the increase in current Government expenditure. There has been some increase in Government borrowing from the Bank of Greece, and Government savings, which covered about one-third of Government investment expenditures in recent years, started to decline.

To coordinate all efforts for economic development, the Government is preparing a five-year development plan for 1966-70. An increased inflow of capital would be required to finance the contemplated investments. To promote industry, the state-owned Hellenic Industrial Development Bank was formed in the fall of 1964, in addition to the National Investment Bank for Industrial Development (NIBID) and the Investment Bank S.A., two private investment banks which were established in 1964 and 1963 respectively.

The OECD Consortium for Greece has so far played only a minor role in financing Greek economic development. Progress in committing and utilizing the amount of \$125 million, which is to be provided through the European Investment Bank in 1963-67 under the agreement of association with the EEC, has been slow.

June 24, 1965

His Excellency
S. Stephanopoulos
Deputy Prime Minister and
Minister of Coordination
3 Ippokratous Street
Athens, Greece

Dear Mr. Minister:

I am pleased to inform you that the economic mission which visited Greece in the end of 1964 has completed its report. We intend to submit the report to the Executive Directors of the Bank in July, and I attach an advance copy for your information. On the basis of the report and assuming continued satisfactory progress towards the settlement of the remaining prewar external debt, the Bank is prepared to consider commencing loan operations in Greece.

We know that your Government is intensifying its efforts to promote economic development and is preparing a five-year plan for 1966-1970. At a suitable occasion, possibly in the fall of this year, we would wish to send a mission to review the plan, and we would then be in a position to discuss with your Government how over the longer run the Bank's assistance could be most effectively applied.

Meanwhile, it may be possible to prepare a project for road improvements. An extensive road program has been underway for some years, but our economic mission found that there is a large backlog in road improvement works. The project might, therefore, consist of various first priority roads or road sections included in the improvement program, but not yet under contract. There seems to be a need for providing additional equipment for the Government's road maintenance equipment pool and for modernizing some of the regional road workshops. If a project comprising these items were worked out by your authorities and submitted to the Bank for financing, we would then send a mission to appraise it. The exact amount of our lending would be determined on the basis of this appraisal, but assuming that a suitable and justified project would be worked out, we have in mind an initial loan of up to \$20 million to cover perhaps 50% of the investment requirement.

In working out the project, roads or road sections should be selected which would make a substantial contribution to the economic development of the regions concerned. For this reason and in

His Excellency
S. Stephanopoulos

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June 24, 1965

order to facilitate the preparatory work, we would prefer a project which is not too widely scattered over a large number of small road works. In accordance with our policy of international procurement, contracts under the project would be placed after international competitive bidding. The project should, therefore, consist of road sections or combinations of several sections not smaller than about \$2 million equivalent each, so that they might attract the interest of foreign as well as domestic contractors. If your Government is interested in a project along these lines, we would be glad to set out in detail the next steps which should be taken to prepare the project.

Other sectors which appear to need assistance are agriculture and railways. Although projects in these fields could not be formulated before the five-year plan is ready and before important policy decisions are taken by the Government, we believe that in both sectors studies could be initiated which might help to prepare the ground for possible lending later on. In the case of agriculture we would be prepared to discuss with you, when we review the plan, the desirability of a basic study of the problems in this sector and how the Bank could assist in the execution of such a study. I understand that consideration is already being given to a study of the railways which would have the objective of preparing a long-term rehabilitation program. We would also be prepared to give advice regarding the formulation and execution of this study.

I would be grateful, Mr. Minister, for your views on these suggestions. I am sending a copy of this letter and the report to Mr. Mavros in his capacity as Greece's Governor of the Bank, and copies of the report are also being sent to Mr. Zolotas and Mr. Lambroukos.

With best wishes, Mr. Minister,

Yours sincerely,

(Signed) George D. Woods

cc to Mr. Mavros
Mr. Zolotas
Mr. Papandreou
Mr. Knapp Mr. Fontein
Mr. Aldewereld Mr. van Helden
Mr. Miller Mr. Takahashi

Iceland

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BRIEFING PAPER - 1965

ICELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Gylfi Gislason
Governor of Bank

Minister of Commerce

Magnus Jonsson
Alternate Governor of Bank

Minister of Finance

Johannes Nordal
Governor of Fund

Governor, The Central Bank
of Iceland

Thorhallur Asgeirsson
Alternate (Temp.) Governor
of Fund

Secretary General, Ministry
of Commerce

Advisers

Vilhjalmur Thor

Executive Director Bank

Peter Thorsteinsson

Ambassador of Iceland to the
United States

III. BANK/IDA PROSPECTIVE OPERATIONS

Discussions have proceeded throughout this year on the proposed Burfell hydroelectric project. In April 1965, a mission visited Iceland to appraise the project. Tentative conclusions are that the Bank would be prepared to make a loan of about \$16 million provided that satisfactory arrangements are worked out with Swiss Aluminium Limited for construction of an aluminum smelter with a rated annual capacity of 60,000 tons. The Government would have to arrange for from \$6 to \$7 million of external financing in addition to the Bank loan, and has approached various sources for such funds. At the present time, it appears that the most likely source of finance would be a public issue through Hambros in London or through the First Boston Corporation in New York.

Negotiations between the Government and Swiss Aluminium have moved rather slowly. While there appears to be general agreement on the business aspects of the transaction (power rate, tax regime, etc.) the Government is perturbed by other provisions (relating chiefly to choice of law and expropriation) in draft agreements submitted by Swiss Aluminium in May 1965. The Government, after consulting a Bank mission which visited Iceland in July 1965, is preparing a memorandum setting forth its position. The major issues between the parties will be discussed at a meeting to be held in Reykjavik in mid-September. Unless Swiss Aluminium is prepared to make substantial concessions, the project may be delayed or even abandoned.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Assuming a satisfactory outcome of the September meeting, the Bank should inquire as to the Government's plans with respect to additional external finance.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

If the outcome of the September meeting indicates that there will be a long delay in the negotiations with Swiss Aluminium, the Government is likely to urge the Bank to consider making a loan for the Burfell project without the assurance of a major power consumer. This has already been raised in a preliminary manner, and the Bank has indicated that, based on information at hand, it would be difficult to justify the project without the assurance of a substantial industrial load and of foreign exchange income. We have, however, indicated a willingness to discuss the matter further if negotiations with Swiss Aluminium broke down.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1951	Iceland	Power	2.45	
1951	Iceland	Agriculture	1.01	
1952	Iceland	Industry	.85	
1953	Iceland Bank of Development	Agriculture	1.35	
1953	Iceland Bank of Development	Communications	0.25	
1962	Iceland	Hot Water Supply	<u>2.00</u>	<u>0.04</u>
	Total		7.90	<u>0.04</u>
	of which has been repaid		<u>2.75</u>	
	Total outstanding		5.15	
	Amount sold	0.52		
	of which has been repaid	<u>--</u>	<u>0.52</u>	
	Net amount held by Bank		<u>4.63</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Since December 1962, when a very successful issue of £2 million was made in London (6-1/2% at 97-1/2% for 26 years), Iceland has not had recourse to foreign capital markets. This has been due mainly to the improved foreign exchange position, the absence of large public investment projects and the inflow of capital in other forms. The view of U.S. bankers is that Iceland, which is exempted from the U.S. interest equalization tax, could raise substantial amounts in the U.S. and in Europe. Whether this is so will be shown in connection with the financing of Burfell.

(e) Bank 9% Capital Subscription

Amount: \$1.35 million. Entire 9% released in dollars in five annual installments of \$234,000 through March 1, 1969 (\$180,000 was released before).

(f) IDA Subscription

Part II member.
90% subscription \$90,000. No release.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

IFC has made no investments in Iceland. An IFC mission visited Iceland recently to discuss with the officials of the Government and the Central Bank, the possibility of financing a private fish processing plant.

VI. POLITICAL SITUATION

General elections held in April 1963 slightly increased the proportion of the total votes obtained by the Government coalition of Conservatives and Social Democrats (from 54.9% to 55.6%), which had been in office since the end of 1959, but reduced its majority in Parliament from 33 to 32 in a total of 60 seats.

New elections are due in the spring of 1967. In spite of its small majority the government appears to be firmly in command of the situation.

VII. ECONOMIC SITUATION

Population, 1963: 185,000;

GNP per capita, 1963: \$1,700;

Net Gold and Foreign Exchange Reserves of Central Bank, June 1965: \$45 million;

Imports (c.i.f.), 1964: \$131 million.

The external position has remained strong, with the net foreign exchange reserves of the Central Bank further rising from \$32 million at the end of June 1964 to \$45 million at the end of June 1965. Continued good fish catches and sound

financial policies account for this strength. Thanks to a non-inflationary wage agreement reached in June 1964 with the help of the Government, prices rose much less than in previous years. Between the second quarter of 1964 and the second quarter of 1965 the cost of living (which, it should be noted, tends to exaggerate the rise in prices) increased by 5% compared with 23% in the corresponding period of 1963-1964. A new wage agreement reached in July 1965 is also likely to prove non-inflationary.

The external public debt amounted to \$40 million on December 31, 1964, a decrease of over \$10 million from a year earlier.

The service of the debt, which was \$6.2 million in 1964, corresponded to only 4% of current foreign exchange receipts. Thus, as a result of the large increase in exports and non-inflationary domestic policies Iceland's borrowing capacity is much larger today than it was in 1960, when the stabilization program was initiated.

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BRIEFING PAPER - 1965

IRAQ

I. MEETING WITH DELEGATION

We wrote the Minister of Finance to suggest a meeting if the Delegation deems it useful.

Attended by: Mr. Knapp Mr. Cope
 Mr. Broches Mr. Bart

II. MEMBERS OF DELEGATION

Abdul Rahman Al-Habeeb	Governor (Bank) (Temporary), Under Secretary, Ministry of Finance
Khair El-Din Haseeb	Governor (Fund), Governor, Central Bank of Iraq

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Compensation Prerequisite.

The Bank was informed in October 1964 by Governor Haseeb of the basis on which the Government intended to compensate nationalized foreign firms, i.e. essentially in remittable cash for imported capital and a part of the profits. Payments have been much slower than indicated by Haseeb because of delays in auditing. The Bank decided to wait for actual payments on a fair and reasonable basis for a substantial number of claims before proceeding with the \$23 million loan for roads negotiated in August 1964 while Haseeb had understood that the assurances given by the Government were sufficient to satisfy the Bank. The Bank had shown, by sending an agricultural appraisal mission in March/April 1964, its preparedness to do business with Iraq as soon as the compensation prerequisite had been met. The postponement of the road loan resulted, however, in a serious strain in relations, with Haseeb in particular, evidenced by the discourteous reception accorded to Bank staff members.

Substantial progress has been achieved in recent months in actual payment and remittance. On June 21, the Iraqi Ambassador handed to Mr. Woods a note verbale indicating that most industrial and commercial firms had been compensated and that proposals for further settlements were under discussion with foreign banks. Information gathered during a visit to Iraq in August confirmed progress made. Outstanding claims (e.g. for a Pakistani participation in a jute plant) are small and the Government's determination to compensate all foreign firms is beyond question. The Bank has, therefore, agreed to resume discussions on the road loan.

(b) Road Loan.

As a year has elapsed since negotiations we would have to bring the technical report up-to-date by revising cost estimates, reviewing estimated completion dates and the economic justification and making whatever other changes are necessary. An engineer of the Projects Department is to visit Iraq in October. However, the project appraised in April 1964 included some construction works already under way, which were to be financed retroactively from December 1963. Some of these works have been completed while other contracts have been let. The project might therefore have to be substantially changed. This may require additional economic or engineering studies and may result in further delays.

(c) Economic Report.

We also have to bring ourselves up-to-date on the economy since at the moment we have only a second-hand knowledge of developments over the past two years. It is, therefore, intended

to have an economic review at the same time as the technical review of the road project.

(d) Agriculture.

A Bank mission appraised in March/April the Dalmaj project which had been selected by a project identification mission early in 1964. The project was not found suitable for Bank financing and we proposed instead to provide the technical assistance and, if necessary, the financing required to revitalize an existing project (see Annex A). No reply has yet been received to our proposal. The former Minister of Agrarian Reform has verbally indicated that he would still prefer the Bank to consider the Dalmaj project, where settlement problems would be much easier to solve than on existing projects since the land had not yet been distributed. It is also reported that the technical features of the Dalmaj project are being revised according to the recommendations of the Bank's appraisal report.

(e) Lending Prospects.

Lending to Iraq beyond the road loan and a possible agricultural loan would presumably require a review of the country's needs for Bank loans with special regard to the large resources it derives from oil revenues.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Pursue discussion on points under (b) below.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

(i) Compensation.

Confirm the Bank's satisfaction with the settlements made and express the hope that the remaining claims will be settled quickly.

(ii) Road Loan.

Confirm our willingness to resume discussions and to send a mission in October to bring the project up-to-date and review the economy.

(iii) Contractors' Claims.

No progress whatsoever has been made in the settlement of these sizeable and sometimes quite old claims. We should reiterate the need for prompt and fair settlement in order for Iraq to restore adequate relations with international contractors and to benefit fully from international competitive bidding, especially for the road loan.

(iv) Increase in Bank Capital Subscription.

Iraq's request to increase its subscription from \$15 million to \$55 million was approved by the Executive Directors in August 1964. After nearly one year, Iraq paid the 1% (\$400,000) in US dollars and the 9% in non-negotiable notes. A further increase of \$9 million in the IMF's quota has been approved and would entail an equivalent increase in the Bank's subscription. Governor Haseeb wrote Mr. Mirza in August (see Annex B), indicating Iraq's reluctance to increase further its subscription to \$64 million in view of the disappointing progress on the road loan; he stated that the increase was "under study and would be decided according to the attitude of the Bank to our request for the loan." Mr. Mirza's reply referred to the Bank's recent decision on the road loan (see IV(b)(ii) above) and pointed out that in the Bank's view the two issues were not linked as the capital subscription was related to the increase in the IMF quota.

We should confirm this position. We might also request release of 9% of the increase of \$40 million.

(v) Euphrates Riparian Problem.

We should express our appreciation for the cooperation extended to the mission which visited Iraq in August. The Delegation may request that the Consultants' report on Euphrates be communicated to the Government. We should say that we would transmit this request to the Keban Syndicate.

(vi) Recruitment of Bank Staff.

We should reiterate our desire to consider suitable candidates for employment in the Bank and IFC. The former Finance Minister arranged for Governor Haseeb to be our recruitment contact, but the latter refused to receive the Personnel Officer who visited Iraq in May. If the Government wishes to see Iraqis on the

Bank staff it should review on this subject the arrangements for continued relations with the Bank and select suitable applicants.

(c) Topics likely to be raised by the Delegation:

See IV(b) above.

V.

BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1950	Government of Iraq	Flood Controll	6.3	--
		of which has been repaid	<u>6.3</u>	
		Net amount held by Bank	--	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

At last year's annual meeting the Under-Secretary of the Ministry of Finance asked whether the Bank would be prepared to provide planning advisers on a long-term basis. This matter has not been pursued by the Government.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Capital Subscription

9% subscription (\$1.35 million) released, convertible into any currency. The 9% (\$3.6 million) corresponding to the recent increase in subscription from \$15 million to \$55 million has not been released (see IV(b)(iv) above).

(f) IDA Subscription

Part II member. 90% subscription (\$684,000) not released.

(g) Holdings of Bank Bonds

\$1 million.

(h) I. F. C.

No investments made and no applications. Prospects doubtful in view of Government control of industry and industrial credit.

VI. POLITICAL SITUATION

The power struggle continued during the year between the various factions in the Army and in political circles which had previously united against Kassim and the Baath party. President Arif remains the figurehead of the regime and the apparently accepted leader of the Army. He has succeeded so far in eliminating organized opposition and in weathering political unrest through ministerial changes. An entirely new cabinet has been appointed in September with again a General as Premier and, as usual, a large number of civil servants and technicians as Ministers.

Iraq has been closely aligned to the UAR since the agreement of October 1964 to effect constitutional union within two years. A "unified political command" is in existence and a small number of Egyptian troops are stationed in Iraq. Flag and anthem are now identical. More profound changes have followed the Egyptian pattern, whether it be nationalizations or the unsuccessful attempts to organize a single party system. Union faces, however, many obstacles. The main one is the fighting, apparently resumed against Nasser's advice, with the Kurdish population which has been denied autonomy. The large Moslem Shi'a obedience, which has always resented the political preeminence of the Sunnis (the other main Moslem obedience) is hardly in favor of union with Sunni Egypt and is backed by Shi'a Iran. Union might well prove even more difficult than it did between the UAR and Syria.

VII. ECONOMIC SITUATION

Population, 1965 (estimate): 7.2 million;

GNP per capita, 1963: \$230

Gold and Foreign Exchange Reserves of Central Bank,
July 1965: \$333 million.

After a decline of GNP in 1963, the growth rate in 1964 may have reached 6% to 8%. Agricultural output suffers from organizational and other handicaps, but the 1965 crop looks better than in years. Whatever is left in private hands in the industrial and commercial sectors remains depressed and mesmerized by the fear of new nationalizations. Oil exports

rose in 1964 by 8.5% to \$780 million and oil revenues for 1965 accruing to the Government (about 50% of exports) are expected to be well over \$400 million. Agreement was lately reached with the Iraq Petroleum Company following the long dispute resulting from the cancellation in 1961 of rights over 99.5% of its concession area; terms of the agreement have not been made public. The current balance of payments continues to show a small surplus due chiefly to oil exports. Foreign assets rose substantially over the past two years.

Preliminary information on the new five-year plan which started April 1, 1965, indicates total investment of 2.3 billion, about 80% of which will be in the public sector. The plan aims at a 8% growth in GNP (6% per capita). Financing in the public sector is expected to derive from the 50% share of oil revenues reserved for development (\$218 million per year on average) and from external loans. The largest allocation in the plan goes to industry and power but renewed emphasis is put on agriculture. The Government seems to be attempting to discontinue the unduly large investments in housing and social services which were the rule under Kassim. Investment in these sectors to a point serves, however, a definite political need as was painfully discovered after the austere development plans of the monarchy.

The disbursed and outstanding foreign public debt as of September 1964 is \$180 million, exclusive of military loans from the USSR. No information is available on the loans contracted or disbursed since then. Despite its poverty and moderately good performance, Iraq is not eligible for IDA assistance in view of its ability to assume additional borrowing on conventional terms.

June 24, 1965

His Excellency
Dr. Abdul Sahib Alwan
Minister of Agrarian Reform
Baghdad, Iraq

Dear Mr. Minister,

I have heard with interest from Mr. Fontein and Mr. Bart about their recent visit to Iraq and their conversations with you. I was especially pleased to learn that a start has been made with compensation payments for nationalized foreign assets. Mr. Woods has lately received from your Ambassador a note verbale specifying the settlements which have actually taken place and the Government's intentions regarding the remaining claims. We are now examining this note and hope that the progress achieved in this respect is such as to remove this obstacle to further Bank activities in Iraq.

Enclosed herewith is a copy of the report of the Bank mission which recently appraised the Dalmaj project. As already mentioned to you by Mr. Fontein and Mr. Bart, the conclusions of the report indicate that the Dalmaj project is not suitable for Bank financing chiefly because of its low economic rate of return, the uncertainties surrounding the proposed cropping pattern, the lack of adequate organization for the management of the project, and the long delays to be faced before it could start bearing fruit. This conclusion is most disappointing as we had hoped through this project to contribute to the agricultural development of Iraq.

The report brings to light that, under present conditions, Bank assistance could be much more beneficial if it were applied to the rehabilitation of existing irrigation and drainage works and to the improvement of agricultural services rather than to the construction of new irrigation projects. We are of the opinion that much more rapid and substantial gains in agricultural production could be achieved by improving existing projects to permit a greater intensification of cropping. As you indicated your interest in securing Bank assistance for that purpose, we would be prepared to explore with you the possibility of carrying out on an existing project, or on a group of projects, a program aiming at the optimum agricultural development.

His Excellency
Dr. Abdul Sahib Alwan

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June 24, 1965

As we view it now, such a program would require the establishment by the Government of an effective and autonomous project authority, supported by qualified Iraqi and expatriate technicians, which would be responsible for the management of the project. The authority would also be responsible for the establishment of an effective settlement program for farmers, research and extension services, seed and plant protection facilities, cooperatives, credit and marketing aids, and social and health services.

We do not under-estimate the considerable demands which such a program would place on the Government in terms of both competent staff and funds, nor do we ignore the difficulties which are bound to arise in the implementation of this type of integrated agricultural development in view of the complexity of the organizational and technical problems to be tackled and of the limited experience available in this field. We think, however, that important benefits could be derived from sustained efforts to revitalize existing projects along the above lines and that such an undertaking would be of considerable value in establishing agricultural practices and organizational structures which could be applied to similar projects in other parts of Iraq.

If the Government shares these views and is prepared to mobilize the necessary human and financial resources required to implement them, the Bank would be ready to assist in working out the proposed program. We would of course want to be able to count on the fullest support and cooperation of all Departments of Government if we were to provide this assistance. Should you concur in this proposal we would be prepared to assist you in making arrangements for obtaining the services of a competent team of experts (either through FAO or the UN Special Fund or directly by engaging private consultants) to set out in detail the scope of the program and to identify one or several projects to which it could be applied. I look forward to hearing further from you in this regard.

Yours sincerely,

J. Burke Knapp
Vice President

Central Bank of Iraq
Baghdad
Statistics and Research Dept.,
Foreign Reports Division

ANNEX B

1965/8/4

Mr. Mumtaz Mirza,
International Bank for Reconstruction
and Development,
Washington D.C. 20433,
U.S.A.

Dear Mr. Mirza,

I am writing this letter with reference to your cable of June 4, 1965 to His Excellency the Minister of Finance, regarding the proposed increase of Iraq's Subscription to the International Bank for Reconstruction and Development, from \$55 million to \$64 million.

You would recall that Iraq had made a request in 1963 to increase its quota in the International Monetary Fund with the intention of a corresponding increase in its subscription to International Bank for Reconstruction and Development. The purpose naturally was to strengthen Iraq's opportunities to borrow from international organisations as and when the need arose. You are aware that except for a loan in 1952 which we repaid within a very short time, we have not made any use of Bank's resources. Now, however, we are in need of Bank assistance for our development projects and have made a request for a loan accordingly. Unfortunately our negotiations for the loan through 1964 and the current year have hardly been fruitful inspite of the fact that we have given all the guarantees which the Bank wanted in respect of the compensation of the nationalised foreign investmens in Iraq, and in spite of the fact that all, with the exception of nationalised foreign investments in Banks the auditing of which is now completed and compensation will be paid during this month, nationalised foreign investments in industry, insurance and trade enterprises have already been fully compensated.

You will appreciate that the disappointing progress of the negotiations raises a doubt whether it would be in the interest of Iraq to use its scarce resources for increase in subscription to the World Bank, specially when the implementation of our development plan requires the conservation and mobilisation of all resources. We have agreed to pay the required amount to raise our subscription to \$55 million to honour our agreement which had already been reached. The question of raising the subscription further to \$64 million is under study and would be decided according to the attitude of the Bank to our request for the loan.

I shall greatly appreciate your kind efforts in the matter.

With best regards,

Yours sincerely,

/s/ Dr. Khair Al-Din Haseeb
Alternate Governor for Iraq in I.B.R.D.

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BRIEFING PAPER - 1965

IRELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

John Lynch
Governor of Bank

Minister for Finance

T. K. Whitaker
Alternate Governor of Bank

Secretary, Department of Finance

John Lynch
Governor of Fund

Minister for Finance

Maurice Moynihan
Alternate Governor of Fund

Governor, The Central Bank of
Ireland

III. BANK/IDA PROSPECTIVE OPERATIONS

In a letter to Mr. Cope dated August 5, 1965 Mr. Whitaker indicated that Ireland is considering borrowing abroad to ease its balance of payments difficulties, including a \$20 million issue in New York and borrowing from the Bank. The projects mentioned for Bank lending were industrial credit and telephone expansion. Both the Irish Industrial Credit Co. and the telephone system are government-owned and neither seems promising for Bank lending.

Ireland would be a market eligible country.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Exploration of Irish intentions about external borrowing, including borrowing from Bank.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

See (a).

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Small external debt and conservative financial policies make Ireland capable of raising substantial amounts in capital markets. So far the need for this has not arisen because a large inflow of private direct investments has provided all the external financing required. The Government now feels that external borrowing may have become necessary. Ireland was originally included among the countries exempted from the U.S. interest equalization tax but was subsequently removed from the list.

(e) Bank 9% Capital Subscription

Amount: \$5.40 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part II member. Entire 90% (\$2,727 million) released in five annual installments, convertible into any currency, through November 1, 1969.

(g) Holdings of Bank Bonds

\$1.00 million

(h) I. F. C.

IFC has made no investments in Ireland, and there are no applications.

VI. 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. During the past two years successes in by-elections have indicated a strengthening of the party's position.

New elections are due in 1966.

VII. ECONOMIC SITUATION

Population, 1964: 2.85 million;

GNP per capita, 1963: \$800;

Gold and Foreign Exchange Reserves of Central Bank and Government (June 1965): \$400 million;

Net Foreign Exchange Holdings of commercial banks (April 1965): \$221 million;

Imports (c.i.f.), 1964: \$974 million.

A temporary decline in cattle exports and the U.K. import surcharge caused a drop in Irish exports in the first half of 1965 while imports, stimulated by the rise in production and incomes in 1964, continued to rise. Foreign exchange reserves declined by about \$100 million during the first half of 1965, the first decline since 1956. The resulting tightening up of liquidity and the restrictive measures taken by the authorities are likely to correct the external unbalance in the coming months but the growth of GNP, which was 4% in 1964, is also likely to be less. An improvement in growth is close dependent on developments in the United Kingdom (current official expectations are a 3% GNP growth in 1965).

The external public debt is small (only a \$40 million Marshall Plan loan) and its service negligible. This and the conservative financial policies followed make Ireland both highly creditworthy for Bank loans and capable of raising substantial amounts in capital markets.

Israel

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BRIEFING PAPER - 1965

ISRAEL

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

David Horowitz
Governor of Bank

Governor, Bank of Israel

Jacob Arnon
Alternate Governor of Bank

Director General, Ministry of
Finance

Pirhas Sapir
Governor of Fund

Minister of Finance

Y. J. Taub
Alternate Governor of Fund

Secretary-General (Acting),
Bank of Israel

Advisers

Miss Nurith Wahl

Senior Economist, Research
Department, Bank of Israel

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank has indicated a willingness to make a second loan of up to \$12 million to the Dead Sea Works Ltd. to assist in financing expansion of its potash production capacity. The Company has financial difficulties principally due to unforeseen engineering and technical problems. The Bank and IFC are currently engaged in discussions with the Company of a financial plan for expanding the Company's plant to full capacity. Assuming that the Government undertakes to assure that necessary outside funds will be made available, negotiations for a Bank loan could take place in early 1966.

A \$20 million Bank loan to the Industrial Development Bank of Israel is expected to be signed in September. A request for a second loan of \$20 million will probably be made in the second or third quarter of 1966.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

We should again inquire whether the Government would be prepared to make the unused \$3.05 million of Israel's 9% paid-in portion of its capital subscription available in convertible currency to the extent that any part of it cannot be used on a tied basis. Mr. Cope asked Dr. Liefertnek to raise this matter with Governor Horowitz in February 1965.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

The delegation may urge that the Bank expedite consideration of a second loan to the Dead Sea Works Ltd. Since the mission which will have discussed the financing plan with the Company and the Government will not return to Washington until the middle of September, we should point out that it is not yet possible to anticipate the problems which will have to be solved before the loan can be made.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1960	Israel	Port	27.5	10.0
1961	Dead Sea Works	Potash	25.0	.8
1962	Israel	Roads	22.0	11.5
	Total		74.5	
		of which has been repaid	--	
		Total outstanding	74.5	
		Amount sold	4.4	
		of which has been repaid	4.4	
		Net amount held by Bank	<u>70.1</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

In addition to considerable government borrowing from official agencies and international institutions, Israel has during the past years been raising substantial sums in the private capital markets of North America and Europe and has a number of well developed banking connections. Sales of Independence and Development Bonds in the U.S. were \$79 million in 1963 and \$87 million in 1964, representing an inflow, net of conversions and repayments, of \$24 million in both 1963 and 1964. Direct investments amounted to \$135 million in 1963 and \$133 million in 1964.

(e) Bank 9% Capital Subscription

Amount: \$6.00 million. Entire 9% released; \$2.95 million used; \$3.05 million unused and available only for purchases in Israel. Of the unused balance \$2,997,000 has been released in five equal annual installments through January 1, 1969; the other part of the unused balance (about \$50,000) had already been released on a tied basis before 1965.

(f) IDA Subscription

Part II member. Entire 90% (\$1,512 million) released in five annual installments through January 1, 1969, convertible into any currency.

(g) Holdings of Bank Bonds

\$6.10 million

(h) I. F. C.

No investments have been made or are under consideration.

VI. POLITICAL SITUATION

Mapai, the Israeli Labor Party, controls 42% of the seats in Parliament (the Knesset) and has been continuously in power since the establishment of the State, in coalition with smaller parties. The last elections were held on August 15, 1961 and new general elections are due next September. The recent split in the ranks of Mapai, with Mr. David Ben Gurion leading a group of dissidents against the Prime Minister Mr. Levi Eshkol, makes the results of the elections unpredictable. The prevailing impression is that the split will not reinforce the other parties and that the elections will be a contest between Ben Gurion and Eshkol. The differences concern attitudes and personalities rather than policies.

VII. ECONOMIC SITUATION

Population, 1964: 2.47 million;

GNP per capita, 1963: \$1,110;

Gold and Foreign Exchange Reserves of Central Bank: Assets, June 1965: \$637.5 million;

Liabilities, April 1965: \$28.4 million;

Imports (c.i.f.), 1964: \$826 million.

The economy has continued to expand vigorously during the past year. In 1964 total GNP rose by 10% and per capita GNP by 6%. Exports, which suffered a temporary setback in 1964, have resumed their growth in 1965 (increase of 22% during first half of the year compared with first half of 1964). The large inflow of foreign funds has continued and the gold and foreign

exchange reserves, which had risen by \$56 million during June 1963-June 1964, increased by another \$62 million during June 1964-June 1965. The rise in prices has continued at about the same rate as in previous years (cost of living index rose by 6% between first quarter of 1964 and first quarter of 1965).

There has been increasing emphasis on the need of improving the competitiveness of the economy and reducing the excessive protection granted to domestic industries. Import liberalization and tariff reductions are proceeding at a faster pace than before. It is now recognized that a slower rate of growth would be a reasonable price to pay for greater financial stability. The large inflow of capital is viewed as an inflationary factor and the Minister of Finance has urged greater restraint in borrowing abroad which is to be limited to the financing of production and vital investments.

Italy

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BRIEFING PAPER - 1965

ITALY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Guido Carli
Governor of Bank

Governor, Banca d'Italia

Paolo Baffi
Alternate Governor of Bank

General Manager, Banca d'Italia

Emilio Colombo
Governor of Fund

Minister of the Treasury

Guido Carli
Alternate Governor of Fund

Governor, Banca d'Italia

Advisers:

Gaetano Stammati
Egidio Ortona

Director General of the Treasury
Director General of Economic Affairs,
Ministry of Foreign Affairs

Giovanni De Paolis

Director General of Currencies,
Ministry of Foreign Trade

Aldo Baldari
Domenico Brancatisano
Guido Forte

Inspector General of the Treasury
Inspector General of the Treasury
Division Chief, Ministry of Foreign
Trade

Ferdinando Ventriglia

Secretariat of the Minister, Ministry
of Treasury

Giorgio Rota
Emilio Ranalli
Alfredo Vernucci
Antonio Zecchi

Inspector, Ministry of the Treasury
Central Manager, Banca d'Italia
Director, Ufficio Italiano dei Cambi
Director of Banca d'Italia and
Representative of Banca d'Italia in
the United Kingdom

Francesco Masera	Director of the Italian Economics Research Department, Banca d'Italia
Rinaldo Ossola	Director of the International Economics Research Department, Banca d'Italia
Lionello Fronzoni	Director of Banca d'Italia and Representative of Banca d'Italia in Belgium, Netherlands, and Luxembourg
Florio Gradi	Representative of the Ufficio Italiano dei Cambi in the United States
Edgardo Sogno	Counselor, Embassy of Italy

III. BANK/IDA PROSPECTIVE OPERATIONS

A loan of \$100 million to the Cassa per il Mezzogiorno was signed on June 28, 1965. In view of the great improvement in Italy's economic position over the last eighteen months, no further lending to Italy is contemplated at present.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None

(c) Topics likely to be raised by the Delegation:

If the delegation raises the question of further Bank lending, the reply should be along the lines of Mr. Woods' statement to the Italian Minister of the Budget in July that the recent improvement in the Italian economy precludes further Bank lending for the foreseeable future.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
	Loans fully disbursed		298.0	-
1965	Cassa per il Mezzogiorno	Industry	<u>100.0</u>	<u>100.0</u>
	Total		398.0	100.0
	of which has been repaid		<u>65.0</u>	
	Total outstanding		333.0	
	Amount sold	164.2		
	of which has been repaid	<u>62.7</u>	<u>101.5</u>	
	Net amount held by Bank		<u>231.5</u>	

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Foreign issues in the past year have been limited to issues of government statutory bodies and municipalities. In June 1964, I.R.I. raised \$13.75 million and DM 45 million at 5 3/4% payable in 1979, through M. Samuel & Co., Carl Loeb, Rhoades and Co., the Banque Lambert and the Berliner Handels-Gesellschaft. In October 1964, the City of Turin raised L 5 million repayable in 1984 in sterling or DM at 6%, and in February 1965 the Cassa per il Mezzogiorno raised \$20 million outside the U.S. for twenty years at 6% (issue price 97½). In June 1965, the National Electric Power Corporation raised the equivalent in five foreign European currencies of \$60 million at 6% for fifteen years. This was the first combined borrowing operation in all EEC countries.

(e) Bank 9% Capital Subscription

Amount: \$59.94 million. Initial subscription of \$32.4 million fully released on convertible basis; entire amount on loan. Entire amount of additional subscription released in three annual instalments of \$9.18 million through August 1, 1967, and fully convertible.

(f) IDA Subscription

Part I member.	Original subscription	\$18.16 million
	Replenishment	<u>\$30.00 million</u>
	Total	\$48.16 million

(g) Holdings of Bank Bonds

\$ 34.50 million.

(h) I.F.C.

IFC has an investment of \$960,000 in an electrical equipment company. IFC is not considering further investments in Italy.

VI. POLITICAL SITUATION

Since the government crisis of June 1964, during which Mr. Moro resigned and was reappointed as Prime Minister, the coalition between Christian Democrats and Socialists has remained in power. Although the discrepancies between the basic policy objectives of the two parties still prevail and the left wing of the Socialists periodically threatens to leave the coalition, prospects are that the present power constellation will not change materially, largely because no alternative seems to be available. The Government seems to have gained the confidence of industrial circles which should help it in carrying out its economic policies. Mr. Saragat, leader of the moderate Socialists, succeeded Mr. Segni as President of the Republic.

VII. ECONOMIC SITUATION

Population: 51.5 million

GNP per capita: \$875

Gold and Foreign Exchange Reserves (June 1965): \$4.1 billion.

Severe monetary and, to some extent, fiscal measures adopted by the Government late in 1963 and in the first half of 1964 to cope with mounting inflationary pressures and deterioration in the balance of payments were successful in reversing these tendencies. With the slackening of domestic demand, the increase in prices was brought under control around the middle of 1964. The expansion of exports was resumed, resulting in an increase of 15% in 1964 while imports declined by 3%. Since at the same time the capital flight came to an end, the balance of payments showed a surplus of \$730 million for 1964 compared to a deficit of \$1,250 million in the previous year. The favourable tendency continued in 1965, and by the end of June 1965, gold and foreign exchange reserves had increased to \$4,123 million from \$2,977 million a year earlier.

The price for checking inflation and stabilizing the balance of payments was the slowing down of economic growth. For the first time in many years, industrial production stagnated in 1964 and despite good harvests, GNP increased by only 2.7%, compared to an average of about 7% in the previous five years. As a result of weakening demand and declining profits, investments in real terms were almost 10% lower in 1964 than in 1963. Employment declined in several industries and underemployment and underutilized capacities became widespread.

The restrictive monetary and fiscal measures were gradually lifted in the second half of 1964, and early in 1965 the Government introduced positive measures to stimulate the economy. Of particular importance are measures to facilitate the financing of public works and fiscal exemptions for the building industry. Overall industrial production resumed its upward trend in the first half of 1965 but several industries continue to face difficulties.

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BRIEFING PAPER - 1965

JORDAN

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Hatim S. Zu'bi	Governor (Bank), Minister of National Economy
Najim Eldin Dajani	Alternate Governor (Bank), Secretary-General, Development Board
Khalil Salim	Governor (Fund), Governor; Central Bank of Jordan
Ganj Shukri	Alternate Governor (Fund), Under-Secretary Ministry of Finance

III BANK/IDA PROSPECTIVE OPERATIONS

(a) The Bank has confirmed during discussions which took place in August (see Annex) its preparedness to envisage a \$30 million loan for the potash scheme provided the project could pay its way on conventional terms and attract a foreign partner which would participate in the equity and provide both experienced management and access to the world potash market. (See IV(a)(i)).

(b) The Agricultural Credit Corporation (ACC) has lately requested a second IDA credit. Disbursements under the present credit and improvement in ACC's organization and operations have been satisfactory. Though we indicated in 1963 that we would be prepared to consider a second credit within two years, this was made dependent upon the availability of IDA funds. Similarly, Mr. Woods' promise of January 1963 to increase "in due course" total IDA lending to Jordan to \$12 million hinges on the allocation of IDA resources.

(c) In recent months, the British Government asked Mr. Wilson whether IDA would be prepared to finance a third water supply project for Jerusalem. Mr. Wilson replied that for the moment Jordan had had enough IDA finance per head and that disbursements on the first two credits had been shockingly delayed but that we would consider her for the next round. In view of the questionable priority of another water supply project (Jerusalem City has not needed this year any water from the IDA-financed Ein Samiya project) it would be preferable to reserve IDA funds which could be made available for ACC.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

(i) Potash: Review with Delegation and IFC the progress made in contacts with potential foreign partners and the future course of action once a partner has been acquired.

(ii) Disbursements: Remind Delegation that disbursements under the two water supply credits have been very disappointing and request them to urge the Amman Municipality and the Central Water Authority to take the corrective steps required, especially as regards their internal administration.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

See III(b) and (c) above.

V.

BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

Date	Purpose	(US \$ Millions)	
		Amount less cancellations	Undisbursed Balance
Dec. 22/61	Amman Water Supply	2.0	1.6
Dec. 12/63	Water Supply	3.5	3.1
Dec. 12/63	Agricultural Credit	<u>3.0</u>	<u>0.8</u>
		8.5	5.5

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None for lack of creditworthiness and because of precarious political situation.

(e) Bank 9% Capital Subscription

Amount: \$1.35 million. No release made.

Last June the Board of Executive Directors approved an increase in Jordan's subscription from \$15.0 million to \$16.3 million following an increase in Jordan's IMF quota. This increase will raise the 9% subscription by US \$117,000.

(f) IDA Subscription

Part II member. Entire 90% subscription (\$270,000) released in five annual instalments through August 1, 1969, convertible into any currency.

(g) Holdings of Bank Bonds

\$100,000.

(h) I. F. C.

- (i) Two investments considered in the equity of the Arab Potash Company (\$3 million) and in ICA limited for various light industries (\$1 million). Future prospects are extremely limited by the size of the country and the lack of raw material resources.
- (ii) In response to the request of the Minister of National Economy, Mr. Zu'bi, who visited Washington in August 1965, IFC is seeking an expatriate general manager for the newly-established Jordan Industrial Development Bank, and is planning a short visit to Jordan by a senior IFC staff member before the end of the year.

VI. POLITICAL SITUATION

This year has been characterized by a considerable relaxation of tensions with the UAR. Taking advantage of the united front against Israel adopted in The Arab summit conferences, King Husein has again moved the political pendulum toward President Nasser in a shift comparable to the 1956/57 realignment. This time, however, he did not yield any power to the opposition parties though the tight security measures to which they were subjected have been relaxed. On the Arab scene this turnabout has led to the recognition of the Yemeni Republic. Relations with Saudi Arabia remain nevertheless good and an agreement has been signed recently for a revision of the border, increasing Jordan's window on the Red Sea in exchange for some desert areas.

In February, Wasfi Tell, a King's man but much more prone to audacious policies than former Premier Talhouni, was appointed again Prime Minister. He has injected a new dynamism in internal politics and in the economic field. Whether the government, however efficient it may be, can solve Jordan's basic problems (dependence on subsidies, Palestine refugees, etc.) is open to question. As years pass by, however, this artificial country which was expected to survive only because of its role of buffer with Israel, is acquiring a personality of its own.

VII. ECONOMIC SITUATION

Population, 1965: 1.9 million;

GNP per capita, 1964: \$230;

Gold and Foreign Exchange Reserves of Central Bank and Commercial Banks, May 1965: \$114 million.

Exceptionally good rainfall in 1964 resulted in a bumper grain crop which contributed to a 14% increase in GNP at current

prices (compared to a rise of about 5% in 1963 and 2% in 1962). Prices remained relatively stable.

The economy remains characterized by a large excess of consumption and investment over GNP. The resource gap continues to exceed total investment and 45-55% of total public expenditure is financed by external assistance.

In 1964, the balance of payments deficit on current account was \$64 million against \$101 million in 1963. This deficit was more than offset by public transfers (\$74 million) from U.S., U.K. and Arab states. Prospects for 1965 are not as favorable.

A comprehensive seven-year development plan for 1964/65 -- 1970/71 designed to reduce Jordan's dependence on external budget support is likely to be adopted soon. It provides for an average annual investment of \$84 million and its growth target is 6% per annum. The plan emphasizes extension of irrigation in the Jordan Valley, using Yarmouk waters to be stored through the Mukheiba Dam; partial financing for this project is already available from a Kuwait Fund loan and from a grant from the Arab states. In the industrial sector, high priority is accorded to the development of potash and phosphate, as well as to the improvement of railway and port facilities necessary to market those minerals. Most of the financial resources of the plan are expected to come from abroad, although domestic revenues are being raised to meet increasing current expenditures.

Foreign public debt was estimated at the end of 1964 at \$69 million with a debt service ratio of 4%. In view of the country's poverty, heavy dependence on foreign subsidies and generally good performance, it qualifies for further IDA assistance, subject to availability of funds. As additional credits to Jordan would necessarily be in limited amounts, a Bank loan - with adequate security - is envisaged for the potash project if it is demonstrated that it could pay its way on conventional terms.

August 7, 1965

ARAB POTASH COMPANY, JORDANRecord of Discussions on the Arab Potash Project

1. This is a record of the subjects discussed, from August 2 - 6, 1965, in Washington between representatives of the Government of Jordan (GOJ), Arab Potash Company (APC), AID, IBRD and IFC in connection with the APC potash project.
2. IBRD and AID stated that they were seriously interested in the project and were prepared to assist APC in advancing the project to a stage where financing could be arranged. They pointed out, however, that the project was not yet sufficiently developed to permit financial commitments by the lending institutions and important conditions remain to be met before a definitive financial plan could be considered. The representatives of the GOJ and of APC welcomed this expression of interest and stated that it was the desire of the GOJ and of APC that the further work on the project should be carried out in close cooperation with IBRD and AID. The GOJ stated that this project was of the highest priority and should be implemented with all possible speed.
3. The discussions centered, first, on establishing whether the conditions put forward by IBRD in its letter of July 20, 1965 to the GOJ and the initial financial plan were acceptable to the GOJ, APC and AID, and second, to develop a time schedule and plan of action for the immediate future.
4. It was agreed that for the time being the capital cost and operating cost figures arrived at in the report dated February 1965 prepared by Jacobs Engineering Company (Jacobs) should serve as the basis for discussion, recognizing that if the further planned detailed studies arrived at different results, the plan now envisaged may need to be revised.

I. INDUSTRIAL PARTNER

5. It was agreed that one of the essential conditions for financing was the participation of a qualified industrial partner with a substantial equity investment in the project, who, under a management agreement to be entered into with APC, would have responsibility and authority for management, both during the planning and construction period and during operations, and for marketing the output.
6. It was agreed that efforts to obtain the collaboration of a suitable partner must be centralized and that IBRD assume the lead in these negotiations. It was agreed that IBRD should proceed on this basis and that all inquiries from prospective partners which are received by the GOJ, APC, its consultants and AID should be referred to IBRD.

7. Once the interest of a potential partner or partners is established, IBRD will consult with AID to ascertain that such partners would be acceptable to AID, whereupon their names and the proposed terms of their participation will be submitted, with appropriate recommendations, to the GOJ and APC for their consideration and final decision. It is planned that progress made in the selection of a partner will be reviewed at the occasion of the IBRD Annual Meeting in September 1965. The representatives of the GOJ and APC stated that in their view the equity participation by the foreign partner should be between 25-33%. IBRD and AID stated that in their view a substantial equity participation in cash by the industrial partner was a condition for financing and that, on the basis of the present financial plan, such equity participation should range between \$4-6 million.

8. It was agreed that every effort should be made to involve the industrial partner in the preliminary technical work to be undertaken to confirm the estimates of the Jacobs report and to assure that the work to be performed by Jacobs would be guided by the partner.

II. CAPITAL REQUIREMENTS AND FINANCIAL PLAN

9. The Jacobs report estimates the cost of the project at approximately \$60 million not including \$15 million for a townsite and a road from Safi to Aqaba. Assuming for the present time that the latter two items will be financed outside of APC, the following financial plan is considered a satisfactory basis of discussion: (US \$ '000)

Equity	\$ 15,000
Long-term debt	
IBRD	30,000
AID	<u>15,000</u>
	<u>\$ 60,000</u>

10. To arrive at the proposed equity the present share capital of APC would have to be increased, with the partner acquiring the major part of the new issue. The GOJ and APC expressed the desire that IFC should also participate in the equity and IFC stated that if its assistance was needed in the financing, it would be prepared to consider an equity investment.

11. It was agreed that, subject to appropriate corporate action by APC and prior to the increase of the share capital, APC's books would be audited by an independent auditor acceptable to IBRD and AID, and assets reviewed in the light of their contribution to the project. Adjustment in the capitalization of APC would be considered on the basis of such audit and review.

12. The debt financing envisaged would consist (i) of an IBRD loan of \$30 million equivalent which would rank ahead of all other indebtedness of the company except as might be necessary to permit working capital financing by commercial banks, and (ii) of a loan of \$15 million from AID to APC.

13. The IBRD loan would carry such rate of interest as would prevail for IBRD loans at the time of commitment (at present 5-1/2%). The loan would be repaid over a period of 15 years after a five-year grace period. It is expected that this would permit the company to begin repayment in the second year of operation.
14. APC would fulfill its obligations under the AID loan by repaying the principal amount to the GOJ in local currency over a period of 20 years after a five-year period of grace and by paying interest at the same rate as the IBRD loan. The GOJ, as primary obligor, would repay AID in dollars over a period of 40 years at concessionary rates of interest. At present these rates are 1% per annum for the first ten years and 2-1/2% per annum thereafter.
15. The representatives of the GOJ requested that the term of the IBRD loan be extended to 25 years, including a five-year grace period. The AID representatives said the term of their loan could not exceed that of the IBRD loan. These questions remained unresolved and will be reconsidered at a later date.
16. The AID loan will be junior to the IBRD loan in liquidation and subordinated to the IBRD loan in the payment of interest and repayment of principal. If the actual cash flow and APC's obligations under the IBRD loan would make it necessary, APC's debt service obligation to the GOJ may be relaxed to an extent to be stipulated in the AID loan agreement.
17. IBRD stated that to meet its standard regulations, equipment and services needed for the project would have to be procured under its rules for international competitive bidding. AID stated that its funds should be used to the largest extent possible for U.S. procurement, but that, if necessary, AID would consider authorizing the use of part of its funds for local currency expenditures.
18. It was agreed that in accordance with its normal practice for loans for private industrial enterprises, the IBRD loan would be secured in a manner satisfactory to IBRD, for example by a charge on the proceeds from sales to the extent necessary to cover debt service due on the IBRD loan.
19. With regard to the townsite and road, the GOJ suggested that the cost of the townsite should be financed by APC since this expenditure is directly attributable to the project. This was accepted, but the implications for the project's financial plan need to be studied. The final decision will be taken when the final capital cost estimates are available.
20. Subject to assurances of financing for the project, the GOJ agreed to make arrangements to construct a road suitable for economic transport of the potash to be produced from the plant site to the port of Aqaba. APC will pay to the GOJ a fee per ton of potash transported over the road to cover the cost of maintenance. In addition, APC will pay a further fee to the GOJ on the same basis for servicing the capital invested in the road.

However, the payment of this additional amount will be contingent on APC reaching a minimum level of earnings yet to be agreed. In any event, the payments under the two fees, together with the \$0.70 per ton of production due under the present concession, will not exceed US 41.50 per ton of potash.

21. The question was discussed what arrangements APC could make to assure that in case in the course of implementation of the project it was found that the cost of the project would exceed the financing available under the financial plan. Appropriate arrangements would have to be made by APC to deal with this contingency and these would be reflected in the loan documents.

22. In accordance with its normal practice and as required by its Articles of Agreement, IBRD will have to have its loan secured by a guarantee from the GOJ. In addition to a guarantee of repayment of principal of the loan and payment of interest thereon, the guarantee agreement may include inter alia provisions dealing with the execution of the project, the provision of infrastructure and ancillary facilities required therefor, the financing of any overruns, and the provision of a satisfactory concession and other powers necessary to enable the company to operate on a satisfactory basis.

III. DEFINITIVE ESTIMATE AND TIME SCHEDULE

23. The GOJ and APC expressed their view that it is imperative to proceed with the implementation of the project with the greatest possible speed. The representatives of IBRD and AID stated that they fully understood this point of view and intended to proceed accordingly. It was agreed that aside from the matters relating to the financial plan and the selection of the industrial partner referred to above, the next step is to verify the preliminary estimates of capital cost, operating cost and profitability and to establish through further studies the feasibility of the technical concept proposed in the Jacobs report. It was agreed that APC would retain Jacobs to perform the additional engineering work needed to confirm the above Annex A attached hereto in the Memorandum of Understanding signed by APC and Jacobs regarding the scope of the work to be performed and the terms of Jacobs' services, which has been approved by the representatives of IBRD and AID. The formal contract and any amendment thereto will be submitted for prior approval by IBRD and AID. The cost of this contract will be included in the cost of the project.

24. Jacobs has tentatively estimated the cost involved in these preliminary studies at about \$500,000 of which \$350,000 for engineering services to be performed by Jacobs under the agreement and the rest local expenditures by APC. It is recognized that this is merely a preliminary cost estimate since the exact scope of this work cannot yet be clearly defined. Jacobs will, however, present a more definite budget estimate to APC during the second half of September which will not be exceeded without APC's consent.

25. Jacobs estimated that the necessary work under the contract could be completed by the end of May 1966. APC will provide Jacobs with the necessary local assistance in preparation for the field studies to be made on the site.

26. For purposes of planning the representatives envisaged the following time table, it being recognized that it was necessarily tentative and would have to be adjusted in the light of actual developments:

	<u>Date</u>
Memorandum of Understanding between APC and Jacobs	August 6, 1965
Preparatory work by APC	to September 23, 1965
Jacobs' staff arrival in the field	by September 23, 1965
Preparation of definitive budget and signing of formal contract with Jacobs	by September 30, 1965
Preparation of definitive estimate by Jacobs	not later than May 31, 1966
Selection of industrial partner by IBRD; approval by AID and APC	to start immediately and interim developments to be reviewed by GOJ, IBRD and AID by end September 1965.

27. The representatives of IBRD and AID assured the representatives of the GOJ that once the results of the further Jacobs study are available and the arrangements with the industrial partner have been worked out, they would proceed within the shortest possible period with the steps necessary for arriving at the final decision on their participation in the financing, with a view to negotiations for the loans. If IBRD shall not have been able to obtain by the end of 1965 a serious indication of interest on the part of a potential partner, all the interested parties will review the situation.

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September 15, 1965

BRIEFING PAPER - 1965

KUWAIT

I. MEETING WITH DELEGATION

Friday, October 1, 1965

10 a.m. for 30 minutes.

Attended by: Mr. Wilson
Mr. Fontein
Mr. Bart

II. MEMBERS OF DELEGATION

Sheikh Jabir Al-Ahmad
Al-Jabir Al-Sabah

Governor (Bank-Fund), Minister of
Finance and Industry

Abdlatif Y. Al-Hamad

Alternate Governor (^{Bank}Fund),
Director-General, Kuwait Fund for
Arab Economic Development

Sa'ad Fishawi

Adviser, Kuwait Fund for Arab
Economic Development

Hamzeh Abbas Hussein

Alternate Governor (Fund),
Secretary, Kuwait Currency Board

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Discussion of points mentioned under (b) below; to be pursued at staff level.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

(i) Assistance to Kuwait Fund (See Annex):

Management should express our regret not to have been able to assist the Fund since Svoboda's departure. Bank assistance should be tailored to meet the Fund's specific requirements in matters of recruitment and training. Though this raises the problem of staff availability in the Bank for these two purposes, we shall attempt to provide as much help as feasible and hope that discussions between Mr. Al-Hamad and the staff will lead to arrangements satisfactory to the Fund. Occasional visits to Kuwait by Bank staff to assist the Fund in its operations should also be continued if the Fund deems it useful, and should be increased in frequency and duration if necessary.

(ii) Joint operations with Kuwait Fund:

The Bank and IDA have been facing serious problems in identifying suitable projects for financing in Arab countries, in addition to other obstacles to lending. Current projects in Morocco and Tunisia were found too small to warrant a joint operation. On the other hand there are serious prospects for larger Bank loans for potash in Jordan and for roads *in the Sudan,* and possibly later for agriculture in Iraq. Lending in Syria might also emerge late in 1966. Management should inquire whether the Fund would be prepared to join in these ventures.

(iii) Bond holdings:

Sheikh Jabir wrote Mr. Woods in June 1963 to inform him that Kuwait intended to purchase Deutschmark and Italian Lire bonds equivalent to a total of £2 million. These purchases do not seem to have

taken place. We might inquire about the reasons and raise more generally the question of purchases of bonds and borrower's obligations.

(c) Topics likely to be raised by the Delegation:

See (b) above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

(i) Kuwait Fund:

Secondment of El Fishawy's (of Legal Department) will extend up to the middle of 1966.

(ii) Survey Mission Report:

The report was published earlier this year.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Entire 9% (\$6 million) released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$3.36 million
	Replenishment	<u>\$3.36 million</u>
	Total	\$6.72 million

(g) Holdings of Bank Bonds

\$1.00 million. See IV(b)(iii) above.

(h) I. F. C.

No need for IFC funds. IFC might discuss further Kuwaiti participation in IFC projects in member States of the Arab league. It would be desirable to obtain from the Delegation some statement of policy pertaining to the terms of any joint financing with IFC.

VI. POLITICAL SITUATION

The internal situation has remained stable though Parliament has sometimes taken stands at variance with the Ruler's policies. A small but active group of Arab nationalists advocates closer union with the UAR. However, the probable postponement of the latter's merger with Iraq, where the Arif regime is showing much more tolerance for the Kuwaiti entity and is entangled in the Kurdish war, is relieving external pressures. A majority in Parliament, if not in the population, is strongly for preserving Kuwait's independence and has lately recommended withdrawal from the nascent Arab common market. Government loans to Arab states, which have reached the Kuwaiti Dinar 100 million (\$280 million) mark, are contributing to enhance Kuwait's position among Arab countries excepting such persistent foes as Syria.

VII. ECONOMIC SITUATION

Population, 1965: 468,000;

GNP per capita, 1964: about \$3,000;

Gold and Foreign Exchange Reserves (Government, Currency Board and Commercial Banks), May 1965: \$1,447 million.

The national product continued to grow rapidly due mainly to a 35% increase in oil revenues which amounted to \$780 million in the year ended March 1965. Expansion of the private sector has, however, been slackening after the construction and trade boom of the preceding years. Projects for broadening the economic base (chiefly petrochemicals and fertilizers) are progressing slowly. The Government's land purchase program has been stepped up with expenditures reaching \$125 million in 1964/65. An extension of this program to moderate and low income groups increases its political role, however limited may be its economic one in the long run.

Foreign exchange reserves remain very high in spite of considerable private investments abroad. Lending by the Government and the Kuwait Fund to Arab countries slowed down somewhat in 1964/65. The Government extended two loans of \$14 million each to Lebanon and Sudan whereas the Fund's only loan was for a sugar mill in the Sudan (\$4.76 million). It was reported, however, a few months ago that the Government had shifted sizeable deposits from London to Cairo, thus easing in the short run the UAR's acute foreign exchange problem.

Mr. S. R. Cope

August 30, 1965

Douglas J. Fontein and
Maurice P. Bart

Kuwait--Visit to KFAED--May 13-18, 1965

1. In keeping with the proposals made in Mr. Woods' letter of November 27, 1964, to Sheikh Jaber Al-Sabah, Chairman of the Board of the Kuwait Fund for Arab Economic Development, regarding continued Bank assistance to KFAED, we visited Kuwait between May 13 and 18, 1965. Mr. Svoboda, coming from Kuala Lumpur, joined us there.

2. This memorandum summarizes our discussions with KFAED. These were mostly conducted with the Director General, Mr. Al Hamad. We also had several meetings with Messrs. Hveding (Chief Engineer), El Fishawy (General Counsel), Mahhouk (Economist) and Hoss (Financial Analyst).

Background

3. KFAED was created by the Government of Kuwait in 1961 for the purpose of financing development projects in Arab countries. Its authorized capital is KD 100 million, all subscribed by the Government, of which KD 60 million has been paid up. The Bank helped in the drafting of its charter and after its inception seconded Mr. Svoboda to act as General Adviser for a period of two years. From the beginning of its operations KFAED has had to face two problems. The first one was to establish itself as a regional development bank applying strict economic, financial and technical standards and to maintain this position in the face of the tendency by Arab countries to consider Kuwait as an easy source of funds given for political rather than economic considerations. KFAED has so far succeeded in disassociating itself from the loans made by the Government of Kuwait to Arab States for political purposes. The second problem concerns the difficulties KFAED has faced and still faces in building up its staff. This problem is now the more pressing.

4. KFAED's total lending to date amounts to KD 39.5 million. The loans bear 3 to 4% interest and have maturities ranging from 10 to 25 years, including grace periods. This leaves KD 20.5 million of funds immediately available out of the KD 60 million paid in by the Government.

5. KFAED is finding it difficult to commit additional funds owing to the lack of adequate project preparation in Arab countries. Though there is nothing in its charter to limit the proportion of its resources going to a given country (a 10% limit is now interpreted as applying to individual projects), it tends to distribute its loans more or less evenly among Arab countries irrespective of their absorptive capacity. For instance, three members of the Arab League, Algeria, Jordan and Tunisia have received loans of about KD 7 million each. In addition, the Sudan has received KD 8.7 million in two loans and the UAR, which offers much larger prospects for lending, one loan of KD 9.8 million for deepening the Suez Canal. No loans have been made to either the oil-producing

countries (Iraq, Libya and Saudi Arabia), or to Lebanon, Morocco and Syria. It is not clear to what extent KFAED is guided by political considerations (i.e. by the desire to conciliate the largest number of members of the Arab League for obvious reasons of political survival) in their assessment of the share of their resources which should go to each country. Nor do the respective loans from KFAED and from the Kuwait Government (the latter has lent to Algeria, Jordan, Iraq, Lebanon and the UAR) seem to follow a specific pattern. The Kuwait National Assembly has recently voted a resolution recommending that all loans from the Government should be channelled through KFAED. It is not yet possible to say whether this resolution, which runs against KFAED's line to disassociate its operations from politics, will be implemented and what impact it will have on KFAED.

Operations

6. KFAED's activity has slowed down considerably over the last year. One loan only (to the Sudan) has been signed since July 1964. There are no immediate prospects for further lending but the following projects have been studied during the past year.

Jordan

- Irrigation of the Jordan Valley: KFAED might supplement its KD 4 million loan of 1962 with additional financing required to extend the irrigation network in the valley for using the water stored in the Mukheiba dam (financed by the Arab States). KFAED has financed the review by SOGREAH of the plans prepared by the Yugoslavs.
- Phosphate: KFAED is assisting Jordan to find KD 1 million required to supplement their KD 3 million loan of 1962. The Kuwait Petro-Chemical Co. might join in the venture.

Syria

- Karachouk/Tartous oil pipeline: after preliminary discussions between KFAED and the Syrian Government the latter has signed an agreement with the UK for the financing of this project.

Yemen

- Tihama irrigation project: KFAED may provide the Yemeni counterpart funds for the contemplated UN Special Fund survey and might eventually finance the project.

Sudan

- Port Sudan Airport: being studied as an alternate airport for Khartoum. Two smaller airports ruled out as without priority.
- Sugar development in the Djezirch: a KD 1.7 million loan for the financing of a second sugar mill at Khosm el Girba has been signed in July 1965.

Algeria

- Hotel: KFAED has requested a feasibility study for a smaller project.

Morocco

- Agriculture, industry and tourism were explored by KFAED's mission in October 1964. Since then KFAED has identified two irrigation projects in the Tadla area and south of Marrakech which might lend themselves to loans in the total amount of KD 9 million. A mission was due to go to Morocco in August for further discussions on these projects.

Iraq, Lebanon, Libya, Saudi Arabia, Tunisia, UAR

- No projects under discussion.

7. This disappointing picture is familiar to the Bank which is experiencing the same difficulties in finding suitable projects in the Arab countries. The situation cannot be changed without forward planning starting from pre-investment studies and following projects through the financing stage. KFAED's Board is reluctant to develop a number of projects simultaneously in order to maintain a constant flow in the "pipeline." Even if such a policy was adopted KFAED would hardly have the staff to carry it through. Its most immediate problem concerns its personnel.

Personnel

8. Recruitment: There is at present very little depth in KFAED's staffing. Total professional staff is in the order of a dozen persons. The personnel problem is complicated by the turnover among the senior staff, which, apart from the General Manager, is entirely made up of foreigners who do not stay with KFAED for more than two or three years. This situation stems from various causes: KFAED's salaries are not particularly attractive, nor are the environment and climate in Kuwait such as to induce foreigners to remain more than two or three years (though the Kuwait Oil Company succeeds in retaining its staff for much longer periods). Prospects for finding in the near future Kuwaitis who could fill senior positions are slim and KFAED, therefore, faces an immediate problem of recruitment of expatriate staff and a long-term problem for the training of Kuwaiti staff.

9. Al Hamad is likely to remain at the head of KFAED for some time to come. According to Svoboda, he has gained in stature since he took over KFAED's management. However, his good educational background and clear mind are not yet matched by the experience and organizational talent required for an operation of the size of KFAED. He is also devoting an increasing part of his time to outside duties (such as the Kuwait Investment Co.). There is a clear need for a general adviser who could act as second-in-command. Svoboda's departure was undoubtedly premature and greatly regretted by Al Hamad. A replacement is urgently needed.

10. Among the senior staff, a number of vacancies are expected in the coming year and replacements should be secured as soon as possible. The Chief Engineer, Hveding, whom the Bank helped to recruit has had to assume much broader responsibilities than intended as he had to get into matters which were not directly related to his job in order to fill the vacuum left by Svoboda's departure. His replacement is an urgent matter since he will be leaving Kuwait this summer. Arrangements should also be made to find two economists, a lawyer, and a financial analyst to replace, respectively, Jaroudi, who has already left, Mahhouk, El Fichary and Moss who are due to leave toward the middle of 1966.

11. Training: The need for training of Kuwaitis must be put in the perspective of KFAED's requirements over the years. The assistance that the Bank can provide in this respect is limited. While the Bank's present training system is centered around EDI, there are at this time few Kuwaitis not already occupying responsible positions on one side and with enough maturity and experience on the other side, to be able to benefit from the EDI training. KFAED, for instance, could not take advantage of the EDI course in Pakistan which was opened to Kuwait. The best way to help KFAED in this matter would be for the Bank and IFC to take a number of special trainees for a limited period and familiarize them with the policies and procedures of the 1818 H Street institutions in their respective fields. This would require special arrangements so that enough time could be devoted by staff members on the trainees; the difficulties faced in this respect have been considerable in the past and are not likely to be easily overcome. However, KFAED's present and potential role as an instrument of economic development in the area should be of considerable concern to the Bank. Kuwait's contribution to IDA has also been sizeable. The Bank would therefore be justified in making the necessary effort to meet KFAED's needs in training. Another possibility would be to take advantage of the Junior Professional Program or of fixed-term appointments to train Kuwaitis for several years; Al-Hamad thinks that some young Kuwaitis would be qualified for and attracted by jobs in the Bank or IFC.

12. The key to KFAED's immediate problems remains, however, the recruitment of permanent staff of the quality they need. The Bank could provide valuable assistance by helping KFAED locate and interview suitable candidates. This requires that KFAED specify its requirements and establish job descriptions in order to enable the Bank to find the right person.

13. In the field of training we should explore whether special trainees could be accepted by the Bank, especially in the Projects and Treasurer's Departments, IFC and the New York office. We should also reiterate our willingness to consider candidates for the Junior Professional program or fixed-term appointments and urge KFAED to adopt a long-term approach in this respect, with, if necessary, scholarships to promising students (already provided for in their budget) who could eventually qualify for recruitment by the Bank after appropriate studies.

Continuing Contact with the Bank

14. Considerable disappointment was expressed by Al-Hamad about the assistance extended by the Bank to KFAED since Svoboda's departure. The decision to withdraw Svoboda is considered as an uncooperative act

and delays in assigning an adviser for periodical visits to KFAED seem also to have been resented. The assistance which can be given to the Fund through periodic visits is likely to be limited but the arrangement should nevertheless be maintained lest meaningful contacts with KFAED be lost. Continuity in the Bank staff members visiting KFAED would help to increase the usefulness of these contacts. Al-Hamad stressed again the question of nationality as he does not want the Fund to be identified in any way with "big powers." It might also be psychologically important for these periodical visits to extend over more than a few days in order to show the Bank's genuine interest in KFAED.

15. Mr. Al-Hamad expressed the desire that KFAED be considered by the Bank as a "sister agency" and that it be given, on a confidential basis, a copy of all reports dealing with Arab countries (Country Economic reports, debt studies and appraisal reports). He emphasized that what mattered to him was to receive these reports at as early a stage as possible. As Alternate Governor for the Bank he is now receiving these reports with some delay.

16. Other Bank documents such as the Projects Department's questionnaires and some Operational Memoranda would be of considerable value to KFAED. The extent to which some of these can be released will have to be discussed in the Bank.

17. Al-Hamad suggested that a Bank regional office for assistance to Arab countries in project preparation (along the same line as the African offices) might be located in Kuwait. It is doubtful whether the Arab governments would really want to have such an office and, if so, whether they would want it in such a peripheral and hardly attractive location as Kuwait.

18. Finally Al-Hamad asked whether it would be possible for EDI to organize in Kuwait a course similar to the one in Pakistan. It would be intended for Arab countries and be tailored to meet their specific needs.

Joint Operations

19. There are few immediate prospects for joint Bank/KFAED operations owing to the lack of suitable projects both organizations are facing in the Arab countries. KFAED has a definite interest in joint operations with the Bank group for prestige reasons and also because it expects that the Bank would help solve the difficulties they are experiencing in putting projects into shape. According to the Africa Department, the schemes currently under consideration by the Bank and IDA in Morocco and Tunisia are too small to warrant bringing in KFAED; whether a joint operation with IDA (which would result in average terms of a very soft blend) would be acceptable is to be determined. The potash project in Jordan might be more suitable, as would be Bank projects in Egypt, the Sudan, Syria and North Africa. KFAED is open to suggestions regarding joint operations and would be prepared to consider proposals from the Bank in this respect.

Conclusions and Recommendations

20. Bank relations with KFAED have been much more distant since Mr. Svoboda has left Kuwait. If the Bank wants to retain a close relationship with KFAED it should be prepared to take steps to help in those fields where KFAED has

asked for assistance and to increase the frequency of visits to Kuwait by Bank staff. We recommend specifically that the Bank should offer to help in the following:

- (i) locating and interviewing suitable candidates for professional jobs in KFAED;
- (ii) training of KFAED's staff in such departments as Projects and Treasurer's;
- (iii) making available to KFAED Bank reports related to Arab countries and some other Bank documents of interest to KFAED;
- (iv) the area departments dealing with Arab countries should attempt to develop, whenever possible, joint operations with KFAED.

MPBart/DFontein:jh

cc: Messrs. G. Wilson
Rosen
Adler
Demuth
El Emary
Lejeune

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September 15, 1965

BRIEFING PAPER - 1965

LEBANON

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Andre Tueni	Governor (Bank), Director General, Ministry of Finance
Raja Himadeh	Alternate Governor (Bank), Government Commissioner to B.C.A.I.F.
Philippe Takla	Governor (Fund), Governor, Banque du Liban
Farid Solh	Alternate Governor (Fund), Director of Financial Affairs, Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) No operations are contemplated. The Government has taken no action on the proposals made in Mr. Woods' letter of July 1, 1964 to assist in setting up agricultural and industrial credit institutions and to consider loans for development projects.

(b) Development Banks

No progress has been made by the Government regarding the splitting of the existing multi-purpose development bank, a prerequisite for the creation of the two new institutions recommended by the Bank/IFC missions of 1963 and 1964. The Steering Committee for the new Industrial Bank never met after its selection by IFC in 1964; the Government and the Banker's Association have not appointed representatives to fill the seats reserved for them on the Committee. A commission in the Ministry of Finance is however reportedly working on the whole problem of long-term credit institutions along the lines previously recommended by the Bank/IFC missions.

(c) Development Plan

The Plan prepared by French experts is still under discussion, chiefly as regards the remaining gap in financing. Meanwhile the Government has been implementing projects in various sectors without any internal or external public borrowing except a .L5 million loan from the Kuwait Government. An inquiry made by the Litani River Authority regarding a possible second loan for the Joun power plant was discouraged by the Bank.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

- (i) Remind the representatives of the Ministry of Finance that a decision regarding the purchase price for the power produced by the Litani River Authority is long overdue, and that the Bank would not lend for any new project until this question has been settled.
- (ii) Disbursements under the Litani loan of 1955 are now close to an end and will probably be completed before the closing date of January 31, 1966. We should remind the Delegation that remaining disbursement applications ought to be submitted before that date.
- (iii) Ask for release on convertible basis of \$0.405 million of IDA 90% subscription.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

None.

V.

BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1955	Litani River Authority	Power and Irrigation	27.0	1.7
		of which has been repaid	<u>2.6</u>	
		Total outstanding	24.4	
		Amount sold	1.5	
		of which has been repaid	-	<u>1.5</u>
		Net amount held by Bank	-	<u>22.9</u>

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

No attempts have ever been made by the Government to issue bonds internally or abroad. Despite the creditworthiness of the country, the strength of its currency and the presence of large amounts of flight capital from neighboring countries, it is not sure whether Lebanon would be in a position to have access on a significant scale to capital markets owing to the political uncertainty prevailing in the Middle East.

(e) Bank 9% Capital Subscription

Entire 9% (\$0.81 million) released and lent in dollars.

(f) IDA Subscription

Part II member. 90% subscription (\$0.405 million) has not been released. (See IV(a)(iii) above).

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

No investments made but good prospects for future activity.

IFC is actively considering the Consolidated Steel project for which it has been requested to provide \$2.3 million. Details of capital costs and technical assistance are being negotiated with Klockners and sponsors.

VI. POLITICAL SITUATION

The first year of President Helou's mandate has been uneventful. He has succeeded beyond expectations in asserting himself as an accepted arbitrator after the tight control of President Chehab over the country and the Army during the preceding six years. The transition, which could have been difficult, has confirmed Lebanon as the only country in the Arab Middle East abiding by constitutional rules. However, Parliament's divisions led President Helou to appoint recently a cabinet of technicians except for the Prime Minister. Changes in Government have not affected the policies consistently followed since 1958 to wit: economic liberalism tempered by increasing social preoccupations (Lebanon is the only Arab country to have social security) and alignment on the Arab world without rejecting the deep influence of the West.

The withdrawal of President Nasser's support to the plan for the diversion of the upper tributaries of the Jordan has enabled Lebanon to back out, for the time being, from the only dangerous venture in a usually prudent foreign policy.

VII. ECONOMIC SITUATION

Population: 2 million (estimate);

GNP per capita: about \$400;

Foreign Exchange Reserves of Central Bank, June 1965:
\$236 million.

Economic indicators are as usual scanty and late-coming, but economic activity in 1964/65 seems to have continued to expand. Imports increased again with an expanding trade deficit which continued to be more than offset by a surplus on invisibles. Money supply continued its upward trend, with

increasing pressures on prices, but controls exercised by the new Central Bank, although limited, tended to limit credit expansion by the banks.

The Government's budgets for 1964 and 1965 have continued to show a small deficit despite sizeable improvements in tax assessment and collection. Increased development expenditures, financed chiefly by the Treasury, are the main source of the deficit but have contributed to the resumption of economic activity after the slowdown of 1961-62. Physical progress on major projects such as port and highway expansion, water supply and electrification of rural areas, is encouraging. However, the 1964-68 development plan involving total outlays of LL1,425 million (\$465 million) is still awaiting Government approval and a decision on how to finance the estimated gap of LL350 million (\$114 million).

Lebanon is creditworthy for Bank loans but not eligible for IDA credits.

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BRIEFING PAPER - 1965

NETHERLANDS

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

A. Vondeling
Governor of Bank

Minister of Finance

Count J.H.O. van den Bosch
Alternate Governor of Bank

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

M. W. Holtrop
Governor of Fund

President, De Nederlandsche
Bank N.V.

E. van Lennep
Alternate Governor of Fund

Treasurer General, Ministry
of Finance

Advisers

P. Lieftinck

Executive Director Bank and Fund

H.M.H.A. van der Valk

Alternate Executive Director
Fund

E.A. Lieftrinck

Financial Counselor, Netherlands
Embassy, Paris

Baron A.W.R. Mackay

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

Miss G.A. Koen

De Nederlandsche Bank N.V.

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1947	Netherlands	Reconstruction	191.0	
1948	Netherlands	Reconstruction	4.0	
1948	Stoomvaart Mij Nederland	Shipping	4.0	
1948	Vereenigde Scheepv. Mij	Shipping	2.0	
1948	Holland-Amerika Lijn	Shipping	2.0	
1948	Rotterdamsche Lloyd	Shipping	4.0	
1949	Herstelbank	Industry	7.5	
1952	KLM Royal Dutch Airlines	Aircraft	7.0	
1957	Herstelbank	Industry	<u>15.0</u>	
	Total		236.5	
	of which has been repaid		<u>224.6</u>	
	Total outstanding		11.9	
	Amount sold	128.6		
	of which has been repaid	<u>116.7</u>	<u>11.9</u>	
	Net amount held by Bank		<u>--</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Amount: \$49.50 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$27.74 million
	Replenishment	<u>\$16.50 million</u>
	Total	\$44.24 million

(g) Holdings of Bank Bonds

\$47.41 million

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

Early in the year the coalition government of July 1963, consisting of representatives of the Catholic, Liberal and two major Protestant parties, fell because of a conflict relating to television. A new government was formed in April. It is a coalition of the Catholic, Socialist and Orthodox Protestant parties. The new Prime Minister (Dr. Cals) is again a Catholic; Dr. Vondeling (Socialist), the new Finance Minister, is one of two Vice-Premiers. The new government seems firmly in power.

VII. ECONOMIC SITUATION

Population, 1964: 12.1 million;

GNP per capita, 1964: \$1,350;

Gold and Foreign Exchange Reserves of
Netherlands Bank, June 1965: \$2,339 million;

Foreign Exchange Reserves of
Commercial Banks, May 1965: \$500 million;

Imports (c.i.f.), 1964: \$7,055 million.

The effects of the large increase in wages in 1964 (16%) appear to have been overcome, with the help both of increases in productivity and of a more restrictive financial policy. During the first half of 1965 the cost of living was only 3.5% higher than in the corresponding period of 1964, a rise comparable to that taking place elsewhere. The value of exports increased by 16% in 1964 and during the first half of 1965 was 10% above the level in the corresponding period of 1964. GNP rose by 7.5% in 1964 and is expected to rise by 4.5% in 1965. The foreign exchange holdings of the Netherlands Bank and the commercial banks, which fell somewhat during July 1963-June 1964, increased by some \$400 million during July 1964-June 1965.

As part of the tightening up of financial policy, interest rates rose sharply during this period. The discount rate of the Netherlands Bank was raised from 3-1/2% to 4% in January 1964 and to 4-1/2% in June 1964 while the Government bond yield, which averaged 4.22% in 1963 and 4.92% in 1964, was 5.24% in June 1965.

The higher interest rates caused substantial foreign buying mainly of public bonds; this was the major factor in the rise of foreign exchange reserves. For 1964 as a whole the net inflow of capital is estimated at \$70 million compared with \$25 million in 1963. A July 1965 government bond issue of 300 million guilders was made at 5-3/4% with a price of issue of 98-1/2 and it is estimated that 30 million guilders were foreign subscriptions. In August 1965, a 100 million guilder bond issue for Dutch municipalities was made at 6% at par and was heavily over-subscribed.

Foreign borrowings in the Dutch capital market have been confined to issues by the European Coal and Steel Community and the European Investment Bank. Details are given in the following Annex.

ANNEX

Foreign Bond Issues in Dutch Capital Market

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>1964 Price of Issue</u>	<u>Maturity</u>
European Coal and Steel Community	25 million guilders	5-3/4%	at par	1964-1984
European Investment Bank	30 million guilders	5-3/4%	97	1964-1984

Total 1964 \$15.2 million equivalent

1965 1st half

European Coal and Steel Community	40 million guilders	5-3/4%	at par	1965-1990
European Investment Bank	40 million guilders	5-3/4%	at par	1965-1985

Total 1st half 1965 \$22.1 million equivalent

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BRIEFING PAPER - 1965

NETHERLANDS ANTILLES ^{1/}

I. BANK/IDA PROSPECTIVE OPERATIONS

There are no immediate prospects for operations.

In October 1964 we received an inquiry through Dr. Lieftinck and Mr. Grooters of the Dutch Embassy whether the Bank could consider the financing of a 180 MW thermal power plant in Curaçao. The estimated cost of the plant and transmission lines is \$32 million and another \$1.6 million would be required for the construction of the necessary access roads. 160 MW of the capacity would be reserved for sale to a 45,000 ton aluminum smelter to be constructed by Kaiser Aluminum Company. Kaiser would enter into a long-term contract for the purchase of electricity at 4.24 U.S. mills per kwh. Part of the steam produced by the power plant would be used by Shell in its refining operations and part would be used for a sea water distillation plant.

The Netherlands Government was afraid that in its enthusiasm the Antilles Government might act too hastily and was anxious that the Bank should appraise the project in order to make sure that it was sound.

In answer to specific questions we said that the Bank could in principle consider financing the project; that it would have to be satisfied that the necessary finance was not available from other sources on reasonable terms; that it would have to appraise the project in the usual way and that it would have to be satisfied with the economic, financial, technical and management aspects thereof. In the course of the discussion we also said that the benefits to the economy appeared marginal and that the power price to the smelter seemed high.

At the conclusion of the discussion Dr. Lieftinck said that in his opinion the project was not suitable for either the Bank or IFC.

^{1/} In 1954 the Netherlands Antilles and Surinam obtained equal status as "members of the Realm" with the Kingdom of the Netherlands. The Netherlands Antilles and Surinam have complete control over domestic affairs; the Crown maintains jurisdiction over defense and foreign affairs. Surinam and the Antilles obtained associate status in the European Economic Community in September 1962 and October 1964 respectively.

II. POLITICAL SITUATION

There were no basic changes in government during the past year. The political situation remained stable. A continuing problem are conflicts of interest among the islands, related to the federal nature of the central government and the separateness of the islands, each having its own legislature. The term of the present government, headed by Mr. Efrain Jonckheer, expires in 1966. His Democratic Party has a working majority in the national legislature, but the opposition National People's Party, headed by Dr. da Costa Gomez, has a majority in the legislature of Curaçao, the most populated island.

III. ECONOMIC SITUATION

Population, 1964: 205,000;

GNP per capita: about \$900;

Gold and Foreign Exchange Reserves of Central Bank,
December 1964: \$31.5 million.

Retrenchment in the two oil processing plants, on which the economy primarily depends, continued in the past year as a result of foreign competition and pressures in other countries for refining capacity. Employment in the oil sector declined and will decline further due to automation; output in this sector has been static for a number of years and the net contribution to foreign exchange income of the area has dropped 30% since 1957. Unemployment on the islands has been rising and equals 20-25% of the labor force; emigration to the Netherlands has brought only limited relief.

Efforts to reduce dependence on oil by diversifying the economy meet with some success. Tourism, supported by an active hotel building program, is expanding. Some modern industries, including petrochemicals, have been attracted by tax and other incentives, but high labor costs are a drawback.

Ten-year development plans totalling some \$125 million are in an early stage of implementation. Development banks for individual islands have been established as channel for part of the effort. Substantial financial assistance will come from the Netherlands, which is prepared to provide loans for revenue producing projects up to Ant.f. 125 million (\$66 million) and loans and grants, in equal shares, for non-revenue producing projects up to a total of Ant.f. 60 million. In addition, the EEC Development Fund will provide some Ant.f. 50 million for various non-revenue producing projects.

The current debt service ratio is low (3% of net exchange earnings in 1964), but debt servicing capacity is limited by difficulties in raising public savings. The Antilles do not qualify for IDA assistance in view of the high income level.

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September 15, 1965

BRIEFING PAPER - 1965

SURINAM

I. BANK/IDA PROSPECTIVE OPERATIONS

There are no immediate prospects for operations. Two technical assistance projects, mentioned below, for which the Bank acts as Executing Agency on behalf of the U.N. Special Fund, are under way. A third technical assistance project, the Saramaca River Study, done by the Bank directly as a service to a member country, was completed in 1964; the mission's report was submitted to the Government and the latter accepted its recommendations.

(a) Mineral Survey

The Plan of Operation was amended in April 1965 to provide for an increase in the Special Fund allocation from \$750,000 to \$827,000. The additional allocation will permit the number of line kilometers to be flown in the aerial survey to be increased by 4,600 km to 60,000 km. The revised allocation also includes \$10,000 for an interpretation of data with a view to locating underground bauxite deposits.

(b) Transportation Study

The Plan of Operation for this study, which includes the problem of silting at the mouths of Surinam's rivers, became effective in December 1964 and the Dutch firm NEDECO was retained as engineering consultant. The Special Fund allocation for the study amounts to \$510,500 and the Government's contribution \$230,000. The study is progressing reasonably well. A launch has been provided and arrangements have been made to obtain two experienced hydrographers from the Netherlands. However, attempts by the Surinam Government to obtain a qualified hydraulic engineer have so far been unsuccessful. His task would be to represent the Government vis-a-vis the consultants and to organize and, initially, to be in charge of, an hydraulic division within the Department of Public Works and Transportation. No response has been received following a memorandum of June 18 to Dr. Lieftinck on this subject and a letter of the same date to the Minister of Public Works.

II. POLITICAL SITUATION

Minister-President Pengel's coalition government remained in power, with governmental authority highly concentrated in his hands.

In spite of the increasing nationalistic tendencies over the years in the general political life of the country, official ties with the Netherlands have not been affected since Surinam's relationship to the latter was changed in 1954. ^{1/} Because financial dependence on the Netherlands is relatively large, an early change in constitutional arrangements appears unlikely.

III. ECONOMIC SITUATION

Population, 1964: 330,000 (estimate);

GNP per capita, 1963: \$300;

Gold and Foreign Exchange Reserves of Central Bank,
March 1965: \$19.5 million.

Exports of bauxite, the economy's major source of income, rose by 9% in 1964. An alumina plant and smelter will be completed by late 1965; as a result, export earnings from mining are expected to rise further.

Beyond mining, the economy remains mainly dependent on agriculture which provides one-half of employment. Agriculture has been largely stagnant and since the population increases annually by 3-4%, per capita income has not gone up in recent years.

In spite of cheap labor, the establishment of a development bank and tax and other facilities, the small industrial sector is expanding only slowly. Association with the European Economic Community has made little difference in this respect, although it resulted in grants (so far Sf 25 million) by the EEC Development Fund for a number of projects.

A second ten-year plan has been prepared, but no details are available. The Netherlands is again expected to provide the bulk of the funds towards its financing. Of the current ten-year plan, the Netherlands finances one-third of the increased total of Sf 207 million (\$110 million) by a grant and one-third by a loan. Public investment in recent years was concentrated on infrastructure.

Budget performance is weak, although improving somewhat. To prevent an acute budgetary crisis early in 1964, the Netherlands provided a special Sf 32 million interest-free loan to be disbursed in three years. One of the conditions of this loan is that

^{1/} For description of constitutional relationship between Surinam and the Netherlands and Surinam's position vis-a-vis the European Economic Community, see footnote to brief on Netherlands Antilles.

the current budget will be balanced by 1967. The foreign exchange position improved in 1964 and prices rose little.

Surinam's creditworthiness for loans without a Dutch guarantee is limited. It would only be eligible for IDA assistance under somewhat liberalized poverty standards.

NORWAY

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BRIEFING PAPER - 1965

NORWAY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Christian Brinch
Governor of Bank

Secretary General, Royal Ministry
of Commerce and Shipping

Erik Brofoss
Governor of Fund

Governor, Norges Bank

Thomas Lovold
Alternate Governor of Fund

Director, Royal Ministry of
Commerce and Shipping

Advisers

Odd Hokedal

Alternate Executive Bank

Gabriel Kielland

Director, Norges Bank

Erling Borresen

Director, Norges Bank

Vidkunn H. Schirmer

Representative of Norges Bank
for USA and Canada

Olaf Solli

Counselor, Embassy of Norway

III. BANK/IDA PROSPECTIVE OPERATIONS

An application for a loan to finance a hydro power project (Sira-Kvina) submitted last year was dropped after the Annual Meeting when the Norwegians were informed about the Bank's new interest rate policy for market eligible countries. Alternative foreign financing for the project was subsequently arranged. There has been no indication that the Norwegians are contemplating coming to the Bank for a loan.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication that Delegation intends to raise any issue.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1954	Norway	Equipment for Development	25.0	
1955	Norway	Equipment for Development	25.0	
1956	Norway	Power	25.0	
1959	Norway	Power	20.0	
1960	Norway	Power	25.0	
1963	Norway	Power	<u>25.0</u>	<u>21.3</u>
	Total		145.0	21.3
		of which has been repaid	<u>20.5</u>	
		Total outstanding	124.5	
		Amount sold	48.6	
		of which has been repaid	20.5	<u>28.1</u>
		Net amount held by Bank	<u>96.4</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None. Last year we helped them select a steel expert in connection with an investigation of difficulties experienced by the State-owned steel industry in Mo i Rana.

(d) Access to Private Capital Markets

Since 1963 Norway has been able to raise substantial amounts in private capital markets. The most important issues in 1964 and during the first part of 1965 are listed in Annex A.

So far Norway's ability to raise funds abroad has not been affected by the tightening up of capital markets and the terms of borrowing have not stiffened appreciably.

The New York quotation for the Kingdom of Norway 5-1/2% 1978 bonds was 97-1/8% on August 18, 1965.

Norway is subject to the U.S. interest equalization tax.

<u>Bankers:</u>	<u>U.S.A.</u>	<u>Europe</u>
	Harriman, Ripley & Co. Kuhn Loeb and Co. Lezard Freres and Co. Smith, Barney and Co.	Hambros Bank Ltd. S.G. Warburg and Co. Ltd.

(e) Bank 9% Capital Subscription

Amount: \$12.0 million. Entire 9% released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$6.72 million
	Replenishment	<u>\$6.60 million</u>
	Total	\$13.32 million

(g) Holdings of Bank Bonds

\$23.65 million.

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

A Labor Government has been in power for 30 years. In September 1963 the Government was defeated in Parliament over a coal mining accident in Spitzbergen but the coalition government formed by the conservative opposition lasted only 23 days and Labor returned to power (Prime Minister Einar Gerhardsen). The Present distribution of seats is 74 labor, 74 conservative opposition and 2 extreme left. General elections held this month resulted in a loss of 6 seats by labor and a corresponding gain by the conservative opposition. The new government is expected to be headed by John Lyng who was also Prime Minister in the short-lived coalition of 1963.

VII. ECONOMIC SITUATION

Population, 1964: 3.7 million;

GNP per capita, 1963: \$1,500;

Gold and Foreign Exchange Reserves of Central Bank, June 1965: \$422 million.

The large rise in exports in 1964 (21%) in response to the strong foreign demand for pulp and paper, metals etc., kept Norwegian economic activity at very high levels last year (increase in GNP 6.2%) and, together with the improvement in freights, contributed to the strengthening of the external position (increase in foreign exchange reserves of \$33 million). The growth in exports has been less in the first half of 1965 (8% over the first half of 1964) but both economic activity and the external position have continued to develop favorably.

In spite of overfull employment, wage and price increases have been in line with those of other countries and the Norwegian competitive position continues to be strong.

The external public debt outstanding on December 31, 1964 amounted to \$592 million and its service will require \$60 million a year in 1965 and 1966. This corresponds to some 3% of current foreign exchange earnings. There has been a decline in the rate of foreign borrowing since 1963 due to the sharp decline in net shipping loans (see Annex B).

ANNEX A

Principal Norwegian Issues Abroad

<u>January-June 1964</u>				
<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
Kingdom of Norway	\$25 million	5-1/2%	98-1/4	1964-1984
City of Oslo	\$15 million	5-3/4%	99	1964-1979
City of Oslo	DM40 million	6%	99-1/2	1964-1979
City of Trondheim	Swedish Kr. 15 million	6-1/4%	100	1964-1984
Municipalities Bank	\$10 million	5-3/4%	99-1/2	1964-1984
Kraftlaget Opplands-kraft	\$ 7 million	5-3/4%	n.a.	1964-1984

Total \$70 million equivalent

<u>July-December 1964</u>				
City of Oslo	\$15 million	5-1/2%	99.81	1964-1984
City of Bergen	\$10 million	5-1/2%	99	1964-1984
Roldal-Suldal Kraft A/S	\$15 million	5-3/4%	98-1/4	1964-1984

Total \$40 million equivalent

<u>January-June 1965</u>				
Kingdom of Norway	\$30 million	5-1/2%	98	1965-1985
City of Oslo	\$15 million	5-3/4%	98-3/4	1965-1985
City of Oslo	DM50 million	5-3/4%	n.a.	1965-1980
Bergenshalvoens Kommunale Kraft-selskap	Swiss Fr. 4.5 million	5%	n.a.	1965-1980
Sira-Kvina Kraft-selskap	\$25 million	5-3/4%	97-3/4	1965-1985

Total \$83.5 million equivalent

ANNEX B

Norwegian Foreign Borrowing
(Million \$)

	<u>New Borrowing</u>	<u>Repayments</u>	<u>Net Borrowing</u>
<u>Government</u>			
1962	42	36	6
1963	85	34	51
1964	91	36	55
Ist quarter 1965	45	5	40
<u>Shipping Companies</u>			
1962	245	170	75
1963	320	175	145
1964	250	200	50
Ist quarter 1965	57	50	7
<u>Other (net)</u>			
1962			50
1963			22
1964			30
Ist quarter 1965			8
<u>Total</u>			
1962			131
1963			218
1964			135
Ist quarter 1965			55

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PORTUGAL

I. MEETING WITH DELEGATION

No meeting scheduled with Management.

(Meeting with Bank Staff to be arranged)

II. MEMBERS OF DELEGATION

Antonio M. Pinto Barbosa Professor University of Lisbon,
Ex Minister of Finance

Luis M. Teixeira Pinto Vice-Governor,
Banco de Fomento Nacional

Manuel Jacinto Nunes Vice-Governor,
Banco de Portugal

Advisers

Armenio Fonseca Lopez Adviser, Head of the Inter-
national Relations Department,
Banco de Portugal

Hernani Caeiro Pereira Adviser, Banco de Portugal

III. BANK/IDA PROSPECTIVE OPERATIONS

A Bank mission visited Portugal in May to appraise the second stage of the Carregado thermal power plant near Lisbon (the Bank helped to finance the first stage with a \$15 million loan early in 1965), and the Carrapatelo hydro electric project on the Douro River. Loans for these two projects (to Empresa Termoelectrica Portuguesa and Hidro-Elctrica do Douro) would total about \$30 million and negotiations are expected to start in October.

In April a Bank economist (Vloeberghs) joined the regular IMF consultation mission to update the Bank's economic information and to review the Interim Development Plan for 1965-67. A transportation expert (Main) also visited Portugal in May to study land transport coordination and to make a preliminary review of the status of road project preparation. However, because of the international implications of Portugal's position and policies in Africa, the Bank has decided to limit loans to the two power projects mentioned above.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

1. Release of 9% Capital Subscription to the Bank

The Minister of Finance repeatedly has expressed willingness to consider release of subscription. A draft letter from Portugal to the Bank under which Portugal would have released the 9% portion of its subscription (equivalent to \$7.2 million) in five annual installments was sent to the Minister of Finance in August 1964. No reaction has been received.

2. Membership in IDA and IFC

On several occasions the Government expressed interest in becoming a member of IDA and IFC.

Concerning IDA we told them on previous occasions that it would seem appropriate for Portugal to become a Part II member but to release the (presumably) \$3.6 million 90% subscription in full. Continuation of the \$1.4 million a year rate of release for IDA after the Bank 9% is fully released would be appropriate.

Concerning IFC, the Portuguese delegation should be informed about the benefits Portugal could, at the present stage of its industrial development, derive from becoming a member of the Corporation.

3. Technical Assistance Report on the Financial System

At the request of the Government, the Bank and the Fund sent a mission to Portugal during the Spring of 1964 to study, in relation to the country's development, credit and monetary policies, capital market and fiscal and budgetary policies. The mission, headed by Professor Erik Lundberg, completed its report in October 1964. It was sent to the Portuguese Government in November 1964, but no response has been received. On the occasion of the loan negotiations in January-February of this year, a Portuguese official mentioned that the Government was studying the report and that they would let us have their comments as soon as they had finished.

During presentation of the ETP loan in April, the Executive Directors expressed an interest, inter alia, in the financial policies pursued by the Government and particularly in the low fiscal effort and Bank staff informed the Directors of the Bank/Fund Report on these matters. During the presentation of the forthcoming loans to ETP and HED, the Bank should be able to inform the Executive Directors of the Government's attitude towards the Report.

4. Power Rates

No reply has yet been received to Mr. Fontein's letter to the Minister of Finance of July 1, dealing with the problem of the insufficiency of revenues accruing to the power companies (see Annex).

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

The delegation may wish to inquire about the possibility of further Bank loans. The Bank has decided to adopt a cautious attitude on lending to Portugal and, for the time being, to limit operations to the \$10 million loan to ETP and the \$20 million loan to HED scheduled for the Fall. (see III)

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965:

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisburse- Balance
1963	Hydro-Electrica do Douro	Hydro Elec. power	7.5	---
1963	Empresa Termoelectrica Portuguesa	Thermal power	5.0	2.6
1965	Empresa Termoelectrica Portuguesa	Thermal power	<u>15.0</u>	<u>14.9</u>
	Total		27.5	17.5
	Amount sold		<u>1.5</u>	
	Net amount held by Bank		<u>26.0</u>	

(b) IDA Credits

None.

(c) Technical Assistance Activities

(See IV (a)3)

(d) Access to Private Capital Markets

For the first time in many years, the Government contracted a foreign loan in 1962 (\$67.4 million from Eximbank) which was followed by a German credit of \$37.5 million and two loans of \$20 million and \$15 million respectively by a group of US banks. In 1964, the US Department of Agriculture granted Portugal a \$10 million wheat loan and US \$20 million of bonds were floated in London. In February 1965, the Government issued in New York \$20 million of bonds. In 1963, the state-controlled Development Bank issued \$13 million of bonds in Units of Account (with a Government guarantee) through a group of European banks. Total foreign loans to the overseas provinces and private or semi-private institutions and guaranteed by the Republic of Portugal amounted to over \$100 million. Further borrowing, mainly in European markets, is envisaged. In May 1964, Portugal was included among countries to which the U.S. interest equalization tax applies. At the end of April 1965, Portugal's foreign debt amounted to \$366 million.

(e) Bank 9% Capital Subscription

\$7.2 million. No release has been made (see IV (a) 1).

(f) IDA Subscription

Not a member (see IV (a) 2).

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

Not a member. The Government repeatedly expressed its interest in becoming a member of IFC but no action has so far been taken. (See IV (a) 2).

VI. POLITICAL SITUATION

Stability prevails; however, the succession of Dr. Salazar, now 76, is one of the major uncertainties about Portugal's political future. The second major political problem is its relationship with the overseas provinces. Since the outbreak of disorders in Angola in 1961, the situation has been kept under control at the cost of a considerable military effort. In Mozambique the military effort has also been stepped up recently. Pressures from various African nations and their concerted action within the U.N. may cause difficulties.

In July of this year Amerigo Deus Thomas was elected President of the Republic for a second term.

VII. ECONOMIC SITUATION

Population: 9.2 million;

GNP per capita of Metropolitan Portugal: about \$350;

Gold and Foreign Exchange Reserves (June 1965): \$933 million.

Portugal's growth rate declined from 8% in 1960 to 6-7% in 1961-62, after which it further decreased to 4-5% in 1963-64. Growth during 1963-64 was again exclusively attributable to manufacturing, construction and services, while agricultural output, which has been stagnating for a great many years, declined in 1964 below the already depressed level of 1963 as a result of continued bad weather. Prospects for 1965 are again unfavorable because of drought. In 1964 internal demand expanded less rapidly than in the previous three years: private consumption went up by 5% (compared to 11% in 1963) and private investment grew by only 2.6%.

The central Government budget showed again a sizable deficit in 1964 despite the slower growth of public current expenditure compared to the previous three years; defense expenditure continued to absorb about 50% of current revenues. As part of a program to restore public savings Portugal should make major increases in taxation.

The external position of Portugal further strengthened in 1964: exports of goods and services increased by over 22% (compared to 4% in 1963), imports went up by 15% (12% in 1963), while foreign borrowing, combined with the sizeable external surplus of the overseas provinces (equivalent to \$70-80 million) contributed to the continued accumulation of foreign reserves (from \$692 million at the end of 1961 to \$954 million at the end of 1964).

Portugal's external debt, practically nonexistent in 1961, amounted to about \$366 million in April 1965; its service would absorb in 1966 a maximum of 6.5% of current foreign exchange earnings of Metropolitan Portugal at the 1964 level.

ANNEX

July 1, 1965

The Honorable Dr. Ulisses Cruz de Aguiar Cortes
Minister of Finance
Ministerio das Financas
Lisbon,
Portugal

Dear Mr. Minister:

We have had a preliminary discussion of the findings of Messrs. Arnold and Rovani who recently returned from Portugal after appraising the Carrapatelo and Carregado II projects of Companhia Hidro Electrica do Douro and Companhia Termoelectrica Portuguesa, respectively. I should in the first place like to thank you for the cordial and efficient cooperation extended to our staff by officials of the Government and of the two companies.

I should also like you to know how pleased we are to learn of the progress being made by the Superior Electricity Council in its studies on the organization of the primary power system. We would appreciate your continuing to keep us informed of the progress of the studies, in accord with the Minutes agreed during negotiations last January.

At this stage, I should like to draw your attention to a problem encountered during the recent appraisal. The financial forecasts prepared by HED and ETP show that their revenues for the three years ending in 1966, as defined by the Decree-Law of November 1964, are falling short of the objectives stated in the agreements relating to Loans 362, 363 and 412-PO. This situation is, I know, largely the result of exceptionally unfavorable climatic circumstances, including a particularly dry 1964-65 season. The forecasts show that HED will have to reduce substantially the rate of dividends to be paid to shareholders in 1965 and 1966, precisely when large amounts of new share capital will have to be raised for financing the Carrapatelo project. I further understand that it is unlikely that during these years HED will be able to set aside reserves equivalent to 10% of its forecast expansion requirements, as provided by the Decree-Law, and ETP may also find it difficult to reach this minimum in 1966. Finally, tentative calculations indicate that the revenues provided to the Fund for Thermal Support, from which ETP's variable expenses are paid, may be insufficient in that year.

July 1, 1965

The Bank mission had the opportunity of discussing this matter with the Secretary of State for Industry and other officials, and was informed that the possibility of providing additional revenues to the primary system companies, beginning in January 1966, is already being investigated. In view of our concern for the efficient operation of the Portuguese power industry as a whole, our interest is not confined to HED and ETP. We would therefore welcome any solution which would also bring the future revenues of the other generating companies in the primary system to at least the minimum level already agreed with our two borrowers. I look forward to hearing from you in the near future concerning the measures which it is proposed to take to increase the revenues accruing to the companies in question to a level which would accord with the loan agreements of 1963 and 1965.

I am sending a copy of this letter to the Minister of Economy for his information.

Yours sincerely,

Douglas J. Fontein
Deputy Director
Europe and Middle East

Saudi Arabia

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September 15, 1965

BRIEFING PAPER - 1965

SAUDI ARABIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Ahmed Zaki Saad

Governor (Bank-Fund),
Executive Director (Fund),
Counsellor to the King

Abid M. S. Sheikh

Alternate Governor (Bank-Fund),
Minister of Commerce and Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

No lending contemplated.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

(i) At last year's Annual Meeting, the Governor of the Monetary Agency, Anwar Ali, had suggested that a Bank mission be sent to update the report of 1960 on economic development. The attempts to arrange a preliminary visit to Saudi Arabia have not succeeded because of Anwar Ali's objections to the timing. We agreed with him in June to organize such a visit in the fall and should ascertain with the delegation that it is still desired by the Government.

(ii) Though the Government declined earlier this year to release the Bank 9% (\$6.6 million) we should ask again for a release over three years. Attempts to obtain release of the 9% on the recent \$27.3 million increase in subscription and of the 90% IDA subscription should be deferred for the time being.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

See (a) above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

External borrowing made in the 1950's with pledge of oil revenues. No current need for financial assistance on a significant scale.

(e) Bank 9% Capital Subscription

The previous 9% subscription (\$6.6 million) has not been released (see IV(a)(ii) above). The 9% (\$2.0 million) corresponding to the recent increase in capital subscription from \$73.3 million to \$96 million has not been released either.

(f) IDA Subscription

Part II member. 90% subscription (\$3.33 million) has not been released.

(g) Holdings of Bank Bonds

\$8 million.

(h) I. F. C.

No investment made and no applications.

VI. POLITICAL SITUATION

The last year has witnessed a fundamental change in the Saudi monarchy with the ousting of King Saud and his replacement by his brother Faisal. Prince Khaled, another son of King Ibn Saud, has been named heir to the throne. King Faisal has asserted his hold on the royal family, where power is still vested to a great extent, as well as on progressive elements in the Kingdom. It is yet too soon to say whether Faisal's attempts to reform the backward administration and to promote economic development will bear fruit. On the external scene, he has succeeded in checking, through support to the Yemeni royalists, the advance of the UAR in the Arabic peninsula. The agreement reached with President Nasser for a settlement of the Yemen war is a diplomatic success for Faisal but its implementation is likely to be fraught with difficulties.

VII. ECONOMIC SITUATION

Population (estimate 1956): 6 million;

GNP per capita, 1960/61: \$200-250;

Gold and Foreign Exchange Reserves (Monetary Agency),
June 1965: \$697 million.

Oil production in 1964 reached an all-time high of about 700 million barrels and was expected to yield in royalties and income tax more than \$500 million. The country's financial position remains very good. The main problem faced by King Faisal's Government is to channel increased resources into the modernization of the administrative and economic infrastructure

and to accelerate development, especially in the large areas where nomadic life and subsistence economy continue to prevail.

The planning organization was reorganized in January 1965 and now reports directly to the King. One of its first tasks is to complete an economic report taking stock of the country's resources and potentials, with a view to preparing subsequently a five-year plan. Meanwhile development expenditures have been stepped up (\$170 million budgeted in 1965 versus \$120 million in the preceding year). Scarce water resources necessarily limit agricultural development while the entrepreneurial class has not adjusted itself yet to the intricacies of modern industries, the development of which is mostly left to the Government-controlled "Petromin" organization.

Saudi Arabia would be creditworthy for Bank loans as its previous heavy external debt has been completely repaid. It has, however, sufficient resources of its own and is presently neither in need of Bank loans nor eligible for IDA assistance.

South Africa

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September 15, 1965

BRIEFING PAPER - 1965

SOUTH AFRICA

I. MEETING WITH DELEGATION

Sunday, September 26, 1965 10:30 - 11:0 a.m.
Subject to confirmation by Mr. Knapp.

Attended by: Mr. Knapp
Mr. Cope
Mr. Thompson
Mr. Hartwich

II. MEMBERS OF DELEGATION

G. Rissik Governor, South African
Alternate Governor of Bank Reserve Bank

G. W. G. Browne Secretary of Finance
Alternate Governor of Fund

Advisers:

J. Kincaid First Secretary, Embassy of
South Africa

T. F. Wheeler Third Secretary, Embassy of
South Africa

III. BANK/IDA PROSPECTIVE OPERATIONS

The President has agreed in principle to lend up to \$30 million for electric power. No action of the U. N. precludes Bank lending.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

The Delegation should be informed of the Bank's position on "market eligibility" and the other terms of the proposed loan including its duration.

(c) Topics likely to be raised by the Delegation:

None.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

	(US \$ Millions)	
	Amount less Cancellations	Undisbursed Balance
Loans fully disbursed	221.8	-
of which has been repaid	<u>158.8</u>	
Total outstanding	63.0	
Amount sold	133.3	
of which has been repaid	<u>111.9</u>	<u>21.4</u>
Net amount held by Bank	<u>41.6</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

South Africa has not been able to issue bonds in foreign capital markets since 1959.

(e) Bank 9% Capital Subscription

Amount: \$18.00 million. Entire amount released, convertible into dollars and sterling.

(f) IDA Subscription

Part I member.	Original subscription	\$10.09 million
	Replenishment	<u>\$ 3.99 million</u>
	Total	\$14.08 million

(g) Holdings of Bank Bonds

\$3.00 million

(h) I. F. C.

IFC has no investments in South Africa and there are no applications.

VI. POLITICAL SITUATION

At the Provincial Council elections early in 1965, the ruling National Party scored impressive gains over the principal opposition - the United Party - and after three years of economic prosperity and continuing firmness in its racial policies there is little doubt that the National Party is gaining increasing support from the white electorate. Opposition political movements among non-whites continue to be banned, with their leaders jailed or in exile. The security forces have been strengthened, "terrorist" incidents have been few, and there seems little prospect of serious internal upset in the foreseeable future.

VII. ECONOMIC SITUATION

Population: 17 million;

GNP per capita: \$590;

Gold and Foreign Exchange Reserves (June 1965): \$499 million.

The economy registered a 7½ per cent growth in real product in 1964 for the third successive year. However, shortages developed

particularly of skilled labor and with a continuing fast expansion of bank credit the rise in demand spilled over into the demand for imports, which rose by 23 per cent. The current account of the balance of payments, after a succession of surpluses from 1959-63, recorded a substantial deficit in the second half of 1964, and gold and foreign exchange reserves fell. With a continued expansion of bank credit in the first half of 1965 imports rose again while exports, hit by the severe drought in 1964/65 barely increased. Exchange reserves continued to fall reaching \$470 million at the end of August (equal to about three months' imports) a loss of almost 40 per cent since January 1964. Increasingly restrictive measures in the monetary sphere have been taken to restore balance of payments equilibrium, though the Budget for 1965/66 in this context was neutral, and in recent weeks import controls have been tightened.

The prospects for continued growth of the economy are good. Investment continues in excess of 20 per cent of GDP. Domestic savings are likely to be high enough to finance all but marginal amounts of investment. Growth is unlikely to be affected by sanctions imposed by African and Asian states, but it would probably be should sanctions be imposed by the major powers. South Africa could easily afford to service the moderate amounts of foreign capital she may wish to borrow in the next few years. The ratio of service payments on South Africa's present external public debt to 1964 foreign exchange earnings is 5.3 per cent in 1965 and 2.7 per cent in 1970.

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BRIEFING PAPER - 1965

August 30, 1965

SPAIN

I. MEETING WITH DELEGATION

Monday, September 27, 1965, 3:00 - 3:30 p.m.

Attended by: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Aldewereld
Mr. Cope
Mr. Miller
Mr. Cheek

II. MEMBERS OF DELEGATION

Juan Jose Espinosa	Minister of Finance
Mariano Navarro Rubio	Governor, Banco de Espana
<hr/>	
Faustino Garcia Monco	Minister of Commerce
Manuel Varela	Ministry of Commerce
<u>Advisers</u>	
Manuel Aguilar	General Director of Treasury
Francisco Gimenez Torres	Vice Governor, Banco de Espana
Angel Madronero	Head, Research Department, Banco de Espana
Humberto Villar Sarraillet	Managing Director, Instituto Espanol de Moneda Extranjera
Gabriel Fernandez de Valderrama	Assistant Director of Treasury

III. BANK/IDA PROSPECTIVE OPERATIONS

The Bank has negotiated three loans with Spain in the past two years for a total of \$138 million; the loan for ports, amounting to \$40 million, will be signed shortly after the Annual Meeting. In addition, Bank loans now under consideration or that may be considered over the next four years, would amount up to \$300 million and would be tentatively distributed as follows:

(millions of dollars; calendar years)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Autopista - I Stage (being appraised)	55			
Railway "commitment"	65		70	
Possible future loans:				
Agriculture		50		50

In a meeting of July 12 the Loan Committee discussed lending policy to Spain and agreed that the Bank continue the envisaged lending program which, including possible loans for agriculture, will involve loans at an average of \$60 to 75 million per annum over the next four years.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

1. Autopista

The Spaniards should be asked whether a final decision has been taken on the financing of the project and on the toll question.

2. Disbursement Problems

Slow disbursement under the loan for highways was primarily due to difficulties in working out bidding and contracting procedures acceptable to the Bank. However, disbursements are now expected to proceed more quickly, since contracts for \$10 million have been awarded in the last six months and further progress is being made in bid advertising. As to disbursements under the RENFE loan, which became effective only in February, some \$25 million of contracts have been awarded since March and further bid advertisements are now being made.

3. Economic Mission

In addition to the agricultural mission the Bank intends to send a mission to review the economy and progress under the Development Plan (see Annex). It might be useful to discuss with the Delegation timing and scope of the mission.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

1. External Borrowing

Following recent discussions and correspondence, Spain should be asked about plans to tap private foreign capital markets to finance its development. Spain has so far made no significant efforts in this direction.

A major deterrent to borrow abroad are high interest rates in Europe and the U.S., where Spain is subject to the interest equalization tax, particularly compared to the low level of rates on domestic bond issues (long-term government bonds are issued at $4\frac{1}{2}\%$ and those of public autonomous institutions at $5\frac{1}{4}\%$).

The Bank has repeatedly told the Spaniards that they should become less dependent on the financial assistance from foreign public institutions and that assistance from the Bank should be complementary to and not in substitution for that provided by private sources. A letter recently sent to Sr. Ruiz-Morales on this subject is attached. Future Bank lending to Spain should depend not only on satisfactory economic performance but also on efforts to borrow in foreign private capital markets. Efforts to mobilize larger domestic savings, particularly through taxation, should parallel a regular recourse to foreign capital markets.

Since 1964, Spain has been contemplating an issue of bonds in Switzerland; it hopes to place an issue later in 1965 equivalent to \$12.5 million. Spain has also investigated the possibility of floating bonds in the German market. The Spaniards should be asked about progress on these two issues. Spain should also be advised that the Bank would be willing to enter into joint operations with private investors for the financing of high priority projects.

We should say that considering the present strength of Spain's economy, the level of its reserves and its low debt service burden, we regard Spain as "market eligible" for future Bank lending even though it may not have had substantial recourse to foreign capital markets.

2. I.D.A.

(See V (f))

Spain should be asked to release its 90% local currency subscription. A release over five years, as in the case of Israel, Jordan and Ireland, would be acceptable.

(c) Topics likely to be raised by Delegation

The delegation may inquire about the timing of the next loan to RENFE. Since the appraisal mission is expected to visit Spain in the early part of 1966, the loan may be made in the Fall or earlier.

As to lending for the "autopista" and agriculture, see III.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965

Year	Borrower	Purpose	(U.S. \$ million)	
			Amount less Cancellations	Undisbursed Balance
1963	Spain	Highways	33.0	31.9
1964	RENFE	Railways	<u>65.0</u>	<u>63.4</u>
	Total		98.0	95.3
	Amount sold		<u>2.8</u>	
	Net amount held by the Bank		<u><u>95.2</u></u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

At the request of the Government, the Bank has agreed to send a mission to Spain in cooperation with FAO to study and make a report on agricultural problems and policies.

The mission, which is expected to remain in the field for approximately two months, will be composed of nine or ten experts, of which four are provided by the Bank, including the mission chief, Mr. Luigi Laurenti, who formerly served as chief adviser of the Cauca Valley Corporation in Colombia.

(d) Access to Private Capital Markets

See IV (b).

(e) Bank 9% Capital Subscription

\$18 million. Fully released and available in five annual instalments of \$3.6 million through October 1, 1966, convertible into any currency.

(f) I.D.A.

Part II country, 90% subscription: \$9.08 million. On the release of the 90% local currency subscription see IV (b).

(g) Holdings of Bank bonds

\$18.08 million

(h) I.F.C.

\$3.2 million. FEMSA (automotive electrical equipment)

\$0.6 million. BANDESCO (development bank)

IFC has now under consideration investments in the Banco Industrial de Cataluna, a newly-formed development finance company, and in a metal working company.

VI. POLITICAL SITUATION

A major cabinet reshuffle took place in July 1965. The new Ministers are, however, of political background similar to those they replace. The Ministries affected were those of Finance, Agriculture, Public Works, Commerce and Justice and the Development Plan Commissioner, Sr. Lopez Rodo, was made Minister without portfolio. New Undersecretaries of Finance and Public Works were appointed and the General Directorate of External Finance was abolished and its functions were taken over by the General Directorate of the Treasury.

Increasing inflationary pressures, the difficulties experienced by agriculture and the innovations to be introduced in labor policy are presumably behind the cabinet changes. The creation of a new ministerial office in charge of the Development Plan witnesses the importance attached to the achievement of the plan. Through 1964 and early 1965 workers' demonstrations and pressures for higher wages continued and there were signs of some relaxation in the government measures aimed at containing them; a reform is now expected to be introduced in the penal code to permit strikes with economic motives.

Discussions with the European Economic Community started in December 1964, but the pace has been very slow and concrete results appear unlikely in the short run. Italy and the Netherlands in particular are not enthusiastic about the possibility of any form of association between Spain and the EEC. The recent appointment of Sr. Ullastres, the former Minister of Commerce, to the new post of Ambassador to the EEC witnesses the importance which Spain attaches to the establishment of closer links with the Community

VII. ECONOMIC SITUATION

Population: 31.3 million;

GNP per capita: \$550;

Foreign Reserves (June, 1965): \$1,452 million (including Fund Gold Tranche Position of \$141 million).

The Spanish economy continued to grow rapidly in 1964. GNP expanded by more than 7%, exceeding the growth target of the plan (6%), with manufacturing, construction and services leading the expansion. Agriculture, traditionally most neglected, continued to experience difficulties as a result also of bad weather; agricultural production fell in 1964 and no major improvement is expected in the current year.

Inflationary pressures registered in the course of 1964 have strengthened since the end of the year; during the first half of 1965 the cost of living was about 15% higher than in the first half of 1964. The rise in prices of certain agricultural commodities (particularly meat), the unusually high level of house-building activity and the sharp increase in the construction costs of houses have been among the principal elements of the current inflation. Wages have risen steeply, contributing to the spreading of price rises throughout the economy.

Towards the end of 1964 and in May 1965 the Government took measures to check this trend: they included import liberalization, some reductions in tariffs and in the house building program and an effort to speed up tax collection. Little improvements took place in most recent months (May-July) as far as prices are concerned and the Government may decide to take more decisive measures, such as curbing credit expansion, to contain the rise in demand. The results of import liberalization pursued since the end of 1964 are fully reflected in the worsening of the balance of payments for the past six months of this year: imports went up by 30% while exports slightly declined, mostly as a result of the poor olive crop and of the fall in the export prices of oranges. The trade deficit increased by about 60% in the first half of 1965 and foreign reserves dropped by about \$100 million. However, the strength of the external position, with reserves covering about six months' imports, would enable the Government to continue to rely heavily on imports to cope with domestic inflation and avoid drastic stabilizing measures which could endanger the growth of the economy. The external public debt of Spain is low: at the end of 1964 it amounted to \$400 million and its service absorbs only about 3% of current foreign exchange revenues.

July 19, 1965

Sr. D. Jose Miguel Ruiz-Morales
Director General de Financiacion Exterior
Ministerio de Hacienda
Alcala 11
Madrid 14
Spain

Dear Sr. Ruiz-Morales:

Last week we learned of the changes which have taken place in the Cabinet and I thought that this would be a good opportunity to refer briefly to certain matters which we would like to discuss with the Finance Minister when he visits Washington for the Annual Meeting and on which you may wish to brief him in advance. Some of these were touched upon in our discussions with you last May during the negotiations for the ports loan.

During the past fiscal year 1964/65 loans and credits entered into by the Bank and the Association exceeded \$1.5 billion. From the indications we have so far, lending during the current fiscal year will amount to at least as much, the bulk of it going to our less developed member countries. You will appreciate the problems this creates for us both in terms of demands on our staff and the need for us to raise new funds.

In the circumstances, it is all the more important that the more creditworthy of our members, including Spain, rely to the maximum extent possible on sources other than the Bank to meet their external capital requirements. We know that you yourself have made great efforts to establish close contacts with financial circles in Europe, particularly in Germany and Switzerland, and in the United States, and we hope, and indeed expect that the Spanish Government will now take active steps to secure some of the financing for its Development Plan in these markets. We ourselves will help in any way we can Spain's entry into the market, for example by participating in joint financing operations.

Naturally, borrowing abroad has to be supplemented by domestic savings. The requirements of the Development Plan are placing increasing demands on the budget and the domestic capital market and the level of tax revenues and the interest rate for long-term government issues in Spain are of obvious importance. These matters have

July 19, 1965

been discussed on occasions in the past with officials of your Government. I now propose that, in addition to the agricultural mission this autumn, Bank staff should visit Spain to review the economic position and the progress of the Development Plan and that as part of its work, the mission discuss the fiscal measures in the current budget, the effects of the tax reform, and the Government's policy with respect to domestic borrowing.

The third point concerns the autopista. There are two questions: whether it is to be a toll road and --more basically-- how the Government proposes to finance the first stage. We understood from you that the allocation for the autopista in the 1964-67 Development Plan fell short of the amount required and that the Government was considering raising funds by a domestic or foreign bond issue. We left it that you would pursue these matters further after returning to Madrid, and we should be interested to learn of the Government's intentions so that we can determine our own position.

We should be pleased to hear from you on these matters and in any event will expect to discuss them with the Spanish delegation immediately before or after the Annual Meeting.

I am very much looking forward to meeting the new Minister of Finance, Sr. Espinosa and you yourself of course are always welcome here.

Yours sincerely,

S. R. Cope
Director
Europe and Middle East

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BRIEFING PAPER - 1965

SWEDEN

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

G. E. Straeng
Governor of Bank

Minister of Finance

Gunnar 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

Kurt Eklof

Executive Director Fund

H. K. Wickman

Under-Secretary of State,
Ministry of Finance

Hans O. Lundstroem

Head of Department, Ministry
of Finance

Kaj Sundberg

Economic Counselor, Embassy
of Sweden

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice President:

None.

(c) Topics likely to be raised by the Delegation:

The Delegation may wish to discuss prospects for joint financing and various related issues. If so, meetings should be arranged with the Africa and South Asia Departments. Details on Swedish foreign aid are given in the Annex hereto.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Until recently the authorities had been reluctant to allow the raising of funds abroad on the grounds (a) that this could defeat the objectives of internal financial management, and (b) that it could lead to an unnecessary or undesirable increase in external indebtedness. Recently, however, there seems to have been greater willingness to permit foreign borrowing, presumably because of the tightening of the domestic capital market.

An issue of \$15 million by Kockums, guaranteed by the Kingdom of Sweden, is due in September, to be offered outside the U.S.

(e) Bank 9% Capital Subscription

Amount: \$18.00 million. Fully released, convertible into any currency.

(f) IDA Subscription

Part I member. Original subscription	\$10.09 million
Supplementary resources	<u>\$33.14 million</u>
Total	\$43.23 million

(g) Holdings of Bank Bonds

\$3.90 million

(h) I. F. C.

Not considered appropriate for IFC financing.

VI. POLITICAL SITUATION

General elections held in September 1964 showed a slight reduction in the popular vote for the party in power, the Social Democrats, from 47.8% to 47.3%, resulting in the loss of one seat and of the government's one vote majority in Parliament. Losses were also suffered by the conservative opposition. The gainers were the Communists who increased their strength in Parliament from 7 to 10 seats. The Social Democratic government under Tage Erlander continued in office and has been able to count on sufficient support from other parties to maintain itself in power. The Social Democratic Party has now been in power for over 30 years, and Mr. Erlander has been in office since 1946.

VII. ECONOMIC SITUATION

Population, 1963: 7.6 million;

GNP per capita, 1963: \$2,100;

Gold and Foreign Exchange Assets of Central Bank, June 1965: \$1,041 million;

Imports (c.i.f.), 1964: \$3,855 million.

A large expansion in exports and high domestic demand have kept the economy operating at very high levels of activity during the past year. GNP rose by 6% in 1964 and is expected to rise by another 5% in 1965. To check the pressure of demand on resources the authorities have been relying this

time almost exclusively on credit tightening while budget policy was being relaxed. The discount rate was raised from 4.5% to 5% in November 1964 and 5.5% in April 1965. A 400 million S. Kr. Government bond issue with a maturity of 11 years was made in March 1965 at 6%. The yield on industrial bonds in that month was 6.33%. By Swedish standards present yields are exceedingly high. The cost of living rose by 4% between the first quarter of 1964 and the first quarter of 1965 but the country's competitive position remains strong. Foreign exchange reserves rose from \$813 million in June 1964 to \$1,041 million in June 1965, but this increase was offset to some extent by a fall in the foreign exchange assets of the commercial banks.

ANNEX

Swedish Foreign AidBudgetary Appropriations
(Fiscal year July 1st - June 30)

	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
	<u>(Million \$)</u>		
Bilateral technical assistance (including contributions to joint Nordic programmes)	6.9	7.8	12.4
Multilateral technical assistance	10.3	13.8	15.3
Humanitarian assistance (i.e. emergency aid after natural disasters, aid through voluntary organizations, e.g. missionary associations and the Red Cross, bilateral and/or multilateral grants to refugee relief schemes)	1.0	1.4	1.4
Bilateral financial assistance	9.6	13.3	17.4
Multilateral financial assistance	<u>6.2</u>	<u>7.0</u>	<u>8.0</u>
	34.0	43.5	54.5

Breakdown of Multilateral Assistance

	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
	<u>(Million \$)</u>		
U.N. E.P.T.A.	2.0	2.0	2.5
U.N. Special Fund	5.2	8.2	9.0
UNICEF	0.75	0.75	1.0
I.D.A.	6.3	7.0	8.0
of which:			
regular subscription	2.0	2.0	5.0
supplementary contribution	4.3	5.0	3.0
Other	<u>2.25</u>	<u>2.35</u>	<u>2.8</u>
Total	16.50	20.80	23.30

Sweden is the second biggest contributor to the Special Fund (after the United States).

Major recipients of Swedish bilateral assistance are Ethiopia (an institute of building technology, various health projects), India (development credit, gifts in kind, school in paper technology), Pakistan (vocational training centres, family planning project, gift of printing paper), Tanzania (institute of agriculture, secondary school and health centre) and Tunisia (integrated project including fishing harbour, vocational training centre for fishermen, health project). The aid to Tanzania is provided through a joint Nordic technical assistance scheme.

Commercial assistance is given by means of export credit guarantees. The Government is authorized by Parliament to guarantee through a separate board export credits of a total volume of \$580 million. Out of that amount \$155 million has been reserved for guarantees on particularly favorable conditions in connection with exports of importance to the economic and social development of less-developed countries.

Source: OECD Paris, July 9, 1965 C (65) 75
Swedish Request for Membership of
the Development Assistance Committee

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SYRIAN ARAB REPUBLIC

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Abdul El-Fatih Beuchi	Governor (Bank), Minister of Finance
Abdul Hadi Nehlawi	Alternate Governor (Bank), Secretary General, Ministry of Finance
Ibrahim Bitar	Governor (Fund), Minister of Economy
Adnan Farra	Alternate Governor (Fund), Governor, Banque Centrale de Syrie

III. BANK/IDA PROSPECTIVE OPERATIONS

There are no immediate prospects for operations. We indicated at last year's annual meeting that we would be prepared to review the new five-year plan and to consider prospects for financing. The plan has not yet been finalized. Compensation for nationalized foreign assets has already been mentioned to the Government as a prerequisite to further lending but should not be much of a problem in view of the very small amounts at stake. As Syria is a "blend" country, the next operation would presumably be a Bank loan.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

- (i) We should reiterate our willingness to review the new five-year plan and, subject to our findings, to consider thereafter projects for financing first by the Bank and subsequently, provided funds are available, by IDA. The first step required is for the Ministry of Planning to send us a copy of the plan as soon as it is approved (tentatively in October).
- (ii) Regarding the recent mission on the Euphrates riparian problem related to the construction of the Keban Dam, we should express our appreciation for the facilities given to the mission as well as our disappointment that it had not been authorized to use the data on the Euphrates project in Syria, nor been given information on the Khabour project. We should point out that the syndicate financing Keban would thus not find in the consultants' report a complete picture of Syria's present and future water uses.
- (iii) Disbursements under the road project are practically nil nearly two years after the credit was signed. However, the delays initially incurred in making the credit effective and in selecting consultants prevent taking any corrective action at this stage.
- (iv) We should ask for release of the \$3 million of the Bank 9%.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

- (i) The Delegation might inquire whether the Bank/IDA would be prepared to finance the Euphrates project following the stalemate on the loan from Western Germany after the severing of diplomatic relations with that country. We should say that we would want to know more before giving a view. We know little about the economic, financial and technical feasibility of the project. We have not received any of the reports dealing with the project, though NEDECO's report was requested by Escott Reid at last year's meeting. The project as presently conceived seems to put a heavy financial burden on Syria and has a low economic return; however, it would probably become much more attractive economically if it were revised and its size scaled down (see VII below).
- (ii) The Delegation may ask that the consultants' report on the Euphrates riparian problem be communicated to the Government. We should say that we would transmit this request to the Keban syndicate.

V.

BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

None.

(b) IDA Credits as of July 31, 1965

Date	Purpose	(US \$ Millions)	
		Amount less cancellations	Undisbursed Balance
Dec. 24/63	Highway improvement	8.5	8.5

(c) Technical Assistance Activities

None since the assignment to Damascus in 1963 of Sir Leslie Melville and Mr. Steuber to assist in the organization of the planning machinery.

(d) Access to Private Capital Markets

Very limited owing to political instability and marginal creditworthiness.

(e) Bank 9% Capital Subscription

9% subscription (\$3 million) has not been released. See IV(a)(iv).

(f) IDA Subscription

Part II member. 90% subscription (\$0.855 million) has not been released.

(g) Holdings of Bank Bonds

Nil.

(h) I. F. C.

No investments made and no applications received. Prospects for future activity doubtful owing to Government control of industry and of the Industrial Bank.

VI.

POLITICAL SITUATION

During the past year, the Baathist regime under the strong hand of General Hafez has consolidated its position internally, in spite of widening differences with the middle-class which has been antagonized further by new nationalizations. Overt opposition in towns has been silenced after a series of small uprisings were crushed ruthlessly. The Baath party has strengthened its ideological basis with the publication of an unusually well-articulated program. Its factional discussions have tapered off. Its influence in the country remains nevertheless largely limited to rural areas and to religious minorities. The regime's strength continues to derive exclusively from the Army, which seems to have, for the time being, adopted the party's line and checked its inclination towards coups d' estat.

Among Arab countries, Syria remains the more intransigent advocate of an aggressive policy vis-a-vis Israel. Syria has scored a few points in the continued controversy with Nasser following his postponement of the Arab plan for the diversion of the Jordan tributaries. The country's own attempts to carry out the works on the Baniyas River and the diversion canal are, however, limited by the closeness of the Israeli border and by Israel's reactions. Relations with Iraq remain very bad.

The past year also witnessed considerable strain in Syria's relations with the USA and a rapprochement with the USSR, but these moves are nothing more than the traditional play of a country which, since time immemorial, has been between the hammer and the anvil.

VII. ECONOMIC SITUATION

Population, 1964: 5.4 million;

GNP per capita, 1963: about \$150;

Gold and Foreign Exchange Reserves of Central Bank (net), May 1965: \$12 million;

Foreign Assets of Commercial Banks, May 1965: \$10 million.

1964 has been the third year in a row of bumper cotton and grain crops following the lean years which coincided with the union with Egypt. The stability of exports around the \$170 million mark resulted in a relatively small payments deficit on current account. Capital outflow abated in 1964 but seems to have revived after the nationalizations of January 1965. Most of this outflow consists, however, of the smuggling to Lebanon of Syrian currency which later is repatriated through traders and tourists. The Syrian pound has been rather stable. The fundamental health of the economy and conservative monetary and credit policies contributed to this.

The Government has taken a realistic approach towards land reform, which has had no adverse affect on production (in wide contrast to Iraq). While the Syrian "fella" has adjusted well to the new socialist structure and to the cessation of feudal paternalism, it remains to be seen whether industry and international trade will overcome the disruption brought about by the ousting of the entrepreneurial class from most nationalized companies.

Resources for development continue to be invested in or earmarked for projects with questionable economic merits, such as the Latakia-Djezireh railway financed by the USSR and the Tartous Harbor. The centerpiece of the new five-year plan remains the Euphrates project which will tax heavily Syria's internal and external resources and appears to have only a small return.

External debt rose rapidly during the past year, with new foreign commitments to finance the Damascus Airport, the oil pipeline from the Djezireh and the interconnected power grid. Additional debt is likely to be incurred for military purposes in coming years as most of the Army's equipment becomes obsolete.

In view of marginal creditworthiness, relative poverty, reasonably good performance in the crucial agricultural sector and need for additional development aid from abroad, Syria might be a candidate for a mixture of Bank and IDA assistance, but this would require closer examination of the economy and its performance.

Turkey

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September 15, 1965

BRIEFING PAPER - 1965

TURKEY

I. MEETING WITH DELEGATION

Friday, September 24, 1965 3:00 - 3:30 p.m.

Attended by: Mr. Woods Mr. Cope
Mr. Knapp Mr. Miller
Mr. Friedman Mr. Collier
Mr. Demuth

Mr. von Mangoldt

II. MEMBERS OF DELEGATION

Ihsan GURSAN Minister of Finance
Governor of Bank and Fund

Zeyyat BAYKARA Undersecretary, Ministry of
Alternate Governor of Bank Finance

Kemal CANTURK Director General of the Treasury
Alternate Governor of Fund and General Secretary of the
OIEC

Advisers:

Zeki TOKER Deputy Chairman, Board of
Counsellors for Economic
Affairs, Turkish Embassy

Ertugrul Ihsan OZOL Assistant General Director of
the Treasury

Naim TALU Assistant General Director,
Central Bank of Turkey

Asaf GUVEN Financial Attache, Turkish Embassy

III. BANK/IDA PROSPECTIVE OPERATIONS

Until recently lending prospects in Turkey were dominated by the Keban power project for which \$25 million of IDA funds had been earmarked. However, with the decision to provide IDA funds only for transmission lines the timing of any IDA credit for Keban is postponed probably until 1967. We have therefore indicated to the Turkish authorities that we would be prepared to consider other projects in the meantime.

One such other project which we may be asked to consider is the expansion program of the Middle East Technical University but we do not yet know whether, and if so when, a satisfactory project can be worked out.

There is also the possibility of a further credit for the Seyhan irrigation scheme. An IDA credit for a project consisting of a part of this scheme was made in May 1963 but progress has been unsatisfactory. When this credit was first made we informed the Turks that, subject to satisfactory progress on this project we would be prepared to consider financial assistance for a subsequent stage of the project. However, it does not appear that sufficient progress will be made to enable us to consider a credit before the end of 1966.

A credit of \$10 million was made to the Industrial Development Bank in April this year and will provide IDB with enough foreign exchange to meet its needs until around the middle of 1966 when a further credit might be justified.

If a decision is taken to supplement IDA lending with a modest amount of Bank lending it will be possible for the Bank to consider some projects in addition to those mentioned above. (See IV (c) and VII below). It may not be easy to find satisfactory projects sufficient to permit a rapid increase in lending.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None

(b) Topics to be raised by Bank at meeting with President or Vice-President:

We should express our appreciation to the Turkish authorities for their co-operation with the Demuth mission. If the Economic Committee has completed its review this might be an opportunity to inform the Turks of the Bank's position on lending and ask for the release of their 9% subscription to the Bank.

(c) Topics likely to be raised by the Delegation:

The Turks may be expected to inquire about the prospects of Bank lending in view of the results of the economic mission. (See III above and VII below.) They may also raise the question of Keban. Our position on Keban was given in Mr. Cope's letter to the Minister of Finance which stated that "the World Bank group will be prepared to participate in financing the transmission network to the extent of \$25 million, subject to satisfactory progress on the dam, powerhouse and related works, appraisal of the transmission line portion of the project, and subject, of course, to the negotiation of satisfactory agreements and their approval by our Executive Directors."

The Turks may also bring up the question of Keban and the Euphrates. The Turkish position on this has been that, apart from the question of the filling of the reservoir, Keban itself would benefit the downstream riparians, Syria and Iraq only, and therefore there was no necessity for the lenders to concern themselves with the general long-run problem of the sharing of the Euphrates water. However, the lower riparians are very much concerned with the long-run problem and it cannot be assumed that the lenders will wish to ignore it completely when financing Keban. Hence the consultants engaged by the Bank, who visited the area in July and August, were asked to collect information bearing on the long-term problem and to suggest what might be done as a first step towards its solution. When the Turks learned of this they expressed concern. If they bring the matter up we should explain that, as regards the long-term question, the consultants have been asked only to identify the problems and make suggestions as to how they might be tackled. Any decisions about conditions to be attached to the financial assistance for Keban would, of course, be the responsibility of the lenders.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

			(US \$ Millions)	
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1950	Republic of Turkey	Grain Silos	3.9	-
1950	Republic of Turkey	Ports	12.5	-
1950	Industrial Develop- ment Bank of Turkey	Industry	8.7	-
1952	Republic of Turkey	Irrigation	22.8	-
1953	Industrial Develop- ment Bank of Turkey	Industry	9.0	-
1954	Republic of Turkey	Ports	<u>3.8</u>	<u>-</u>
	Total		60.7	-
	of which has been repaid		<u>27.6</u>	
	Total outstanding		33.1	
	Amount sold	0.3		
	of which has been repaid	0.1	<u>0.2</u>	
	Net amount held by Bank		<u>32.9</u>	

(b) IDA Credits as of July 31, 1965

			(US \$ Millions)	
Date			Amount less Cancellations	Undisbursed Balance
Nov. 23/62	Development of private industry		5.0	0.2
Feb. 1/63	Çukurova Power Project		1.7	0.2
May 31/63	Seyhan Irrigation Project		20.0	16.9
July 14/64	Second Çukurova Power Project		24.0	22.6
Aug. 31/64	Development of Private Industry		5.0	3.1
April 1/65	Development of Private Industry		<u>10.0</u>	<u>10.0</u>
	Total		<u>65.7</u>	<u>53.0</u>

(c) Technical Assistance Activities

The Executive Directors recently approved a technical assistance project under which the Bank would pay the foreign exchange costs, estimated to be \$1.95 million over a three-year period, of providing advice and assistance for the reorganization of the power industry in Turkey. We have sent proposed terms of reference for this program to the Turkish authorities and are now awaiting their reaction.

(d) Access to Private Capital Markets

No access at present.

(e) Bank 9% Capital Subscription

Amount: \$10.35 million. Original 9% (\$7.7 million) released for purchases in Turkey. Nothing has been used. See also IV (b) above.

(f) IDA Subscription

Part II member. Subscription (90%): \$5.22 million. No release.

(g) Holdings of Bank Bonds

None

(h) I.F.C.

In 1963 IFC invested the equivalent of \$917,000 in the share capital of the Industrial Development Bank of Turkey. A re-appraisal mission is scheduled for October.

IFC is also considering an investment of \$1.3 million for the expansion of a synthetic yarn factory (Sentetik Iplik Fabrikalari S.A.).

VI. POLITICAL SITUATION

The Government of Prime Minister Inönü, after maintaining itself in power by a series of coalitions since 1961, was finally brought down in February of this year. A provisional "care-taker" government headed by Suad Hayri Urgüplü, a political neutral, was formed to bridge the gap until new elections are held in October. The Justice Party, which is the successor to the old Democratic Party of Adnan Menderes, holds 10 out of 22 Cabinet posts and Suleyman Demirel, its leader, is Deputy Prime Minister. Demirel, a U. S. educated engineer, is familiar with the Bank since he was involved with the Bank's 1952 loan for the Seyhan project.

It seems likely that the Justice Party will emerge as the strongest party after the election even if it may lack an absolute majority in Parliament.

VII. ECONOMIC SITUATION

Population:	31.1 million
G.N.P. per capita:	\$240
Gold and Foreign Exchange Reserves (June 1965):	\$146 million
Imports (c.i.f.), 1964:	\$542 million

The mission headed by Mr. Demuth has just completed its report. The mission found that Turkey had made considerable progress since the last Bank economic mission. It believes that Turkey will be able to achieve an adequate rate of economic growth given appropriate government policies to encourage savings and to ensure that they are productively invested. In particular, the mission feels that the outlook for the Turkish balance of payments is more hopeful than it has been for some years. This is due primarily to the rise in remittances received from Turkish workers in western Europe, and, to a lesser extent, to tourist earnings and the discovery of substantial reserves of petroleum.

The report estimates that by 1972, Turkish foreign exchange earnings may increase by about 65% or, if circumstances are favorable, by as much as 80%. However, Turkey cannot be expected to repay, on a net basis, any of its present substantial external debt and will, on the contrary, have to increase its debt in order to achieve satisfactory growth. Since the present debt service is high -- about 19% of foreign exchange earnings even after a debt rescheduling earlier this year -- the importance remains of providing new aid on easy terms. The Demuth mission feels, however, that if existing weaknesses in economic policies are corrected the prospects of economic growth are sufficiently good to make it possible to reduce aid on concessionary terms in the foreseeable future. Hence, it believes that Bank lending on a modest scale could now be contemplated and that, as the Turkish economic position improves, the proportion of Bank lending could be increased with a corresponding reduction in IDA lending.

The absolute amounts of money which Turkey needs each year to roll over its present debt and to provide additional resources for its own growth are large and obtaining them is not easy. The Demuth mission's conclusion about Turkish creditworthiness necessarily assumes that they can, in fact, be obtained. This assumption is, however, reasonable, since the existence of the Turkish Consortium testifies to the importance which the major lending countries attach to strengthening the Turkish economy.

United Arab Republic

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September 15, 1965

BRIEFING PAPER - 1965

UNITED ARAB REPUBLIC

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

A. Nazmy Abdel-Hamid

Alternate Governor (Fund),
Sub-Governor, Central Bank
of Egypt

III. BANK/IDA PROSPECTIVE OPERATIONS

Relations with the UAR continue to be at a standstill. The strain created by Mr. Woods' statement to the press in Tokyo last year regarding the Bank's policy vis-a-vis countries where claims for nationalized foreign assets exist has subsided. The Government had sounded out the Bank with a view to resuming active relations. (See IV(c) below).

There are, however, no immediate prospects for Bank/IDA operations pending the settlement of the remaining foreign claims for nationalized and sequestered properties. Before lending is contemplated we would also need to review the economy, on which only indirect information has been available in the Bank since the 1962 economic mission. Close coordination with the IMF would be required before the Bank changes its present attitude in view of the exceptional facilities given to the UAR by the Fund and of the problems faced in the implementation of the stabilization program agreed upon.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by President or Vice President:

None.

(c) Topics likely to be raised by the Delegation:

Substantial progress has been achieved over the past year on compensation for foreign claims. Agreements have been signed with Lebanon and Italy. Discussions are reported with Belgium, France, Greece, Jordan, the U.K. and the Royal Dutch - Shell Group. The Delegation may, therefore, ask the Bank to resume working relations with the UAR. The Government has already approached the Bank informally in January to inquire whether we would resume lending activities and assist in organizing a consortium to consider the country's foreign capital requirements and the re-scheduling of its external debt. In February Dr. Kaissouni invited Mr. Cope to Cairo to advise on the final formulation of the Plan. We replied that Mr. Cope would visit Cairo at the first available opportunity.

In view of the magnitude of the foreign claims still outstanding and of the nature of the agreements already signed (much less favorable than the compensation paid by Iraq which, however, has to pay considerably less and has relatively much larger resources) it would not be possible for the Bank to resume

lending until settlement has been reached with the remaining claimants. Moreover, the UAR is not interested in economic advice unless it is accompanied by financial aid. Even so it is prone to take the aid and leave the advice. There would, therefore, be little point at this stage in embarking on any review of the economy and the Plan.

A rescheduling of the UAR's external debt, which has reached uncontrollable proportions, would be fraught with difficulties as about half of the debt is with Eastern Countries. Dealings with the IMF have also shown over the past years that the UAR is not prepared to curb further borrowings but merely wants to roll over the past loans.

V.

BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1959	Suez Canal Authority	Canal Improvement	56.6	--
		of which has been repaid	<u>11.0</u>	
		Total outstanding	45.5	
		Amount sold	5.8	
		of which has been repaid	5.5	<u>0.3</u>
		Net amount held by Bank	<u>45.2</u>	

(b) IDA Credits as of July 31, 1965

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None in view of lack of creditworthiness.

(e) Bank 9% Capital Subscription

9% subscription (\$12.79 million) has not been released.

(f) IDA Subscription

Part II member. 90% subscription (\$4.572 million) has not been released.

(g) Holdings of Bank Bonds

None.

(h) I. F. C.

No investments made and no applications. Prospects doubtful in view of Government control of industry and industrial credit.

VI. POLITICAL SITUATION

The constitutional facade adopted during the past year and President Nasser's election by an apparently unanimous popular vote hardly hide the continued rule of the closely-knit group which has controlled Egypt since the 1952 revolution. The submissive nature of the Egyptian people, discipline in the Army and efficiency of the police have insured internal stability. It would be unfair, however, to underestimate the sentiment of pride and the dynamism in world politics and in the economy which Nasser has inculcated despite many internal and external failures. A severe shortage of basic staples in the fall of 1964 has been surmounted with the usual makeshift solutions. Internal discontent never seems to be allowed to reach the breaking point, any more than external adventures (in Yemen or the Congo) are permitted to jeopardize the regime.

Nasser's leadership in the Arab world enabled him once more, on the issue of the diversion of the Jordan tributaries, to adopt a realistic attitude and to weigh the present balance of forces with Israel in remarkably outspoken terms. For the time being, among the Arab countries only Syria continues to advocate the extremist line previously adopted by the Arab Summit conferences, and opposes Nasser for his retreat. Moderate Arab leaders, who usually dare not speak their mind (with the exception of President Bourguiba) welcome this respite. The same realism has finally prevailed on Yemen, where the deadlock reached in the war with the royalists over the last three years has heavily taxed the UAR's military and financial resources. The agreement reached lately with King Faisal on a political settlement and a gradual withdrawal of Egyptian forces may still be abortive as have previous attempts.

Nasser's ideology and long-term policies continue to aim at Arab unity and at the liquidation of Israel. That his present means do not enable him to progress on either objective does not vouch for the future. For the time being, Iraq alone follows him and has agreed to a constitutional union in 1966. But the interests stemming from the independence of each of the Arab countries and their own problems (such as the Kurdish one) are still stronger than the appeal of unity.

During the past year, diplomatic ties with Western Germany were severed over Israel and relations with the US deteriorated considerably. A three-year PL480 program, which had contributed substantially to ease the UAR's financial difficulties, came to an end and no renewal is in sight. Nasser's tactical moves in Yemen and on the Jordan River could again make him seem in the US as the lesser of two evils. He seems, however, to be relying for further help on the USSR with which present relations continue to be very close.

VII. ECONOMIC SITUATION

Population, 1964: 29 million;

GNP per capita, 1963/64: \$150;

Gold and Foreign Exchange Reserves of Central Bank,
May 1965: \$197 million;

Foreign Exchange Reserves of Commercial Banks,
May 1965: \$198 million;

Net Position of Payments Agreements, May 1965:
Minus \$253 million;

IMF Drawings Outstanding, May 1965: \$146 million.

The economy continues to be strained by Government policies aiming at a high level of both investment and consumption and by the effects of the protracted war in Yemen, which may now come to an end. During the past year, non-military expenditures had to be scaled down but apparently the emphasis was not shifted in the direction of either investment or consumption. Following severe shortages in the fall of 1964, rationing was introduced for a number of basic staples despite emergency imports. Price increases were decreed but still fall short of what would be required in the context of the long overdue revision of subsidized prices for basic commodities and manufactures. Forced savings were also instituted on a small scale. It is not yet apparent whether these measures have slowed down the rapid increase in consumption relative to GNP and reversed the

declining - or at best stationary - trend in the rate of savings. On the investment side, outlays for Government-controlled enterprises were curtailed much below the allocations of the development budget. A revision of credit ceilings for banks is following slowly but inflationary pressures have not yet been curbed.

The balance of payments remains under severe strain. Data for 1963/64 show a deficit of \$323 million on goods and services account (about \$60 million higher than the 1962/63 deficit). Government expenditures abroad remain at the high level of \$60 million per year. The large resources from abroad derived from US PL480 shipments are likely to disappear in the current year with the cessation of these shipments.

At the end of 1964, outstanding external debt amounted to \$1431 million, including some amounts committed and undisbursed but exclusive of the heavy military debt. This represents an increase of about half a billion dollars since the Bank economic mission of 1962. Debt service on non-military loans with a maturity of over four years is estimated at \$115-120 million per year, i.e. about one quarter of aggregate export and invisible earnings. In addition, short-term liabilities (balances on bilateral accounts and \$140 million repurchase obligations with IMF) amounted to about \$430 million in December 1964. Due to an acute shortage of foreign exchange part of the gold reserves ^{value} sold at the end of 1964. Even so, the UAR has fallen behind in meeting its commercial payments.

The Government's efforts in the economic field, supported by a depth of planning and managerial talents unknown in other Arab countries, have had some success. GNP has continued to grow by about 5%. Production of cotton and rice has progressed and export earnings continue to be favored by high prices. Performance in industry, though uneven and plagued by teething troubles and shortages, is not far from justifying the accelerated industrialization which remains one of the top priorities. On the whole, Egypt is showing exceptional dynamism in the economic field despite all the errors and wastes which may well be unavoidable with a program aiming at achieving so much so quickly. Its main shortcoming remains an excessive - but possibly intended - reliance on external financing.

The UAR would not be creditworthy for Bank loans in view of the extremely heavy external debt. The country would qualify for IDA credits on grounds of poverty and performance if it settled the remaining claims for nationalized and sequestered foreign assets, reduced its foreign debt problems to more manageable proportions and would meet the conditions under which it was allowed to draw on the IMF.

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September 15, 1965

BRIEFING PAPER - 1965

UNITED KINGDOM

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

The Rt. Hon. The Earl of Cromer Governor of Bank	Governor of Bank of England
Sir Denis Rickett, K.C.M.G., C.B. Alternate Governor of Bank	Second Secretary to the Treasury

The Rt. Hon. James Callaghan, M.P. Governor of Fund	Chancellor of the Exchequer
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M. H. Parsons Alternate Governor of Fund	Executive Director Bank of England.
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Advisers:

J. M. Stevens, D.S.O., O.B.E. T.D.	Executive Director of Bank and Fund
N. M. P. Reilly, C.M.G.	Alternative Executive Director of Bank
D. W. G. Wass	Alternative Executive Director of Fund
I. P. Bancroft	Private Secretary to the Chancellor
Niall MacDermot, O.B.E., Q.C., M.P.	Financial Secretary to the Treasury
Sir William Armstrong, K.C.B., M.V.O.	Joint Permanent Secretary to the Treasury
A. K. Cairncross, C.M.G.	Head of Government Economic Service.
D. F. Hubback	H. M. Treasury
C. Raphael, C.B.E.	Head of Information Division H. M. Treasury

H. L. Jenkyns	H. M. Treasury
Mrs. M. E. Hedley-Miller	H. M. Treasury
A. W. Wyatt	H. M. Treasury
R. D. Galpin	Private Secretary to the Governor, Bank of England
L. P. Thompson-McCausland	Adviser to the Governor, Bank of England
J. S. Fforde	Adviser to the Governor Bank of England
J. A. Kirbyshire	Bank of England
M. W. Errock	Ministry of Overseas Development
The Rt. Hon. H. V. Kirk, M.P.	Minister of Finance, Northern Ireland
C. J. Bateman, M.B.E.	Permanent Secretary, Ministry of Finance, Northern Ireland.

III. BANK/IDA PROSPECTIVE OPERATIONS

An IDA credit (\$4.1 million) for Basutoland is expected to be signed shortly. No other credits or loans to British dependencies are now being prepared. A recent FAO/Bank project identification mission to Fiji is likely to recommend Bank/IDA assistance for agricultural and livestock projects.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
	Loans fully disbursed		213.5	-
1961	Kenya	Land settlement	8.4	7.6
1961	Trinidad	Electric power	23.5	7.7
1963	Singapore	Electric power	15.0	5.0
1963	Swaziland	Electric power	4.2	0.3
1963	Malta	Electric power	7.5	5.1
1963	Mauritius	Electric power	7.0	1.2
1964	Central African Power Corporation	Electric power	<u>7.7</u>	<u>7.0</u>
	Total		286.8	33.9
	of which has been repaid		<u>45.7</u>	
	Total outstanding		241.1	
	Amount sold	161.4		
	of which has been repaid	44.8	<u>116.6</u> ¹	
	Net amount held by Bank		<u>124.5</u>	

¹of which \$10.4 million held by the U.K.

(b) IDA Credits as of July 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less cancellations	Undisbursed Balance
1962	Swaziland	Roads	2.8	-
1964	Bechuanaland	Roads	<u>3.6</u>	<u>3.3</u>
			<u>6.4</u>	<u>3.3</u>

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not applicable.

(e) Bank 9% Capital Subscription

Amount: \$234.00 million. Entire amount released and fully convertible.

(f) IDA Subscription

Part I member.	Original subscription	\$131.14 million
	Replenishment	<u>\$ 96.60 million</u>
	Total	<u>\$227.74 million</u>

(g) Holdings of Bank Bonds

\$55.83 million

(h) I. F. C.

There are no IFC investments in British dependencies.

VI. POLITICAL SITUATION

At the general elections held in October 1964, the Labour Party secured a very small majority in Parliament. Mr. Wilson appointed Mr. Callaghan as Chancellor of the Exchequer. Other members of the Government include Mr. Brown (Economic Affairs), Mr. Stewart (Foreign Affairs), Mr. Bottomley (Commonwealth Relations) and Mr. Greenwood (Colonies). With the election of Mr. Heath to succeed Sir A. Douglas-Home as leader of the Conservative

Party, the fight to defeat the Labour Government in Parliament is expected to be pressed with greater vigour. Despite his small majority, Mr. Wilson has said that he does not plan an election in 1965.

VII. ECONOMIC SITUATION

Population: 54 million;

GNP per capita: \$1,650;

Gold and Foreign Exchange Reserves (June 1965): \$2.8 billion

IMF Drawings outstanding (Liabilities), June 1965: \$2.4 billion.

Since it took office in October 1964, the pressing economic problem facing the Labour Government has been to restore confidence in sterling. The deficit on the balance of payments of £745 million in 1964, consisting of an adverse balance on current account of £374 million and on long-term capital account of £371 million, compared with an overall adverse balance of only £78 million in 1963. The Government imposed a 15% import surcharge and a small export rebate in November, raised the petrol tax, raised Bank rate to 7%, and asked the commercial banks to restrict credit. In the April Budget income and social security taxes were raised and corporation and capital gains taxes were introduced. Taxes on drink and tobacco and motor vehicles were also increased. The 15% import surcharge was reduced to 10% in April, and Bank rate was reduced to 6% in June. Although the balance of trade improved considerably in the first seven months of 1965 as compared with January - July 1964, heavy gold losses in July induced the Government to take further steps to restore confidence in sterling. Civilian and defence expenditures of the Government are to be cut, exchange controls tightened, private building and hire-purchase restricted and export credit expanded. A weakness remaining is that in conditions of over-full employment wages are continuing to rise faster than productivity.

The Government has stated that it aims at balance of payments equilibrium by the second half of 1966. Servicing of the debt to the I.M.F. will require £200 million annually from 1967-70. In addition a surplus to enable the foreign exchange reserves to be built up is clearly essential. The total drain on reserves may have been almost £1 billion since September 1964, and the reserves are now little greater than the amounts drawn from the I.M.F. The prospects for any increase in net capital exports from the United Kingdom are not promising and, indeed, recent measures are intended to reduce the net outflow of private long-term capital to non-sterling countries by £100 million a year (by increasing taxation on investments abroad and by tightening exchange controls). This may not preclude some increase in official loans and grants abroad which amounted to £175 million in 1964 (an increase of £27 million over 1963), but any increase is likely to be small.

British
Dependencies

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September 15, 1965

BRITISH DEPENDENCIES

BRIEFING PAPERS

BASUTOLAND

BECHUANALAND

SWAZILAND

BARBADOS, LEEWARD AND WINDWARD ISLANDS

BRITISH GUIANA

FIJI

MALTA

MAURITIUS

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CONFIDENTIAL

August 30, 1965

BRIEFING PAPER - 1965

BASUTOLAND

I. BANK/IDA PROSPECTIVE OPERATIONS

A \$4.1 million IDA credit for highways is expected to be signed before the Annual Meeting. No new IDA credits or Bank loans are in prospect.

II. POLITICAL SITUATION

Elections were held in April 1965 and the more conservative National Party won a majority in the legislature. Basutoland now has limited internal self-government. Responsibility for defense, external affairs, finance and the civil service still rests with the British Commissioner, but these responsibilities will pass to the Basuto Government when the country achieves independence in 1966. The National Party favours a policy of co-operation with the Republic of South Africa.

III. ECONOMIC SITUATION

Population: 945,000;

Estimated GNP per capita: \$60;

Foreign Exchange Reserves: n.a. (part of South African monetary area).

Various indicators point to a slowing down in the economy in 1964/65. With drought, output of food crops fell, and starvation in parts of the country has been avoided so far only through the gift by South Africa of 100,000 bags of grain. With the uncertainty preceding the election of the new Basuto government, public development spending slowed and is likely to have been about 30 per cent lower than in 1962 and 1963. The decline in wool prices in the 1964/65 season brought a lower return on Basutoland's principal export.

The task of promoting the growth of Basutoland's economy is unusually difficult. Ignorance, conservatism, tribal land tenure patterns and badly eroded soils present formidable barriers to increasing agricultural output, or even to stopping the past decline. There are no known mineral deposits of economic size. The population is too poor and the local market too small to warrant the growth of manufacturing on any scale. Apart from exports of wool and mohair, foreign earnings are largely derived from migrants of whom about 200,000 are at work in South Africa.

Basutoland is at present dependent on U. K. grants and loans for more than 40 per cent of its public expenditures. There is no prospect that this dependence can be quickly reduced. Basutoland would not be creditworthy for Bank loans.

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CONFIDENTIAL

August 30, 1965

BRIEFING PAPER - 1965

BECHUANALAND

I. BANK/IDA PROSPECTIVE OPERATIONS

A \$3.6 million IDA credit for highways was signed in August 1964. No new IDA credits or Bank loans are in prospect.

II. IDA CREDITS AS OF JULY 31, 1965.

Year	Borrower	Purpose	(U.S. \$ millions)	
			Amount	Undisbursed Balance
1964	Bechuanaland	Roads	3.6	3.3

III. POLITICAL SITUATION

Under the new constitution of 1964 Bechuanaland achieved a substantial measure of internal self-government with only defense, external affairs, the police and the civil service being matters reserved for the British Commissioner. Elections were held in March 1965 and the conservative Democratic Party, headed by Seretse Khama, a tribal chief, won a majority in the legislature. With its close economic relations with South Africa, Bechuanaland is virtually forced to adopt a policy of co-operation with the Republic and the new government is fully aware of this. Bechuanaland is expected to achieve independence at an early date, possibly in 1966.

IV. ECONOMIC SITUATION

Population: 450,000 - 500,000;

Estimated GNP per capita: \$60;

Foreign Exchange Reserves: n.a. (part of South African monetary area).

Bechuanaland is a large but sparsely populated and semi-desert area. The living standard of its population is among the lowest in Africa. The main economic activities are subsistence agriculture and cattle raising for export; chiefly to South Africa. There is some mining of asbestos and manganese ore; mineral resources are being surveyed and there are prospects of copper and salt

mining. Only about 13,000 people have some form of paid employment, mainly in the government service. There is considerable movement of people to South Africa for temporary employment.

A fairly ambitious Development Plan for the period 1963-68, envisaging expenditures of almost \$30 million, gives priority to roads, education and livestock development, though in the early years heavy expenditures on the new capital at Gaborones are scheduled. Two-thirds of the financing of the Plan is estimated to be provided from U. K. grants and Exchequer Loans and Bechuanaland will continue to depend on grants from the U. K. to cover a large part (47 per cent in 1963/64) of the Government's current expenditures. There is no prospect that this dependence can be quickly reduced. Bechuanaland would not be creditworthy for Bank loans.

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September 15, 1965

BRIEFING PAPER - 1965

SWAZILAND

I. BANK/IDA PROSPECTIVE OPERATIONS

No new Bank loans or IDA credits are at present in prospect.

II. BANK LOANS AS OF JULY 31, 1965

(US \$ Millions)				
<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>	<u>Undisbursed Balance</u>
1963	Swaziland	Electric power	4.2	0.3
		Amount sold	<u>1.9</u>	
		Net amount held by Bank	<u>2.3</u>	

III. IDA CREDITS AS OF JULY 31, 1965

(US \$ Millions)				
<u>Year</u>	<u>Purpose</u>	<u>Amount</u>	<u>Undisbursed Balance</u>	
1962	Roads	2.8	-	

IV. I.F.C.

Mr. Todd, Minister of Natural Resources, visited IFC in April 1965 to discuss possible assistance to a proposed development finance corporation, and Mr. Masson, Senior Assistant Secretary of Finance, Department of Finance and Development, visited IFC in June 1965 to discuss the same subject. We have not yet received the specific proposal which they promised to send us.

V. POLITICAL SITUATION

Under the 1963 Constitution, elections were held in June and July of 1964 which resulted in an overwhelming victory for the conservative tribal elements among the Swazi people. Executive power still rests with the British Commissioner. As Swaziland has not yet reached the stage of internal self-government, no date for independence has so far been suggested.

VI. ECONOMIC SITUATION

Population: about 300,000;

Estimated GNP per capita: less than \$100;

Foreign Exchange Reserves: n.a. (part of South African monetary area).

Though the majority of the Swazi people are still at the stage of subsistence agriculture, large foreign investments in the Territory are bringing a rapid growth of output and exports. From January 1965, Swaziland became a member of the Commonwealth Sugar Agreement, and sugar sales are expected to expand. From the last quarter of 1964, shipments of iron ore to Japan began under a 10-year contract. Production of citrus fruit for export is rising rapidly, as is the output of pulp and other forest products. It is expected that with the growth of output and tax revenues, Swaziland will be able to balance its current budget without grant aid from the U. K. by 1968/69. External aid to assist in financing capital works will continue to be necessary. The debt service ratio is not high and further Bank lending on the strength of the U. K. guarantee would be feasible. On a per capita basis, Swaziland has already received substantial assistance (\$10 equivalent) from IDA.

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BRITISH GUIANA

I. BANK/IDA PROSPECTIVE OPERATIONS

With an apparent improvement in the political situation, it is possible that the government may approach the Bank or IDA again, particularly in view of plans for developing hydro-electric power resources. A power study is being organized by the U.N. Special Fund. There has been no suggestion so far that the Bank should be executing agency for this study.

II. BANK LOANS AS OF JULY 31, 1965

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1961	British Guiana	Agriculture	0.9	-
		of which has been repaid	<u>0.2</u>	
		Total outstanding	0.7	
		Amount sold	0.7	
		of which has been repaid	<u>0.2</u>	<u>0.5</u>
		Net amount held by Bank	<u>0.2</u>	

III. POLITICAL SITUATION

After serious racial clashes in 1963 and 1964 and the defeat of Dr. Jagan's party in the elections, the formation of a new government under Mr. Burnham in December, 1964, has been followed by relative calm. The members of Dr. Jagan's party at first boycotted the new legislature but have now taken their seats. The new government includes several East Indian ministers, but the fundamental problem of bridging the hostility between the negroes and East Indians remains. A constitutional conference to discuss a program for independence is due to be held in November of this year.

IV. ECONOMIC SITUATION

Population: 630,000

GNP per capita: about \$250

Foreign Exchange Reserves (December 1964): \$16 million.

The racial strife of recent years led to a cessation of private investment while public investment sharply declined. Output fell despite expanding production of sugar, rice and bauxite, the country's principal exports. If political stability could be achieved, British Guiana has the resources to sustain growth. Production of bauxite and alumina could be considerably expanded and there are large iron deposits which may prove economic. In the new 1966-70 development plan emphasis is being placed on transportation to open up the interior, electric power, land settlement and crop diversification. While the U.S. is providing aid to the new government which may also receive increased assistance from the U.K. and Canada, British Guiana may require additional help particularly if large scale hydro-electric power developments are undertaken. If so, British Guiana could become a Bank/IDA blend case. The debt service ratio is low, but opportunities for borrowing abroad are limited and if the country becomes independent its creditworthiness is likely to be very limited.

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BRIEFING PAPER - 1965

FIJI

I. BANK/IDA PROSPECTIVE OPERATIONS

An FAO/Bank project identification mission visited Fiji in June 1965, and it is likely that the mission will recommend Bank/IDA assistance for agricultural and livestock projects. A tentative approach for assistance for highway construction came from Fiji in July.

II. POLITICAL SITUATION

Fiji, a colony of the United Kingdom in the Pacific Ocean, is still at an early stage of political development. Although there is an "unofficial" majority in the legislative council, power rests largely with the British Governor. The relatively slow pace of political advance is partly a result of Fiji's racial configuration. There are two main ethnic groups: the Fijians, who own most of the land on a tribal basis and are still attached to their traditional customs; and the Indians, who were brought into the islands as indentured labor for the sugar plantations and are now a majority of the population. Despite the efforts of the British administration, the Fijians still resent any encroachment on their traditional rights and oppose any change in land tenure on the grounds that it would benefit the Indian community. Both principal communities have agreed to work towards internal self-government, but there are differences as to the extent and pace of progress. The Indians favor "one man, one vote" and a common roll; the Fijians favor communal roles and the maintenance of a special relationship with the U.K. At the constitutional conference held in London during August 1965, all communities made plain their agreement that independence should not be discussed.

III. ECONOMIC SITUATION

Population: 440,000;

GNP per capita: \$200;

Foreign Exchange Reserves: n.a.

Fiji is an archipelago of more than 500 islands. The bulk of the population is concentrated on the two largest islands. The economy is based on agriculture and little income originates outside that sector (from gold mining, a few manufacturing enterprises, government). The bulk of the population is still in a non-

monetary, subsistence economy. Sugar, which alone provides about two-thirds of total exports, coconut products and gold are the main exports. There is considerable potential for agricultural development (less than 10 per cent of the cultivable land is in use), but the land tenure system restricts possibilities of obtaining individual title to land and tends to discourage development. Government development efforts in agriculture did not start on a significant scale until the late 1950's.

The financial position of the Government is satisfactory. Surpluses in the current budget have been realized and spent on development works. The financing of development expenditures under the 1964-68 Development Plan was covered until now by U.K. grants and loans and from local sources (budget surpluses and internal loans). A new plan for 1966-70 is being prepared which will involve a substantially higher level of expenditures and Fiji may well look for foreign financing from sources other than the U.K.

Although Fiji seems at present creditworthy for loans at conventional terms, its ability to service more external debt could quite quickly be used up.

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BRIEFING PAPER - 1965

BARBADOS, LEEWARD AND WINDWARD ISLANDS

I. BANK/IDA PROSPECTIVE OPERATIONS

There have been no Bank or IDA operations in this area. In the future, the Bank and IDA might be asked to assist Barbados or a federation of the islands, if one is formed. In August 1965 the Chief Minister of Antigua (population about 60,000) called on the Bank to inquire about a loan for a \$5 million port project. We were not encouraging but promised to comment on the feasibility report.

II. POLITICAL SITUATION

Progress towards a federation of the Lesser Antilles is slow. A constitutional conference was to begin in London on July 1, 1965, but at the last moment Antigua backed out and Barbados then said it wanted to reconsider its position. The central issues are the powers of a future federal government and the finances of the federation. The centrifugal forces at work have their roots in the narrow outlook of each island's politicians, and in the concern of Barbados, the largest and richest island, about the possible financial obligations of federation.

III. ECONOMIC SITUATION

Population: 704,000

GNP per capita: \$150-250

Foreign Exchange Reserves: n.a.

Barbados and the smaller islands, heavily dependent on sugar, benefited from the increase in sugar prices in 1963/64. The subsequent decline in sugar prices has again pointed up the difficulty of attempting to achieve sustained economic growth on the basis of sugar alone. Earnings from tourism are growing rapidly, but growth in other sectors is severely limited by diseconomies of small scale. Barbados has a population of some 250,000, the other islands' populations ranging from 90,000 down to 12,000. Even if federation and an economic union can be achieved, the dependence of the islands on budgetary aid from the U.K. is likely to continue. Barbados has made small public issues in London, but debt service is still light (less than 3% of export earnings).

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MALTA

I. BANK/IDA PROSPECTIVE OPERATIONS

None. By letter dated August 25, 1965 the Prime Minister has indicated Malta's intention to apply for membership in the Bank.

II. BANK LOANS AS OF JULY 31, 1965

Year	Borrower	Purpose	(U.S. \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1963	State of Malta	Power and Water Distillation	7.50	5.09
	Amount sold		<u>7.47</u>	
	Net amount held by Bank		<u>0.03</u>	

The loan is guaranteed by the U.K. Construction proceeds satisfactorily, although it is a few months behind schedule.

Early this year a supervision mission visited Malta and its findings were the subject of a letter we wrote on March 26, 1965 to the Minister of Agriculture, Power and Communications. The mission found that on the basis of present tariffs the Malta Electricity Board would experience cash deficits by the end of 1965-66 and 1967-68 and that an increase in tariffs would be necessary for the Board to maintain its operating ratio within the 67% limit agreed upon between Malta and the Bank.

We have had no reply to that letter, nor to the subsequent letter we wrote on June 3 and the cable of July 9.

A Bank staff member will visit Malta in October to review progress on the project and the financial situation of the borrower.

III. POLITICAL SITUATION

Malta became independent in September 1964, but maintains close ties with the U.K. which still provides most of development aid. Since independence Malta has also made efforts to establish relations with international organizations and is now a member of U.N., Economic Commission for Europe, GATT, FAO and others.

General elections may be held in the near future, perhaps before the end of the year. The disputes between the opposition labor party and the influential Archbishop of Malta may eventually favor the present government presided over by Dr. Borg Olivier.

IV. ECONOMIC SITUATION

Population: 320,000

GNP per capita: \$400-450

The rundown of the British naval base, which used to provide about 15% of Malta's GDP and employment and 60% of its foreign exchange earnings, is creating serious problems of economic readaptation. The Government is increasing the expenditure for infrastructure and for helping new industrial ventures to offset the consequences of the rundown of the base; despite this effort and an increase in migration (about 10,000 people migrated in 1964), unemployment is increasing. At the time of independence the British Government agreed to make available \$140 million to Malta for development expenditures over the next ten years; in addition, it makes substantial contributions to cover budget deficits.

In 1964 national income remained practically constant (compared to a 2% decline in 1963); prices went up and as a result of heavy imports of capital goods, the balance of payments worsened (there was a deficit of \$3 million compared to a small surplus in the previous year).

The Commonwealth Development Corporation is now assisting the Maltese Government to establish the Malta Development Corporation which should finance the industrial and tourist development. The Government has also received assistance from the Bank of England to establish a central bank.

In 1964 the ratio of debt service to current revenues from exports of goods and services was only about 3%. Foreign reserves are ample; official sterling balances in London covered in 1964 about 8-9 months of imports.

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August 30, 1965

BRIEFING PAPER - 1965

MAURITIUS

I. BANK/IDA PROSPECTIVE OPERATIONS

No requests for a Bank loan or IDA credit or technical assistance have been received in the past year.

II. BANK LOANS AS OF JULY 31, 1965.

Year	Borrower	Purpose	(U.S. \$ Millions)	
			Amount	Undisbursed Balance
1963	Mauritius	Electric Power	7.0	1.2
		Amount sold	<u>5.0</u>	
		Net amount held by Bank	<u>2.0</u>	

III. POLITICAL SITUATION

In February 1964, Mauritius gained a limited form of internal self-government. Executive power is in the hands of a Cabinet under a Premier, but the British Governor still retains full powers in respect of the civil service, police and judiciary, external affairs and defense. The Labor Party, headed by the Premier Dr. Ramgoolam, aims to obtain full internal self-government at a constitutional conference to be held in London in September 1965, at which time the question of Mauritius' independence will be discussed. A serious hurdle in the way of independence is the powerful minority of French Mauritians who, to avoid being dominated by the Indian majority in the island, prefer continued association with the United Kingdom.

III. ECONOMIC SITUATION

Population: 720,000;

GNP per capita: \$250;

Foreign Exchange Reserves (Dec. 1964): \$8.2 million.

Sugar contributes over 90 per cent of Mauritius' exports and nearly one-third of gross domestic product. Although the Common-

wealth Sugar Agreement partly insulates Mauritius from the extreme effects of world market price fluctuations, Mauritius benefited from the high prices of 1963/64, and has suffered from the subsequent price decline. With a high density of population (1,000 per square mile), and little unused land, the central economic problem is the continuing growth of population (3 per cent per annum). The working population is expected to increase by 50 per cent over the next 15 years. Some employment will result from expanding tea production for export but the potential is small. Manufacturing is regarded as the principal source of new employment in the future. The government is trying to encourage industry by tax concessions and by providing credit through a new government owned development bank. However, Mauritius lacks industrial raw materials and its geographical position does not favor manufacturing for export.

The debt service ratio is low at present, but the economic problems facing Mauritius and its present income level make it eligible for IDA assistance. It should be regarded as a Bank/IDA blend case.

Yugoslavia

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September 15, 1965

BRIEFING PAPER - 1965

YUGOSLAVIA

I. MEETING WITH DELEGATION

Saturday, September 25, 1965

4:00 - 4:30 p.m.

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

II. MEMBERS OF DELEGATION

Kiro GLIGOROV
Governor of Bank

Federal Secretary for Finance

Milenko BOJANIC
Alternate Governor of Bank

General Manager, Yugoslav
Investment Bank

Nikola MILJANIC
Governor of Fund

Governor, National Bank
of Yugoslavia

Milos OPRESNIK
Alternate Governor of Fund

Secretary of Republican
Secretariat for Finance
of SR Slovenia

Advisers:

Zoran ZAGAR

Mihailo STEVOVIC

Economic Counselor
Yugoslav Embassy

Mirko MERMOLJA

Senior Counselor, National
Bank of Yugoslavia

III. BANK/IDA PROSPECTIVE OPERATIONS

The Yugoslav Government has been informed that the Bank is not prepared, even if sound projects are available, to lend more than \$35 million in any one year. This limit was originally imposed, not for reasons of creditworthiness, but because otherwise we would receive requests to lend for an embarrassingly large number of projects. However, Yugoslavia's external debt service is becoming an increasing cause of concern and we would not wish to increase our lending -- even if we had ample funds to do so -- without clear indications that the external debt position would improve. A loan of \$70 million was made in December 1964 and it was made clear that, except for a possible loan for an aluminum project, no further lending would be considered until after June 1966.

The Government has also been informed that a loan for an aluminum project would be considered outside the "annual quota," although the finance of a power plant for it would not. Over the last two years the Yugoslavs have been in contact with aluminum companies, particularly Pechiney and Kaiser, with the object of obtaining financial, technical and marketing assistance for the establishment of an aluminum production complex, costing say \$200 million divided equally between the power plant and the smelter. The matter has been complicated by indecision on the part of the Yugoslavs as to certain basic conditions about the project; for example, where in Yugoslavia it should be situated, how big it should be, etc. The Yugoslav Investment Bank proposes to hold a meeting towards the end of this year at which, it is hoped, these issues can be decided. Even so, the working out of the details of such a project acceptable to a foreign aluminum company and to the Bank would take a considerable time and it is doubtful whether any loan could be made before 1967.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

It would be useful to discuss the status of the aluminum discussions with the Yugoslavs so as to make sure that no divergencies arise between their thinking and ours. They should realize that the Bank will not finance more than say 40% of total cost.

It would also be worthwhile to ask the principal officials for their views on economic developments since the devaluation of the dinar on July 26. For the background to this see Part VII below.

We should mention that we would like to obtain release of the \$3.64 million IDA subscription, and ask for their proposals.

Finally, we should inquire about the claim which the French have made, as a result of the terms of the U.S. temporary debt settlement, under the most favored nation clause in the French-Yugoslav debt agreement.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None

(c) Topics likely to be raised by the Delegation (other than those raised by Bank/IDA):

The Yugoslav Delegation has requested a meeting with Mr. Woods but we have been given no indication of the topic which they wish to discuss.

V. BACKGROUND INFORMATION

(a) Bank loans as of July 31, 1965:

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1949	Republic of Yugoslavia	Industry	2.7	-
1951	Republic of Yugoslavia	Power, Agriculture, Industry and Transport	28.0	-
1953	Republic of Yugoslavia	Power, Agriculture, Industry and Transport	30.0	-
1961	Yugoslav Investment Bank	Power	30.0	1.8
1962	Yugoslav Investment Bank	Power	30.0	11.4
1963	Yugoslav Investment Bank	Roads	35.0	4.4
1963	Yugoslav Investment Bank	Railways	35.0	19.2
1964	Yugoslav Investment Bank	Railways	<u>70.0</u>	<u>66.1</u>
	Total		260.7	102.9
	of which has been repaid		<u>21.8</u>	
	Total outstanding		238.9	
	Amount sold	2.3		
	of which has been repaid	<u>.4</u>	<u>1.9</u>	
	Net amount held by Bank		<u>237.0</u>	

(b) IDA Credits as of July 31, 1965

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

None at present. Yugoslavia's prewar dollar bonded debt, amounting to \$25 million is being serviced under a temporary settlement agreed upon with the Foreign Bondholders' Protective Council in 1964. It runs for three years. This followed a previous five-year temporary settlement reached in 1959. Before 1959 the debt was in default.

(e) Bank 9% Capital Subscription

Amount: \$9.6 million. Entire 9% released in dollars in annual instalments of \$1.1 million with a final payment on July 1, 1971.

(f) IDA Subscription

Part II country. 90% subscription: \$3.64 million.
No release.

(g) Holdings of Bank Bonds

\$1.0 million

(h) I.F.C.

Not applicable

VI. POLITICAL SITUATION

There have been no purely political developments of importance during the past year. The economic reforms mentioned below do, however, have a political significance in that they represent a continuation of the movement to rationalize the Yugoslav price system and integrate the economy with that of the rest of the world.

VII. ECONOMIC SITUATION

Population:	19.3 million
G.N.P. per capita:	\$300
Gold and Foreign Exchange Reserves (June 1965):	\$71 million
Imports (c.i.f.), 1964:	\$1,322 million

Throughout 1963 and 1964 the Yugoslav economy grew rapidly; growth rates for total output were 14% and 12% respectively. Since the latter part of 1963, there have been clear signs of inflation. The Government introduced restrictive credit measures in the spring of 1964 and again in October 1964. In the first half of 1965 there were signs that these actions had succeeded in reversing the expansion. The rate of increase of industrial production slowed down and imports declined. However, prices continued to rise. Nevertheless, the Government felt that, provided the restrictive measures were maintained and, in some cases, intensified, the position was sufficiently stable for them to embark upon another series of economic reforms, including a devaluation of the dinar.

The objective of the reforms is to improve the allocation of investment by removing distortions in prices. During the last several years the price structure has encouraged an over-expansion of secondary industry at the expense of agriculture, raw material-producing industries and transport. The reforms will raise prices in the latter economic sectors while at the same time putting pressure on secondary industry producing for the domestic market. In this way the present imbalance in the economy could be corrected.

The devaluation of the dinar from 750 per dollar to 1250 per dollar is an essential part of these reforms since the high prices of manufactured products which were associated with the rapid expansion of secondary industry had, in effect, priced Yugoslav exports out of western European markets. In 1964 the current balance of payments deficit had increased substantially and amounted to \$208 million as against \$110 million the previous year. Hence a devaluation was required to avoid continued adverse pressure on the balance of payments.

The success of the reforms will depend, perhaps decisively, on the prevention of any substantial rise in costs and prices in the industrial sector; that is to say, upon a successful incomes policy. This will not be easy. Much will depend upon the new techniques of implementing an incomes policy, which the Yugoslav authorities are now devising, and upon the operation of the banking system which is being given increased independence and responsibility. Both these factors are untried and hence their effectiveness is uncertain. Finally Yugoslavia has just emerged from a lengthy period of inflation so that particular care must be exercised if future price rises are to be avoided.

The next six months are therefore likely to be especially important for the Yugoslav economy. If things go well a resumption of Yugoslavia's economic growth on a sounder basis may be expected.

On the other hand, a period of considerable difficulty with the balance of payments is quite a possibility, in which case Yugoslavia may have to request special short-term assistance in view of its substantial debt service payable in the next few years. Yugoslavia's external debt amounts to a little over \$1 billion of which between \$750 and \$800 million has been disbursed. More than half this amount becomes due for repayment in the years 1965-68, and debt service now amounts to around 18.5% of foreign exchange earnings. A balance of payments crisis, if it arose, would be essentially a short-term, if acute, symptom of Yugoslavia's present economic problems but it need not detract, in the long-run, from her prospects of sustained economic growth.

European
Investment Bank

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CONFIDENTIAL

September 16, 1965

BRIEFING PAPER - 1965

EUROPEAN INVESTMENT BANK

I. MEETING WITH DELEGATION

Wednesday, September 29, 1965, 9:30-10:00 a.m.

Attended by: Mr. Woods
~~Mr. Knapp~~
Mr. Aldewereld
Mr. Cope
Mr. Miller
Mr. Collier

II. MEMBERS OF DELEGATION

Paride Formentini	President
Yves Le Portz	Vice-President
Giandomenico Sertoli	Manager of the Finance and Treasury Department

III. BANK/IDA PROSPECTIVE OPERATIONS

There are no immediate prospects of joint operations. Discussions are at an early stage concerning a potash plant in the Congo (Brazzaville) which the IBRD and the EIB may jointly finance.

The EIB and the IBRD have been in one joint operation: in 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.

After extensive discussions concerning the administration of the international financing for the Keban project in Turkey, we took the position that joint administration of the project, as suggested by the EIB, was impracticable. We therefore decided that funds (presumably IDA) should be made available only for a later stage of the project (transmission lines) which will probably not require financing until 1967; at that time a further discussion on the form of cooperation will be necessary. Joint financing for the Senegal/Mali railway was also discussed earlier this year, but the idea has been dropped in view of the administrative problems.

The IFC and the EIB have recently invested in a Greek cement plant, each providing \$1.5 million. Discussions are under way concerning financing for a Turkish synthetic fiber plant and a fertilizer plant in Senegal.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Joint Operations. In view of the lack of success in working out a satisfactory form of joint operations for Keban, there is no point in pursuing the subject of joint operations further at this moment. However, other opportunities of working together in the Associated African States and in Greece and Turkey might emerge later. (For a description of EIB's operations in these countries, see VI(c) below).

Exchange of Information. The Bank would like to be kept better informed on EIB operations. In recent months, we have been receiving EIB press releases, but a quarterly or other regular statement, if necessary on a confidential basis, would be helpful.

(b) Topics to be raised by Bank at meeting with President or Vice-President:

None.

(c) Topics likely to be raised by the Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Access to Private Capital Markets

By the end of 1962, the whole paid-up capital of the EIB (\$250 million) had been committed, and EIB has therefore resorted increasingly to the capital markets for its funds. During 1961-64, EIB raised \$156 million on the markets of the EEC countries and Switzerland, including \$67 million raised in Germany, Luxembourg, Netherlands and U.S. in 1964. The \$25 million issue in New York in December 1964 was the first made there. EIB has pursued the policy of supporting the dollar by not drawing on the U.S. market. Owing to the U.S. interest equalization tax, the issue was sold completely outside the U.S. A second New York issue (\$20 million) is currently being made by EIB.

EIB issues in the last two to three years have been as follows:

1963

\$15.0 million by a 7-year $5\frac{1}{2}\%$ bond issue in Germany;
\$ 8.0 million by a 24-year 6% bond issue in Belgium;
\$12.2 million by a 20-year 5% bond issue in France;

1964

\$20.0 million by a 10-year $5\frac{1}{2}\%$ bond issue in Germany;
\$ 1.0 million by a 10-year borrowing at 5% from the State Savings Bank in Luxembourg;
\$12.5 million by an issue of 2-7 year bonds ($5-5\frac{1}{4}\%$) through a German bank;
\$ 8.3 million by a 20-year $5-3/4\%$ bond issue in the Netherlands;
\$25.0 million by a 20-year $5\frac{1}{2}\%$ bond issue in the U.S.;

1965

\$11.0 million by a 25-year $5-3/4\%$ bond issue in the Netherlands;
\$20.0 million by a 20-year $5\frac{1}{2}\%$ bond issue in the U.S.

The 1962 Italian issue (15-year 5% bonds) was quoted on August 31 at 90 to yield 6.24%.

The 1964 German issue was quoted on August 27 at 98 $5/8$ to yield 5.70%.

The 1965 Netherlands issue was quoted on August 27 at 100 to yield 5.75%.

(b) Holdings of Bank Bonds

None.

VI. STRUCTURE AND OPERATIONS OF THE EIB

(a) Origin and Purpose

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. (For details see (c) below.)

(b) Capitalization and Lending Operations

The capital is \$ 1 billion, of which \$250 million is paid up. Germany and France both have 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 (for details of borrowing, see V(a) above). 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.

Given the tight situation of European markets, EIB in March 1963 raised its lending rate from 5-5/8 to 5-7/8% and in October 1964 differentiated its rates by charging 5-7/8% for loans up to seven years; 6% for 7-12 year loans; and 6-1/4% for longer-term loans.

By the end of 1964, EIB had approved 85 loans for \$465 million. Of this, 18 loans (12 in Italy) for a total of \$107 million were contracted in 1964, against 31 loans (23 in Italy) for a total of \$105 million in 1963. Effective loans at the end of 1964 were \$395 million, disbursements \$274 million and repayments \$9 million. The borrowing countries were: Italy (67%), France (15%), Greece (8%), Germany (7%), Belgium, Luxembourg and Turkey (each 1%). Most loans were for industry, chiefly chemicals and steel (44%), transport and communications (32%), and power (17%). Agriculture accounted for the remaining 7%. Normally, amortization of industrial projects extends over 11 to 15 years; for infrastructure and agriculture, repayment is required over 16 to 20 years. However, as described in (c) below, the term of loans to associated states may in certain circumstances be as long as 40 years.

(c) Lending to Associated States

The Yaounde Convention of Association between the EEC and the Associated African States has been in effect since June, 1964. The Associated African States are: Burundi; Cameroon; Central African Republic; Chad; Congo (Brazzaville); Congo (Leopoldville); Dahomey; Gabon; Ivory Coast; Malagasy; Mali; Mauritania; Niger. It provides for \$800 million of financial assistance during 1963-67, mostly through FEDOM, the EEC's development fund for these countries. This aid also includes \$70 million of EIB loans. Amortization may extend over as long as 25 years and the EIB's normal interest rates (5-7/8 to 6-1/4%) may be subsidized by the Six to the extent of 3%. A special department, under Guy Trancart formerly of the IBRD, is responsible for loans to associated states. EIB also administers special term loans from \$50 million of funds made available by FEDOM: loans may extend over 40 years with grace periods of up to 12 years. As yet, no loans have been made to African States.

The Agreements of Association between EEC and Greece (July 1961) and Turkey (September 1963) provide for \$300 million of EIB lending during the first five years of association. Loans made in 1963-64 totalled \$42 million.

Greece. The EEC is to provide \$125 million of aid through the EIB during 1961-66. So far, eight loans totalling \$37 million have been made; they are for highways, power, irrigation and cement and fertilizer plants. To several of these loans, an interest subsidy of 3% applies, the EEC members bearing the cost.

Turkey. During 1963-68, the EEC is granting, through the EIB, \$175 million of long-term low interest loans for projects in the Turkish Development Plan. Lending will be managed by the Special Section of EIB which was set up in 1963 to provide loans on special terms from separate funds provided by member countries. Loans may extend over 30 years, with periods of grace up to seven years. Interest rates are 3% on agricultural and infrastructure projects and 4½% for industrial projects. The Special Section may operate in any associated state where the nature of the project and the external payments position justify such lending. In its first operations, the Special Section lent \$5.4 million to Turkey for power and steel tube plants.