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McNamara Papers

Travel briefs
March 5-10

Folder 2 of 2

O

Stabex

The German government has proposed to apply the EC Stabex system on a global basis in order to assist developing countries by way of stabilizing the earnings of commodity exports. At the 1978 Annual Meeting, the Germans submitted a specific proposal for such a scheme (Annex I) which was reviewed and discussed by the IMF Board at the February 6th meeting (Annex II).

The Germans are also pressing strongly for extension of the present stabex scheme in the Lome II Convention of the EC. It appears that Chancellor Schmidt wishes to include three commodities -- copper, phosphates and bauxite. Chancellor Schmidt's motive in pressing for the inclusion of copper in a stabex scheme is said to reflect his concern about the political vulnerability of Zaire and Zambia, when neighboring Angola is now said to have more "advisers" from East Germany than from Cuba. Phosphates and bauxite are expected to be the other additions to the list, but compensatory financing for all three minerals will be administered separately from stabex and under a much more restricted formula, since application of the existing stabex system to copper would potentially consume virtually all of Lome's resources. There is talk of involving the European Investment Bank in the administration of such a scheme.

Attachments

IMF & W.B. I mobilization of ami[illegible] process
inadequacy of adj. long-term
+ need for more "sound" devel fin for in DCs -
FRG to state prob + push for stab. e.g. Stabex [illegible]

ANNEX I

Outline of a Proposal for a Scheme to Stabilize Commodity Export Earnings

(Submitted by the Delegation of the Federal Republic of Germany to the meeting of the IMF/World Bank Development Committee in Washington on 6th/7th September 1978)

1. Summary

Countries covered	all DCs, with special treatment of the poorest DCs in some areas
Products	list of 25 selected commodities (to be defined)
Conditions for compensatory payments	decline in the aggregated exports of all 25 commodities by a given DC to all other countries
Calculation of earnings shortfall	difference between export earnings in the year of application and the average of actual earnings [in that year and] in the two previous years, and expected earnings in the two following years (IMF formula)
Trigger threshold	shortfall must exceed 7.5 per cent of calculated reference earnings, or 2.5 per cent only in the case of the poorest DCs (up to per capita income of $200)
Amount of compensation	fully offsets shortfall above the threshold level
Nature of compensation	loans running 8 to 10 years at interest significantly below market rates, special treatment of the poorest DCs.
Costs	total ceiling over 10 years - all DCs $5 billion - all DCs with per capita income up to $200 $2.5 - all DCs with per capita income up to $375 $3
Source of funds	government contributions and funds raised on capital market with government guarantees as backing
Competition with other systems	account to be taken of payments under the Lome Convention's Stabex system and the compensatory financing scheme of IMF
Organizational framework	tied to an existing international financial organization
Monitoring the fund use	some international monitoring (or conditionality) might be considered

Push for a separate facility in the Fund -
There is a problem (poor countries + highly unstable commod. [illegible]) + something should be done

Compensates countries regardless of need (put in limit re [illegible], poorest countries)
Doesn't pass on benefits internally to producers
Non-conditional

ANNEX I

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

FOR OFFICIAL USE ONLY

DC/78-8

September 8, 1978

STABILIZATION OF EXPORT EARNINGS

At the request of the Member for the Federal Republic of Germany, the attached Statement and Outline Proposal made at the Senior Officials meeting on September 6 are circulated in connection with item 2 of the agenda.

Attachments

* * *

STATEMENT

(Federal Republic of Germany)

1. I should like to take the floor early in the discussion on this point of the agenda since, as you know, my Government is particularly interested in the entire complex of questions connected with the stabilization of export earnings. I might add that it is also a matter to which the German Federal Chancellor has always paid particular attention.

I hardly need remind you that it was my Government which was so keen at the last meeting of the Development Committee to bring up the whole subject of the stabilization of export earnings in this Committee--after the Conference on International Economic Cooperation (CIEC)--and to commission a comprehensive study on the subject.

At that time, this Committee expressly recognized the importance of effective international measures to eliminate the negative effects of instability arising from fluctuations of export earnings, in particular for countries which export raw materials.

Accordingly, the terms of reference for the study were far-reaching and comprehensive. I should like to recall what they were since it is my intention to take up one of these terms more closely:

a. The adequacy of existing facilities in this field;

b. The need, if any, and scope for, and the financial implications of, possible improvements in these facilities;

c. The need, if any, and scope for additional approaches, the appropriate institutional arrangements for any such approaches, and their financial implications.

We have the staff of the IMF and the World Bank to thank for the work which was done, especially for the detailed review of the system of compensatory financing.

Points a. and b. of the terms of reference seem to us to have been completed. We do not believe that there is much to be added to the parts dealing with the improvement and also the extension of the system of compensatory financing and the activities of the World Bank (for the medium-term sectors). This is true with regard to the legal scope of the IMF and the IBRD.

I do not wish to go here into the many individual suggestions dealt with in the study. They have been discussed in detail in the Executive Board of the IMF and at the meeting of the Directors of the Bank. However, the reports show, or so it seems to us, that these two bodies are still far from having found a common line on the individual suggestions at this initial stage.

Of course we are ready, in due course, to give our comments on the individual suggestions for the modification and/or expansion of the system. But what concerns us more today--and this will be of no surprise to anybody--is Point c. of the terms of reference. In our view, the study should have gone somewhat further in carrying out its mandate; it should have had more to say over and beyond the analysis which was restricted to the institutional framework of the IMF and the IBRD. Under Point c., we had expected to find technical, financial and institutional proposals as well.

2. As I have already said, (my Government has always shown a strong interest in practical approaches towards stabilizing the export earnings of the developing countries. We have always made this clear, I believe, in the discussion on the integrated commodity programme, especially in the negotiations on Resolution 93/IV in Nairobi. May I point once again to the initiatives taken by my Government at the various European summit conferences and recently at the World Economic Summits in London and Bonn.

We believe that there is still today a convincing case to be made for taking the study considerably further although a new approach should be taken and new aims be set. We developed a model proposal for this some 18 months ago and conducted a first informal exchange of opinion with some partners.

This was useful, but was not taken into account when the present Development Committee study was made. That is why we want today to submit our ideas here officially with a view to making them the subject of further work by this Committee.

As far as the paper in front of you is concerned, I should like to make the following comments. It contains a summary of our ideas.

- As far as the individual elements are concerned and the shape they are given, many variations are conceivable which we shall discuss at the appropriate time.

We simply want to show you what our ideas are and how we justify them.

- We should also be happy to see any further work based on the proposals of other governments (e.g. Sweden) already available or yet to be submitted. The broader the basis, the better.

- In particular we are also expecting proposals on the institutional and organizational implementation of such a system of earnings stabilization.

As far as the reasoning behind it is concerned, you will find a certain amount in the paper itself.

You will notice that the model attempts to iron out certain weaknesses--or perhaps I should say, features--of the system of compensatory financing.

It has emerged in the meantime that price stabilization for all 18 commodities of the integrated programme has proved more difficult to realize than was at first thought for a variety of technical, economic, financial and political reasons.

This work will be continued. We, too, have undertaken this commitment, as was again confirmed by the Bonn Economic Summit.

What we are now concerned with, apart from the difficult search for solutions for the stabilization of prices, is to increase our efforts to find better ways of bringing about the efficient stabilization of export earnings in the short and medium term. We are thinking here of a model for the stabilization of earnings from commodity exports of the developing countries:

- It is specifically geared to the problems arising for the developing countries (only) from the fluctuations in export earnings from commodities:

  The stabilization of commodity export earnings serves, *inter alia*

  -- the continuation of development projects;

  -- medium-term economic programmes;

  -- the improvement of the economic structure;

  -- the safeguarding of financial stability.

- This approach has, as we see it, important advantages:

  -- by including fluctuations in quantity (not only price fluctuations), the foreign exchange earnings and thus the entire process of development of the developing countries is steadied;

  -- moreover, the instrument does not have a blanket effect, but selected use is possible in accordance with the special circumstances of the individual developing countries. Existing international systems of export earnings stabilization are, however, not capable of providing a satisfactory solution. The IMF system of compensatory financing is not designed specifically to help developing countries to steady their earnings from the commodity exports, for under its provision, ALL member countries having balance-of-payments problems can obtain compensation for exports of ALL KINDS of goods, but only within very limited quotas and in the form of credits with relatively short maturities.

Therefore, in our opinion, a worldwide model for the stabilization of commodity earnings geared to the requirements of the developing countries should be different from IMF and the Lomé systems in the following respects:

- it should be tailored to the aggregate commodity export earnings;
- special measures should be arranged for particularly poor developing countries;
- some coordination is necessary between creditors and debtors on the utilization.

It is precisely these demands which our suggestions for a worldwide model for the stabilization of commodity export earnings set out to meet in their broad outline.

I might add that we do, of course, share the opinion that the problem of long-term export earnings fluctuations can only be solved by the diversification of the economic structure of the developing countries concerned. Finally, a word on the question of procedure:

We do not expect the other delegations to state their positions on this today.

We quite appreciate that these somewhat complex issues must be studied back in the capitals.

However, we do expect some initial reaction and possibly agreed conclusions on further procedure on 23 September 1978. Our idea would be that

- either the staff of the Development Committee or DC/IMF/IBRD together, possibly jointly with government experts, take a further look at this entire complex;
- the German and (as I said before) other proposals be included in the analysis and its conclusions;
- the Senior Officials deal with the matter again at a further meeting following the Annual Meeting.

Outline of a

Proposal for a scheme to stabilise commodity export earnings

(submitted by the Delegation of the Federal Republic of Germany to the meeting of the IMF/World Bank Development Committee in Washington on 6th/7th September 1978)

I. Summary

Countries covered	all DCs, with special treatment of the poorest DCs in some areas
Products	list of 25 selected commodities (to be defined)
Conditions for compensatory payments	decline in the aggregated exports of all 25 commodities by a given DC to all other countries
Calculation of earnings shortfall	difference between export earnings in the year of application and the average of actual earnings in the two previous years and expected earnings in the two following years (IMF formula)
Trigger threshold	shortfall must exceed 7.5 % of calculated/reference earnings, or 2.5 % only in the case of the poorest DCs (up to per capita income of $ 200)

Amount of compensation	fully offsets shortfall above the threshold level
Nature of compensation	loans running 8 to 10 years at interest significantly below market rates, special treatment of the poorest DCs
Costs	Total ceiling over 10 years - all DCs $ 5 billion - all DCs with per capita income up to $ 200 $ 2.5 - all CDs with per capita income up to $ 375 $ 3
Source of funds	government contributions and funds raised on capital market with government guarantees as backing
Competition with other systems	account to be taken of payments under the Lomé Convention's Stabex system and the compensatory financing scheme of IMF
Organisational framework	tied in to an existing international financial organisation
Monitoring of fund use	some international monitoring (or conditionality) might be considered

Annex 1

Groups of Developing Countries and Territories arranged by Per Capita Income. Data: 1975

Under $ 200	$ 200 - 375	$ 375 - 699
Africa	**Africa**	**Africa**
Benin	Angola	Congo
Burundi	Botswana	Thana
Chad	Cameroon	Ivory Coast
Ethiopia	Cape Verde Islands	Liberia
Gambia	Central African Empire	Morocco
Guinea	Comores	Mauritius
Guinea-Bissau	Egypt	Rhodesia
Lesotho	Equatorial Guinea	Sao Tomé & Principé
Malawi	Kenya	Seychelles
Mali	Madagascar	Swaziland
Mozambique	Mauretania	Zambia
Niger	Nigeria	
Rwanda	Senegal	
Somalia	Sierra Leone	
Tanzania	Sudan	
Upper Volta	Togo	
Zaire	Uganda	
Asia	**Asia**	**Asia**
Afghanistan	Thailand	Democrat. Rep. Korea
Bangladesh	Yemen, Arab Republic	Jordan
Bhutan	Yemen, Democrat.Rep.	People's Rep. China
Burma		Philippines
India		Rep. of Korea
Laos		
Maldives		
Nepal		
Pakistan		
Sri Lanka		
North & Cent.America	**North & Cent.America**	**North & Cent.America**
Haiti	Honduras	Belize
		Dominica
		El Salvador
		Grenada
		Guatemala
		St.Kitts-Nevis
		St.Lucia
		St.Vincent
	South America	**South America**
	Bolivia	Colombia
		Ecuador
		Guyana
		Paraguya
	Oceania & Indonesia	**Oceania & Indonesia**
	Indonesia	New Hebrides
	Solomon Islands	Papua New Guinea
	Western Samoa	Tonga

Source:
World Bank Atlas
1977

No data for
Cambodia and Vietnam

Annex 2a

Commodity Lists

25 selected raw materials	18 UNCTAD commodities	20 products and groups of products, Lomé Conv.
Coffee	Coffee	Coffee products
Cocoa	Cocoa	Cocoa products
Tea	Tea	Tea
Sugar	Sugar	
Grain		
Rice		
Oil seed,veg.oils	Oil seed, veg.oils	
Rubber	Rubber	
Jute	Jute and products	
Hard fibres	Hard fibres and products	
Cotton	Cotton, cotton yarn	Cotton products
Bananas	Bananas	Bananas
Timber	Timber	Timber
Wool		Wool
Hides and skins		Leather hides and skins
Tin	Tin	
Zinc		
Lead		
Copper	Copper	
Iron ore	Iron ore	Iron ore
Bauxite	Bauxite	
Manganese	Manganese	
Tungsten		
Phosphate	Phosphate	
Citrus fruit		
	Meat	
		Ground nut products
		Coconut products
		Palm, palm kernel products
		Raw sisal
		Vanilla
		Cloves
		Gum arabic
		Mohair
		Pyrethrum
		Bertram Camomile
		Ylang-ylang

Developing Country Exports of 25 selected commodities

1975 in mill. $

Coffee	3,936
Cocoa	1,605
Tea	819
Sugar	8,613
Grain	2,635
Rice	945
Oil seed, oils	4,382
Rubber	1,525
Jute	560
Hard fibre (sisal)	237
Cotton	2,091
Wool	231
Timber	2,044
Hides and skins	204
Bananas	635
Citrus fruit	324
Copper	2,865
Lead	379
Zinc	108
Tin	1,037
Iron ore	2,166
Bauxite	421
Manganese	231
Tungsten	88
Phosphate	1,254
	39,335 = 80 % of total commodity exports by DCs (excl. oil)
Total commodity exports by DCs (excl. petroleum)	48,840

Sources: UNCTAD Doc. TD/IPC/CF/CONF/Misc.5/Add.2 dated 27.10.77 GATT International Trade 76/77, FAO Trade Yearbook 1976, FAO Commodity Review and Outlook, OECD Trade by Commodities 1975, World Bank Price Prospects for Major Primary Commodities June 1977, UN Monthly Bulletin of Statistics

ANNEX I

Guidelines for a Further Study on Stabilization of Export Earnings (Approved by the Senior Officials of the Development Committee on September 27, 1978)

1. The Development Committee reviewed the report prepared by the staffs of the Bank and the Fund on the international action required to deal with the adverse effecs on member countries, particularly primary exporters, of fluctuations in their export earnings.

2. The Committee considered the changes in the functioning of the compensatory financing facility (CFF) of the Fund which were examined in the report, and reviewed suggestions regarding the cooperative arrangements between the Bank and the Fund for the financing of medium-term export earning shortfalls.

3. The Committee recognized that, while the CFF had played an important role in mitigating the effects of export earnings instability, the broad question of the adequacy of existing facilities, as well as the need for additional measures complementary to the CFF, deserved further examination. The Committee also recognized that such additional measures should be considered as complementary to action aimed at stabilizing commodity markets including the Common Fund. Therefore, the Committee agreed to such an examination on the basis of a further study taking into account Part (c) of the Terms of Reference as approved by the Committee on September 25, 1977.

4. This study should also:

(a) analyze the adequacy of existing facilities for the stabilization of export earnings;

(b) take into account the report that will be prepared by the IMF staff in connection with the March 1979 review of the CFF by the IMF Executive Board, and changes in the CFF that the IMF Board may decide to make as a result of its review;

(c) examine the proposal put forward by the Federal Republic of Germany and other related proposals or analyses put forward in other fora. The relevant technical aspects, financial implications, and appropriate institutional arrangements should be thoroughly explored; and

(d) examine further the concept of "medium-term shortfalls".

5. The Committee agreed that the study should be carried out primarily by the staffs of the Bank and the Fund, and should draw as appropriate on the expertise of government officials and international institutions as well as other experts. Preliminary results of the study should be presented to the Committee in order that they be made available to the IMF Executive Board for use as desired in the course of its review of the CFF in March 1979. A final report should be completed not later than September 1979 for consideration by the Development Committee.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

ANNEX II

TO: Mr. Robert S. McNamara, President

DATE: February 8, 1979

FROM: A. Karaosmanoglu AK.

SUBJECT: Possible Changes in the Compensatory Financing Facility - a Preliminary Paper

1. I was invited to attend the IMF Board meeting to discuss the above-mentioned staff paper. The meeting was held on February 6 and the discussion lasted about six hours. All twenty Executive Directors who spoke expressed misgivings about the alternatives presented in the staff paper.

2. The only two clear outcomes of the discussion were that:

i) Nobody (including the German ED) wanted the integration of the German proposal in the extension of the CFF. There was a clear majority view that "a commodity window" integrated into the CFF scheme would be in conflict with the general principles of the IMF as it would be discriminatory; it would not be tied to balance of payments needs, and it would be available to non-member countries. The Chairman (Mr. Dale), in his summary of the conclusions, stated that there was "no need to pursue that particular approach". This, however, still leaves the possibility of establishing and funding such a facility outside of the IMF and leaving its management to the IMF. The German Executive Director stated that, although it was not yet tabled at UNCTAD, he expected it to be brought to the Manila meeting.

ii) There was no clear consensus about the possible contents of the extension of the CFF which will be reviewed in March.

3. Two Executive Directors (U.S. and Japan) felt that a case for the inadequacy of the present arrangement was not yet made, therefore increased access to resources for CFF financing was not a foregone conclusion. The other Executive Directors gave quite differing views on the subjects of the:

- use of a 2% deductible
- quota limitations
- inclusion of services in the shortfall

4. The IMF Board will look into all of these in March. They seemed, however, in the meeting to be far away from a consensus on most of these.

cc: Mr. Stern, Mr. Chenery, Mr. Damry, Mrs. Hughes/Mr. Singh

AKaraosmanoglu:mb

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

White

OFFICE MEMORANDUM

ANNEX II

TO: Mr. Robert S. McNamara

DATE: February 1, 1979

FROM: Attila Karaosmanoglu AK.

SUBJECT: Compensatory Financing Facility

1. IMF is required to review (extend/modify) its compensatory financing facility (CFF) by the end of March 1979; the subject is on the March 26 meeting of the IMF Board. The staff is somewhat uneasy about submitting recommendations in view of the proposals afloat for creating a second window (new facility) to compensate for excessive shortfalls in commodity earnings. As you are aware, a Fund/Bank paper responding to the German proposal on this issue has to be completed this summer for consideration by the Development Committee in September. UNCTAD may also discuss compensatory financing at its Manila meeting in May. Consequently, the staff has prepared a preliminary paper (SM/79/24) on CFF which will be discussed by the IMF Board on February 6, 1979. This paper has no conclusions and makes no recommendations; it is designed to elicit a sense of the Board. A second paper will be prepared for the March meeting in light of the views expressed at the February 6 meeting.

2. You may recall that in September 1975 the U.S. proposed at the Fund Board that a trust fund administered by the IMF for a new commodity window should be created; it limited eligibility to 15 commodities. The Swedish proposal, presented in Paris at the North-South dialogue, extended eligibility to all primary commodities other than fuels, gold, diamonds and other precious stones. Drawing on certain features of the U.S. and Swedish proposals, the Germans proposed last year that the list should be extended to 25 commodities and the commodity window could be administered by the IMF or another institution. The preliminary Fund paper considers the German proposal for a second window to compensate for shortfalls in commodity earnings supplementing the CFF facility and discusses further liberalization of the CFF which would obviate the need for a supplementary facility.

3. The technical part of the paper, based on simulations covering 74 countries for 1963/73 and purchases by 56 countries under the Fund facility during 1976/78, concludes that during 1976/78 countries would have drawn significant additional amounts to cover commodity shortfalls if another facility (German proposal) were available. The paper points out that it would be difficult to avoid double compensation unless both the windows are administered by the IMF. The paper also indicates that the main objectives of the German proposal could be achieved by modifying CFF. These modifications would be the

use of geometric instead of arithmetic calculations in the computation of the trend value, applying a 2% deductible to the shortfall (defining compensable shortfall as the downward deviation from 98% of the trend value) and doing away with quota limits to commodity shortfalls. The analysis covers commodity earnings as well as total earnings with or without services.

4. A new window would have the effect of reducing the amount of resources required from the IMF. It would provide greater flexibility in extending compensation to countries experiencing large commodity shortfalls but it would perpetually face the difficult task of obtaining separate funding from the donor countries.

5. It is likely that the Fund Board may opt in favor of a 'minimum decision' of extending CFF as is and postpone review till after the high level meeting in the fall. We will keep you informed.

cc: Mr. Stern
Mr. Chenery
Ms. Hughes/Mr. Singh

AKaraosmanoglu:SSingh:mb

Q

March 1, 1979

SPECIAL INCREASE OF IBRD CAPITAL STOCK FOR JAPAN

Following a request from Japan, the management of the Bank has proposed that a special increase of 4,000 IBRD shares be allocated to Japan. An increase of this size would bring Japan's shareholding in the Bank to within 73 shares of that of Germany and raise Japan from the 5th largest shareholder to the 4th largest shareholder. The Japanese authorities have made an increase in Japan's share of IBRD capital a prerequisite to an increased share in IDA6. Japan is seeking near parity with Germany in IBRD subscription as a condition of accepting cumulative parity with Germany in IDA contributions.

The French authorities have objected to the proposed increase for Japan on the grounds that:

a. Bank capital subscriptions should be linked to Fund quotas;

b. a decision on rearrangement of the ranking of the Big 5 in the Fund has recently been deferred until 1981;

c. France is justified on economic grounds in maintaining fourth position in the Bank, the real disparity being between Japan and the UK, whose relative positions might well be reversed on economic criteria.

Successful resolution of this matter is fundamental to both the IBRD General Capital Increase and the Sixth Replenishment of IDA. Directors have stated that it is to be discussed by the G-5 at their meeting in Washington next week. It should be resolved at that time in order to permit action to proceed on the IBRD General Increase and IDA6.

Four alternative courses of action have been suggested.

. The first is to allocate a special increase of 1,900 shares to France as well as 4,000 shares to Japan, thereby maintaining the present ranking of the Big 5 but bringing France and Japan respectively to within 45 and 73 shares of Germany. It would be understood that Japan would achieve cumulative parity with Germany in IDA contributions.

. The second alternative is to allocate a special increase of only 2,000 shares to Japan (and nothing to France) thereby achieving one half of Japan's objective and raising Japan's shareholding to within 128 shares of France. In this case, it would be understood that Japan's contribution to the IDA6 Replenishment would amount to at least 13%.

. The third alternative is to allocate special increases to Japan and France as in Alternative 1, but to do it in the context of the General Capital Increase by making a corresponding reduction in the increase for the U.K. As part of the General Increase, the adjustments in relative shares for Japan and France would together require 8,000 and 3,800 shares respectively (double the amounts required prior to the Increase). The UK would receive 14,450 shares in the General Increase rather than 26,250. Here too Japan would be expected to achieve cumulative parity with Germany in IDA contributions.

. The fourth is for the Executive Directors to proceed with the management's recommendation as it stands, despite French objections.

The attached table shows the voting power of each constituency that would result from each of these alternatives including the proposal put forward by the management.

Attachment

Attachment

PROSPECTIVE IBRD VOTING POWER

	After Acceptance of Previously Approved Increases and Special Incr. for Yugoslavia & 11 Other Countries a/		After Special Additional Increases for Japan and France and General Capital Increase b/							
			Alternative 1		Alternative 2		Alternative 3		Alternative 4	
	Number of Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)
United States	77,735	21.51		21.39		21.62		21.74		21.50
United Kingdom	26,000	7.24		7.20		7.28	-11,800	5.67		7.24
Germany	17,612	4.93		4.90		4.95		4.98		4.92
France	15,667	4.39	+1,900	4.89		4.41	+ 3,800	4.97		4.39
Japan	13,539	3.80	+4,000	4.88	+2,000	4.38	+ 8,000	4.96	+4,000	4.90
Sub-total	150,553	41.87	+5,900	43.26	+2,000	42.64	0	42.32	+4,000	42.95
Other Part I	59,757	17.44		17.34		17.54		17.64		17.45
Part II	107,439	37.29		37.08		37.48		37.69		37.27
Countries not represented	11,327	3.40		2.32		2.34		2.36		2.33
TOTAL	329,076	100.00	+5,900	100.00	+2,000	100.00	0	100.00	+4,000	100.00

a/ Special increases as shown in "IBRD General Capital Increase - Voting Power" (R79-22, dated February 12, 1979).

b/ Under Alternatives 1, 2 and 4, the special increases are made prior to the General Increase. Under Alternative 3 the special increases for Japan and France are made as part of the General Increase.

3/1/79

Estimate of Votes on Management's Proposal for a Special Increase of 4000 Shares in Japan's IBRD Stock Holdings

Director	No. of Votes 1/			% of Votes 1/		
	For	Abstaining	Against	For	Abstaining	Against
Belkhodja	7,936			2.57		
de Groote	12,547			4.06		
Drake	15,054			4.87		
El-Naggar	14,213			4.60		
Franco-Holguin	8,416			2.72		
Fried		69,481			22.48	
Johnston			11,268			3.63
Kurth		17,862			5.78	
Madinga	9,766			3.16		
Magnussen	11,514			3.72		
Mentre			13,042			4.22
Mayobre	12,035			3.89		
Looijen	13,114			4.24		
Murayama	13,789			4.46		
Narasimham	14,152			4.58		
Razafindrabe	9,083			2.94		
Rota		11,020			3.56	
Ryrie		26,250			8.49	
Sola	7,575			2.45		
Zain	11,014			3.56		
Total 2/ 3/	160,208	124,613	24,310	51.82	40.31	7.85

1/ Certain governments have been shown in favor of the proposition, although it is likely some would shift to abstention when they learn of the strength of the opposition of the French and other parties.

2/ For the Board of Executive Directors, only a simple majority of the votes cast in favor of the proposition is required to assure its transmittal to the Governors. Abstentions do not count as votes cast.

3/ With the Governors, voting without meeting, we need not only a simple majority of votes cast in favor, but the replies received should include replies from Governors exercising two-thirds of the total voting power. Only rarely do Governors abstaining reply.

3/1/79

R

Revised
3/3/79

GERMANY: Issues on IDA 6

Introduction

1. The initial German position on IDA 6 is quite unsatisfactory. In order to bring the IDA 6 negotiations to a conclusion, it will be necessary to achieve:

(i) an increase in the absolute amount of the German contribution proposed to ~~60%~~ 57? in DM above the IDA 5 level to a level of DM ~~3.2~~ 3.15 billion;

(ii) an increase in Germany's share in IDA (from 10.9% in IDA 5 to 12.0-13.0% in IDA 6).

ODA .52 by 8? to diss IDA 2 at 13.2 + 13.2 ?

Germany's Present Negotiating Position

2. At the first meeting of IDA Deputies, Moltrecht (the German Deputy now expected to be replaced by Kerkhof) said that Germany would support an $11.6 billion IDA 6 replenishment and maintain its IDA 5 share (10.9%). (Attachment 1 gives the extract from the transcript of the meeting.) Informally, outside the meeting he indicated a slight margin for flexibility going up to a $12 billion replenishment. This position translated at December exchange rates into a contribution of about DM 2.4-2.5 billion,[1/] an increase in DM in Germany's contribution to IDA 6, 20-24% above the DM 2007 million level of Germany's contribution to IDA 5.

3. The proposed size of Germany's contribution reflected restrictive budgetary considerations. The insistance on maintaining Germany's IDA 5 share reflected separate political considerations.

1/ At the exchange rates of December 11, 1978, the date of the first meeting of Deputies (DM 1.90 = US$1).

NETH. 14.5-15
UK: 14.5 or poss 13 (full ...)
Den 13
Nor 13
Swedes High Replen

4. Among the possible budgetary considerations that may underlie the German attitude on the size of Germany's contribution are the following:

- GDP in nominal terms in DM is expected to grow at more than 7% per annum (4.0% p.a. real growth and 3.5% p.a. price increases) so that GDP would be about 22% higher in the period of note payments for IDA 6 than in IDA 5
- the aid budget (in DM) is also expected to grow at about this rate so as to maintain the ODA/GNP ratio at around its present level of 0.3% of GNP
- if authorizations (note deposits) for IDA grow at the same 7% p.a. rate (i.e., 22% higher in IDA 6) then IDA would remain the same proportion of GNP and the present bilateral/multilateral balance within Germany's ODA program would also be maintained.[1/]

5. Germany's initial position on its share in IDA partly reflects tactical considerations that Germany does not wish to indicate to the United States that the US can lower its share in IDA and expect Germany to make up the difference.

6. Since the first meeting of Deputies, the internal German debate may have changed for the better. We understand there is a recommendation in front of the Cabinet recommending that ODA be increased to 0.5% of GNP by 1982. It also draws the implication that if Germany is to achieve this, Germany might match Japan's share in IDA 6 and take up an extra subscription in the Bank.

1/ In 1977 about 75% of German ODA was bilateral

The Size of Germany's Contribution to IDA 6

7. The table below indicates the increases in Germany's contribution in past replenishments of IDA in DM terms. It can be seen that on average Germany's contribution has increased by 90% (about four times the increase proposed for IDA 6 by Moltrecht at the first meeting). The lowest previous increase was a 46% increase for IDA 4.

Contributions to IDA 1/

	DM (millions)	% Increase
IDA 1	176	-
IDA 2	467	165
IDA 3	850	82
IDA 4	1,243	46
IDA 5	2,007	61
		90
IDA 6 Proposed (13.2? 13 b)		57

8. In order to have flexibility in the IDA negotiations, both on the amount of IDA 6 and on the burden sharing arrangements, it would be desirable to have Germany ready to make a contribution to IDA 6 of DM ~~3.2~~ 3.15 billion, that is, ~~60%~~ 57%? above the IDA 5 level and closer to the historical rate of increase. The table below indicates the flexibility this would give in respect both to the total size of IDA 6 and to Germany's share. It can be seen that a ~~60%~~ 57%? increase in DM would allow Germany to assume a 13% share in a replenishment level of $13.0 billion.

1/ As agreed at time of original agreement

Percentage Increases in DM at Different Levels of IDA and Alternative Shares for Germany[1/]

German Share	Level of IDA 6 ($billion) 11.5	12.0	12.5	13.0	14.0
10.9%[2/]	16	21	26	31	42
11.4%[3/]	22	27	32	37	48
12.0%	28	34	39	45	56
13.0%	39	45	51	57	69

1/ % Increase over IDA 5 contribution in DM
At exchange rate of 1/31/79 (DM 1.86 = US$1)

2/ IDA 5 share

3/ IDA 4 share

9. Whether or not an increased share of IDA6 is likely to upset the balance of multilateral vs. bilateral aid in German ODA depends to some degree on the amount of progress made towards the 0.5% target mentioned in para. 6 above. P&B's latest projection assumes that the ODA/GNP ratio will increase only marginally, from an estimated 0.30% in 1978 to 0.33% in 1982 and remain constant thereafter. A high share of IDA6 could under the P&B assumptions threaten to either increase the share of multilateral assistance in total ODA above the 30% ceiling set by the German authorities or squeeze other multilateral programs (see Table 1 attached to the Note on Financial Assistance to Developing Countries). However, even modest progress towards the 0.5% target would significantly reduce any such pressure, as the following table indicates:

Impact of IDA6 on German ODA Proportions

	P&B Projections									Improved ODA Performance					
	IDA Calls		ODA		IDA Calls as % ODA		Multilateral as % of Total ODA		ODA		IDA Calls as % ODA		Multilateral as % of Total ODA	
	DM2.4b. Contr.	DM3.2b. Contr.	DM m.	% GNP	DM2.4b. Contr.	DM3.2b. Contr.	DM2.4b. Contr.	DM3.2b. Contr.	DM m.	% GNP	DM2.4b. Contr.	DM3.2b. Contr.	DM2.4b Contr.	DM3.2b Contr.
1980	24.0	32.0	4356	.31	5	6	20.8	27.7	4685	.32	5	6	19.3	25.7
1981	78.0	104.0	4903	.31	6	8	20.3	27.0	5201	.33	6	8	19.1	25.5
1982	217.2	289.6	5529	.33	7	9	20.3	27.0	5937	.35	7	8	18.9	25.1
1983	386.2	515.2	5846	.32	8	11	22.5	30.0	6574	.36	7	10	20.0	26.7
1984	475.2	633.6	6468	.33	9	12	22.5	30.0	7470	.38	8	10	19.5	26.0
1985	422.4	563.2	7085	.33	10	13	22.5	30.0	8461	.40	8	11	18.8	25.1

Germany's Share in IDA 6

10. At present we are proceeding on the assumption that a rearrangement of shares may need to be negotiated in IDA 6 totalling 6 percentage points. This allows for reductions, mainly by the United States, Canada and Sweden. It is to be hoped that the reductions can be held to lower limits, particularly for the United States, but at this stage its seems a sensible precaution to try to create negotiating room by arranging for increases totalling at least this amount by other countries. On the basis of an extra subscription to shares in IBRD bringing it to approximate parity with Germany, Japan has indicated a willingness to increase its share in IDA 6 by at least 2.7 percentage points (from 10.3% to 13.0%) and possibly more. New donors might fill part of the remaining gap (say, 1% in total) and fractional increases might be obtained from certain European countries such as Norway and the Netherlands. However, an increased share of about 2 percentage points for Germany, in line with Japan's increase, will be critical in filling the gap at whatever level is negotiated for the total size of IDA 6. A minimum increase in Germany's share would be from 10.9% to 12%. A note on the burden sharing scenario is attached (Attachment 3).

11. In IDA 4, Germany took an 11.4% share, and its present 10.9% share reflects the contributions to IDA 5 of Kuwait, Saudi Arabia and UAE. However, an increase up to the IDA 4 level would not be a sufficient contribution to filling the gap in IDA 6. Germany points to its 10.3% share in the GDP of contributors as supporting its present share. Obviously, other contributors believe that Germany's financial strength indicates a larger share than the GDP measure; moreover, Germany's ODA performance is poor (C.27% of GNP in 1977). (See table 1 attached.)

Other Issues

12. At the first meeting of IDA 6 Deputies, Moltrecht raised the question of reintroducing a limited form of maintenance of value in IDA 6 and whether the SDR should be used as the unit of account. This issue is being addressed in one of the technical papers distributed for the next meeting of Deputies in Paris to be held on March 21 and 22.

Attachments: 1. Extract from first meeting of Deputies
2. Comparative Economic Indicators
3. Note on burden sharing scenario.

German Statement at First Meeting of IDA6 Deputies

DR H MOLTRECHT (Germany): As my colleagues have done, I refer to the economic summit where the Heads of State and Heads of Government announced their readiness to contribute to a replenishment of IDA funds on a scale that would permit its lending to rise in real terms.

I should like to confirm here that my Government will abide by the declaration of the Bonn economic summit and will do everything in its power to help achieve the target of an annual rise in IDA's lending capacity in real terms. Of course, this can be achieved only by joint efforts by all contributors, both the traditional and the new donors.

Let me begin by going into a little more detail on the target level of IDA 6. Even if one takes as one's starting point the target of achieving in real terms a rise in the lending capacity for the replenishment period 1980 to 1982, it is still not possible to arrive at a reliable indicator of the necessary size of IDA 6. In document IDA/RPL/78-5, a number of alternative calculations have been presented, for which we are grateful. These calculations are based on numerous assumptions. How realistic these are is difficult to say.

This begins with the search for an appropriate benchmark. How reliable is the calculation of the real purchasing power of IDA 5 if the amounts in national currencies are converted into dollars at the exchange rates prevailing in October 1978 ? Would it not be better to use the method applied in the case of IDA 5, taking as a basis the purchasing power which was expected at the time of conclusion of the previous replenishment agreement?

No less problematic is the forecasting of inflation rates for the 10-year disbursement periods. As you know, the participants in the Bonn economic summit decided on a programme of action for inflation-free growth. In the Federal Republic of Germany a resolute policy of stability has already brought considerable success. In other countries, too, there have been clear signs that the high inflation rates of the last few years are going down. After all, my Government cannot anticipate inflation rates to an extent which would stand in patent contradiction to its own policy of stability.

...

The calculation of the rise in lending capacity in real terms is without doubt a question of the political will of the contributors. No one would dispute the need to support the poorest developing countries in their economic and social development by a greater transfer of resources. Similarly, no one would call into question the central role played by IDA as the principal source of finance for the poorest developing countries. At the same time, one should remain realistic both with respect to the absorptive capacity of the recipient countries and with respect to the ability of the Organization to increase its processing capacity without loss of quality and, finally, with respect also to the capacity of the contributors. It would, in my view, for example, be unrealistic to expect the contributors to make any significant change in the ratio between their bilateral and their multilateral contributions in favour of the multilateral share. Moreover, we must assume that the development assistance on average of all donor countries will not increase significantly more than the average growth of their GNP. Basing its calculations on optimistic assumptions, the World Bank, in its World Development Report, forecasts for the decade from 1975 to 1985 an annual increase of 5 % in real terms in the development assistance of the DAC countries, the average GNP growth being estimated at 4.2 % per annum in real terms. The increase in the lending capacity of IDA will also have to be held within these limits. The reference made in the IDA document to an alleged rate of increase for IDA 5 of 12 % per annum is not suitable example. This rate is based on the one hand on the accession of new contributors who were not reckoned with at the time of the agreement of March 1977, and on the other hand on conversion rates which, as I said earlier, are not representative of the lending period as a whole. In any case, at the Vienna agreement of 1977 we reckoned with a much lower growth in the lending capacity of IDA 5.

I am afraid that a debate on inflation rates, growth rates or the validity of the various assumptions will not bring us any nearer our goal of defining a realistic amount for IDA 6. In the end, it has to be determined by a political decision.

Without wishing to anticipate the decisions of the political bodies, in particular the Parliament, of my country, I believe that a level for IDA 6 about 50 % higher than the level of IDA 5, which was US$ 7.7 billion, would have a good chance of winning general support.

Arguing in favour of a particular target is worth only as much as the individual willingness to make an appropriate contribution towards reaching that target. I should therefore like to state here on behalf of my Government that the Federal Republic of Germany is ready, subject to parliamentary approval, to participate in IDA 6 with a contribution equivalent to the traditional German share provided that the shares agreed for IDA 5 are accepted as a general principle of burden sharing for IDA 6, too.

At our London meeting in June this year we held an exhaustive discussion on the problems of burden sharing. We had to recognize that generally acceptable rational criteria simply cannot be found. The sharing system which has developed in practice is evidently the only viable basis for burden sharing in IDA 6.

In this connection I should like to go into the changes in burdens which have occurred for IDA 5 following the different developments in the exchange rates and purchasing power of the national currencies, changes which were not aimed at by participants. Developments under IDA 6 show clearly how the shares change in relation to one another if there is no ruling designed to maintain the value of contributions. It would, in my view, be quite wrong to conclude from the change in the relative shares in the dollar level of IDA 5, which, as I have said before, participants did not consider desirable, that the changes in the burdens which have in fact occurred should be taken as the reference point for future burden sharing. I cannot go along with the remarks to this effect contained in the IDA document in paragraph 22 and Table 4. It would be far better to treat this development as an opportunity to consider what measures could be taken to maintain the relative shares of the contributions to IDA 6 in terms of value. A suitable solution would be to use the special drawing right as a unit of account for determining both the amount of IDA 6 and the level of individual contributions. The equivalent value of the contribution in the national currency should be determined at the time of actual payment on the basis of the special drawing right. It does not seem to me necessary to maintain the value beyond the time of payment.

This question will undoubtedly have to be discussed in detail at future meetings. However, it would seem wise to draw attention to this problem right now in view of the importance of the debate on the appropriate level for IDA 6.

March 2, 1979

THE SIXTH REPLENISHMENT OF IDA--AIDE MEMOIRE

Background to the IDA Sixth Replenishment

1. IDA is currently committing resources provided by the 26 countries that contributed to the Fifth Replenishment of IDA on which agreement was reached in Vienna in March 1977. In the first year of the Fifth Replenishment commitment period (IDA's fiscal year 1978), credits totalling $2.3 billion were made and in IDA's current fiscal year 79, a further amount of about $3.0 billion is expected to be committed. The balance of Fifth Replehishment resources will be committed in fiscal 80 so that by July 1, 1980, IDA will be in need of fresh commitment authority. Since governments have to take legislative action before this date, it would be desirable to reach an executive agreement among the Deputies appointed by Governors to negotiate the Replenishment during the summer of 1979.

2. The negotiations have already commenced and a first meeting was held in Paris in December 1978, and a second meeting will be held, also in Paris, on March 21 and 22, 1979. It will probably be necessary to have at least one further meeting to conclude the negotiations.

3. Although IDA needs fresh commitment authority by July 1980, the budget outlays associated with the Sixth Replenishment are spread out over the 10 or so years during which credits disburse on projects. Therefore, the cash impact on Germany and other contributors will fall mainly in the middle of the 1980s, as shown in the table below:

Timing of Outlays on the Sixth Replenishment of IDA

Percentages

FY81	1	FY86	15
82	5	87	10
83	13	88	7
84	20	89	5
85	20	90	4

The Main Issues in the Negotiations

4. The two most important issues in the IDA negotiations are first, the total size of the Replenishment and, second, the question of what share in the total each country will take up (burden sharing). On the question of the total size of the Sixth Replenishment there seems to be general agreement that IDA's commitment authority should grow significantly in real terms and at the first meeting of Deputies the United Kingdom, the Netherlands, Denmark and Norway supported a replenishment ranging between $12.5 billion and $15 billion. Although Japan was not in a position to support a specific figure, we have reason to believe that it too could support a figure in this range as part of its efforts to honor the Fukuda pledge (repeated by Ohira) and double its ODA by 1980. The Deputy for the United States stated that the Administration was prepared to consider participation within the range mentioned by other Deputies and preliminary Treasury planning appears to envisage a US commitment about 50% above the US contribution to IDA 5 which would be consistent with a replenishment of between $12.5-13.0 billion. Therefore, among major contributors to IDA, the position of Germany may well be crucial in consolidating support for a high level of IDA commitment authority.

5. A detailed discussion of burden sharing has not yet begun and will start at the next meeting of Deputies. However, we know that some countries may wish to reduce their share in the Replenishment. Certain contributors, such as Canada, face very severe budgetary difficulties while in the case of Sweden the aid budget is not growing so rapidly now that ODA is reaching the 1% of GNP level. In the case of the United States, the Administration has to take into account the 'sense of Congress' Resolution calling for a reduction in the US share in IDA. We will be doing our best (with the support of other

contributors) to keep any such decreases to the minimum, particularly in the case of the United States. However, in order to bring the negotiations to a successful conclusion and to have room for manoeuvre in adjusting shares, IDA will need to find countries ready if necessary to increase their share in the total for the Sixth Replenishment. Japan has stated its willingness to increase its share in IDA 6 to a level which will result in cumulative parity with Germany. This increase by Japan is linked to approval of a corresponding increase in Japan's share of IBRD capital to near parity with Germany. There are few, if any, other countries that will be able to increase their shares in IDA by more than a fractional amount. Germany's position is therefore critical to the success of the negotiations. If Germany were willing to increase its share in IDA 6 to at least 13% (from 10.9% in IDA 6), this would have a doubly beneficial impact. First, it would contribute directly to a viable distribution of shares in IDA 6. Secondly, under the principle of cumulative parity stated by Japan, it would induce an additional increase of equal magnitude by Japan.

6. A share of 13% in a $13 billion Replenishment would amount to a 57% increase in Germany's IDA 5 contribution of DM 2 billion and would total approximately DM 3.15 billion. The table below shows the cash outlays which would be associated with a contribution of DM 3.15 billion.

	DM Million
FY81	32
82	160
83	410
84	630
85	630
86	460
87	316
88	224
89	160
90	128
	3,150

A contribution at the level of DM 3.15 billion could be an integral part of an effort by Germany to increase its level of ODA in the 1980s significantly above its present proportion to GDP of 0.27%.

7. In order to preserve the momentum of the IDA negotiations, it would be most desirable if the Deputy for Germany could make such a commitment at the next meeting of IDA Deputies scheduled for March 21-22. It would then be possible for the main lines of the IDA 6 Replenishment agreement to emerge at that meeting. Such an achievement would strengthen the position of the industrialized countries of OECD on North-South issues before the UNCTAD meeting and the Tokyo summit.

Revised
March 3, 1979

FINANCIAL ASSISTANCE TO DEVELOPING COUNTRIES

In 1976 and 1977, Germany's aid program had two disappointing years in a row: disbursements of ODA fell from $1689 million in 1975 to $1384 million in 1976 (or by 18%) and remained flat in 1977 at $1386 million. The ODA/GNP ratio declined sharply, from 0.40% in 1975 to 0.27% in 1977. It is projected to improve to 0.29%-0.30% in 1978.

The Germans have been rather heavily criticized for this performance. The 1978 DAC review pointed especially to the difficulties the Germans appear to have in disbursing funds already committed. In their defense, the Germans have pointed to: (a) the high volume of total resources transferred to the LDCs; (b) the failure of the multilateral agencies (including IDA) to draw down Germany's commitments to them; and (c) the fact that project implementation depends on the LDCs, not Germany. Key figures are given in Table 1.

Official Development Assistance (ODA)

The German Government's ODA program formally began in 1961, and during 1962-65, an average annual amount of $437 million, or .43% of its GNP, was transferred to the developing countries. In the early 70s, German aid increased very rapidly in volume terms from $599 million in 1970 to $1689 million in 1975, while the ODA/GNP ratio was .32 and .40, respectively.

During 1976 and 1977 the net ODA flow amounted to only $1384 million and $1386 million (or 18% below the level reached in 1975), and the ODA/GNP ratio was .31 and .27, respectively. The ODA/GNP ratio of .27 in 1977 is the lowest ratio since the inception of German ODA program.

Table 1: NET FLOW OF FINANCIAL RESOURCES FROM FEDERAL REPUBLIC OF GERMANY TO DEVELOPING COUNTRIES

(US$ million)

		1970	1975	1976	1977
I. ODA		599.0	1,688.8	1,384.0	1,386.0
Grants and grant-like flows		246.6	556.0	511.8	593.6
Development lending		219.5	604.9	532.3	434.5
Contributions to multilateral institutions		132.9	527.9	339.9	357.9
II. OOF		132.1	9.1	43.0	61.0
III. Private Flows		756.0	3,263.4	3,886.8	4,306.6
Direct investment		317.5	815.9	765.4	846.0
Bank loans /a		57.0	821.6	925.9	1,573.6
Bilateral portfolio and other		53.4	62.5	211.9	588.2
Multilateral portfolio		63.1	353.2	930.4	901.4
Guaranteed export credits		187.2	1,005.6	848.6	173.0
Private grants		77.8	205.1	204.6	225.0
TOTAL		1,487.1	4,961.7	5,313.8	5,753.6
Memo:					
ODA as % of GNP:	Germany	0.32	0.40	0.31	0.27
	Total DAC	0.34	0.35	0.33	0.31
Total flows as % of GNP:	Germany	0.79	1.19	1.19	1.12
	Total DAC	0.78	1.05	0.98	1.05
Multilateral ODA as % of Total ODA		22	31	25	25

/a Claims of banks resident in Germany; excludes foreign branches and subsidiaries of German banks.

Sources: DAC, Development Cooperation, 1978 Review; DAC/AR/781/01, Memorandum of Germany on 1978/79 Aid Review.

In 1977, Germany channeled $358 million (or 26% of total ODA) through multilateral institutions, of which $222 million through the EC, $86 million through the UN agencies, and $33 million through the Regional Banks; cash payments to IDA were nil.

The share of bilateral aid in total ODA was 74%, the share of bilateral loans declined from 39% in 1976 to 32% in 1977; and the share of bilateral grants increased from 37% to 43%. Technical assistance grants and food aid grants increased by 18% and 40% respectively, while bilateral financial grants declined from $48.6 million to $29.3 million, or by 23%.

Aid Policies

The German Government has accepted in principle the UN target for ODA of 0.7% of GNP. However, DAC estimates that the government's most recent medium-term budget projection will result in a ratio of only 0.35% by 1982. P&B's estimates are less optimistic and see ODA rising to only .33% by 1982.

Germany's low level of aid to developing countries in recent years has provoked criticism among DAC members and also among developing countries. At a recent DAC Annual Aid Review Meeting, the head of the German delegation summed up the general feeling within the government when he indicated that, while concessional assistance was an important channel for transferring resources to developing countries, it was not the only one. He said that other types of assistance such as trade and non-concessional financial flows were equally important. This argument of total resource flows versus ODA is expected to be used increasingly in the coming months when a number of meetings are scheduled for UNCTAD V which is expected to deal with the topic of concessional aid to developing countries.

<u>Geographic Distribution</u>: German ODA is distributed among a large number of developing countries (120 in 1977). The geographic distribution in 1977 was as follows:

Africa	42.3%
Asia	28.2
Latin America	13.4
Europe	10.2
Other	5.9
	100.0%

The 1977 aid commitments indicate continued concentration of aid to Africa and Asia with 72% of total aid committed to these two regions. The commitment to European countries has decreased in 1977 to 6.8% and to Latin American countries it has increased to 15.3%.

<u>Distribution to LLDCs</u>: In 1977, 22% of total ODA was distributed to LLDCs. The share of LLDCs and MSAs in total ODA disbursements in 1977 was 22% and 41% respectively, almost the same percentage share as in 1976. The 1977 aid commitments indicate that the percentage share of aid allocation to LLDCs has declined to 16.5% (from 22.9% in 1976). According to the DAC Secretariat, it appears unlikely that "the Germans ODA program will witness in the foreseeable future substantial re-allocations in favor of the poorer developing countries".

<u>Sectoral Distribution</u>: During 1975-77, Germany's project commitment was distributed among sectors as follows:

	Percentage of Total		
	1975	1976	1977
Public Utilities	25	39	35
Industry	22	18	18
Education	24	19	19
Agriculture	13	11	17
Health	2	1	2
Social Infrastructure	4	4	1
Planning and Administration	1	1	3
Multi-sector and unallocated	9	7	6
Total	100	100	100

Following the Economic Summit last July in Bonn, the German Government declared its intention to increase the allocation of future aid commitments to energy development in LDCs. Besides financial and technical assistance for energy production, the German program will be geared in particular to advise LDC governments in their energy planning as well as in producing and marketing new techniques especially suited for use in developing countries.

The government is in favor of allocating aid to basic needs and an increasing share of aid commitment is being allocated to BHN.

Terms and Conditions: The overall grant element of German ODA commitment in 1977 was 86.1% (excluding debt reorganization) compared to the average for DAC members of 89.4%. The grant element of ODA commitment to LLDCs was 93.8% compared to the average for DAC members of 94.2%. In 1977, local cost financing represented 8% of German capital aid.

Between 1973-76, Germany made important progress towards untying of aid and tied portion of aid declined from 39% in 1973 to 1% in 1976. However, in 1977, the tied portion aid increased to 10%. This has resulted from the government program introduced in 1977, to support the employment in domestic ship building and locomotive industries. This program was extended in 1978 so that the tied portion of aid is expected to increase further in the immediate future.

Debt Relief: The terms of German ODA to LLDCs are likely to improve in coming years because of the government's decision in 1977 to extend all future assistance to this group in the form of grants and to convert past ODA loans to grants. The German Government has agreed to provide debt relief to LLDCs when requested by the country and upon consideration on a case-by-case basis. A total of 30 LLDC countries are eligible under the plan with total amount of debt relief estimated by the government at $4.2 billion - $2 billion in the form of cancellation of interest and amortization payments due after December 31, 1978 and $2.2 billion committed but not yet disbursed.

Total Resource Flows

Commercial Bank Lending and Investments: International lending by commercial banks in Germany nearly doubled in the period 1975-77. These statistics, moreover, exclude the loans by foreign branches and subsidiaries of German banks, notably those in Luxembourg, through which a large portion of German bank Eurocurrency lending is carried out.[1/] Bond issues on the German capital market by developing countries and by multilateral development institutions have increased even more rapidly (from $0.43 billion in 1975 to $1.49 billion in 1977); multilateral issues still account for the bulk of these funds.

1/ Detailed statistics on the operations of banks in Luxembourg are not available. The BIS reports that total Eurocurrency assets of Luxembourg banks in June 1978 were $71.5 billion or four times the Eurocurrency claims of banks in Germany. The absence of detailed statistics about Luxembourg activities of German banks has been a matter of concern to German authorities, who are understood to have taken the matter up with German banks.

German direct investment in developing countries which grew at 10-11% in the 1960s accelerated to 23% per annum from 1971 to 1976, and now accounts for 10% of total DAC private direct investment (compared to 5-6% in the Sixties). Most of Germany's investment in developing countries has gone into manufacturing, although an increasing share in recent years has gone into services such as hotels and finance. Latin America and Southern Europe received over 70% of investment in 1972-76, with Brazil alone accounting for about 25%. German direct inventments, particularly in Brazil, have probably substituted in part for German exports by transferring production to the market country.

A picture of the structure of German residents' assets and liabilities vis-a-vis non-oil developing countries is provided in Table 2. It is noteworthy that German long-term claims (excluding direct investment and real estate) on non-oil developing countries are equal to about 11% of the total medium- and long-term debt of these countries, or roughly the same as the German share in these countries' foreign trade. Almost all of the financial and trade credit, which includes about half of short-term claims, is officially guaranteed or insured.

Table 2: FEDERAL REPUBLIC OF GERMANY DIRECT INVESTMENT FLOWS TO DEVELOPING COUNTRIES BY SECTOR AND DESTINATION /a

(US$ million)

	Amounts		Percent of Total	
	1972-76	1952-76	1972-76	1952-76
By Sector:				
Mining	171	399	6.0	7.1
Manufacturing	1,497	3,505	52.5	62.1
of which:				
Chemicals	407	968	14.3	17.2
Automobiles	121	460	4.3	8.2
Electrical engineering	289	571	10.1	10.1
Other	680	1,585	23.8	28.1
Other	1,183	1,739	41.5	30.8
TOTAL	2,851	5,643	100.0	100.0
By Destination:				
Southern Europe	915	1,528	32.1	27.1
Africa	381	897	13.3	15.9
Latin America	1,145	2,562	40.1	45.4
Middle East	287	379	10.1	6.7
Asia and Oceania	123	276	4.3	4.9
TOTAL	2,851	5,643	100.0	100.0

/a Data shown in this table do not include reinvested earnings, which are not available in sufficient detail, and thus differ from OECD data shown in Table 10.

Source: Bundesminister der Justiz, Bundesanzeiger, various issues.

Issues on ODA Disbursements

The German aid authorities have been particularly upset by disbursement shortfalls in both bilateral and multilateral aid programs because of lapsing provisions in their budgetary procedures. In 1977, 5% of the aid funds, and in 1978 an estimated 10% to 12% of the funds, were not spent. At the end of 1977, the German "pipeline" of aid funds (DM18.6 billion) represented over five times that year's cash authorization budget.

In the bilateral program, several remedies for slow disbursement are being discussed, such as a renewed expansion of more quickly disbursing program assistance (whose share in total ODA has gone down from 43% in 1972 to 6% in 1977); the feasibility of a multi-year aid budget or, short of that, the possibility of transferring unspent aid funds to the next budget; and greater flexibility for transfers of funds from one budgetary item to another. But the more basic problems regarding the absorptive capacity of LDCs and the sluggish flow of resources into poverty oriented projects are also being raised.

[Special section on IDA calls on German contributions to be supplied 3/5/79.]

S

Trade Relations with the Developing Countries

1. Germany's trade relations with developing countries have to be examined in the context of the economic relations of the European Community with these countries. Trade relations of the European Community with the developing world, although increasing rapidly, are far less intensive than those of the United States and Japan. In 1970, that is, prior to the boom in commodity and energy prices, the share of developing countries (including the oil exporters) in total imports of Germany and the rest of EC amounted to 19.4 and 22.0% respectively, while for the United States and Japan the corresponding proportions were 27.8 and 39.7% (Table 1). On the exports side the EC and German percentages were even lower and the difference with the United States ~~and Japan larger~~. As can be seen in Table 1, even more striking are the differences in the distribution of the increase in imports and exports of those countries over the period 1960-70; the developing countries had a relatively minor share in the rapid foreign trade expansion of the EC during the 1960s. In terms of the developing countries' overall export performance, the EC market has certainly not been an expansionary factor. In 1963, the EC absorbed 56% of all developing countries exports to the industrialized world; by 1977 the EC share was down to 44% while during the same period the share of all industrialized countries in total exports of the developing countries remained almost constant (at about 68% in 1963 and 1977). The decline in the relative significance of the EC as a market for the developing countries is even sharper when the Southern European developing countries are excluded; the latter's trade with the EC has, of course, increased.

Table 1: GERMANY'S COMPARATIVE TRADE PERFORMANCE, 1960-1977

	Imports from:					Exports to:				
	Non-oil Exporting LDC	Oil Exporting LDC	European Community	Other	Total	Non-oil Exporting LDC	Oil Exporting LDC	European Community	Other	Total
I. Federal Republic of Germany										
1970, million US$	3,980	1,836	14,852	9,288	29,956	5,114	945	15,868	12,306	34,233
1970, share in total (%)	13.3	6.1	49.6	31.0	100.0	14.9	2.8	46.4	35.9	100.0
European Community (excl. Germany)										
1970, million US$	11,617	7,452	42,025	25,480	86,574	12,849	2,972	40,543	22,025	78,389
1970, share in total (%)	13.4	8.6	48.6	29.4	100.0	16.4	3.8	51.7	28.1	100.0
United States										
1970, million US$	10,154	1,657	9,800	20,841	42,452	12,615	1,918	11,300	17,398	43,231
1970, share in total (%)	23.9	3.9	23.1	49.1	100.0	29.2	4.4	26.1	40.3	100.0
Japan										
1970, million US$	4,668	2,835	1,553	9,825	18,881	6,674	971	1,862	9,811	19,318
1970, share in total (%)	24.7	15.0	8.2	52.1	100.0	34.6	5.0	9.6	50.8	100.0
II. Federal Republic of Germany										
1960-70 % growth p.a.	7.0	11.5	14.7	9.5	11.4	8.5	8.6	13.9	10.7	11.6
1960-70 incremental share in total (%)	9.9	6.2	56.0	27.9	100.0	12.5	2.3	50.7	34.5	100.0
European Community (excl. Germany)										
1960-70 % growth p.a.	5.1	-8.7	13.1	7.7	9.6	6.5	2.5	13.0	8.8	9.9
1960-70 incremental share in total (%)	8.8	-8.2	57.3	25.7	100.0	12.6	1.3	39.9	26.2	100.0
United States										
1960-70 % growth p.a.	7.8	1.3	11.2	14.4	10.9	7.5	7.1	8.4	7.5	7.7
1960-70 incremental share in total (%)	19.6	0.7	23.4	56.3	100.0	28.7	4.2	27.6	39.5	100.0
Japan										
1960-70 % growth p.a.	13.5	19.4	17.4	15.2	15.4	14.1	11.2	19.4	19.7	16.9
1960-70 incremental share in total (%)	23.3	16.4	8.6	51.7	100.0	32.0	4.2	10.1	53.7	100.0
III. Federal Republic of Germany										
1970-77 % growth p.a.	20.1	27.4	18.6	16.9	19.0	18.1	41.3	19.0	17.2	19.3
1970-77 incremental share in total (%)	14.5	11.4	48.4	25.7	100.0	13.5	11.5	45.0	30.0	100.0
European Community (excl. Germany)										
1970-77 % growth p.a.	17.2	28.1	19.1	16.0	18.7	17.4	33.8	19.3	16.0	18.9
1970-77 incremental share in total (%)	11.7	15.1	50.1	23.1	100.0	14.4	10.7	53.2	21.7	100.0
United States										
1970-77 % growth p.a.	21.3	54.6	13.6	16.0	20.5	15.0	32.1	12.9	15.1	15.7
1970-77 incremental share in total (%)	25.4	29.2	12.0	33.4	100.0	27.3	15.0	19.7	38.0	100.0
Japan										
1970-77 % growth p.a.	18.6	36.6	15.4	15.3	20.9	20.8	43.0	24.9	20.1	22.8
1970-77 incremental share in total (%)	20.4	42.6	5.1	31.9	100.0	29.8	17.6	11.2	41.4	100.0

Source: IMF, Direction of Trade 1958-62, 1970-76,1971-77.

2. The relatively low share of developing countries in the foreign trade expansion of the EC countries until the early 70's is not at all surprising. European economic integration, set in motion by the Treaty of Rome in 1957 and the creation of customs unions among the original six EC partners and other European countries (EFTA), had its major impact during the 1960s. The imposition of common external tariffs, and the rapid dismantling of all internal import duties and other restrictions, resulted in a rapid expansion of trade within the region. Although most studies agree that the trade diverting impact of the EC customs union has been small, if any, the fact remains that it has led to a much more rapid increase in intra-EC trade and consequently to a relatively lower intensity of trade relations with the rest of the world and the developing countries in particular. Table 1 shows that intra-EC trade contributed more than 55% to the Community's overall trade expansion (exports + imports) in the period 1960-70. The developing countries' share (including the oil exporting countries) was limited to about 15%, far less than their share in the trade expansion of the US and Japan. Part of the explanation for this, of course, lies in the Community's high degree of self-sufficiency in food production, fostered by the discriminatory common agricultural policy. The Community's external tariff barrier has been considerably reduced since its creation, particularly in manufactures, and is now the lowest among the industrialized countries (Table 2).[/1]

3. In the case of Germany, the EC-integration argument is even stronger. At the start of the customs union, the Federal Republic had by far the highest tariff protection on imports of all the original EC partners. Within the short time frame established for the abolition of internal tariffs, the German rate of liberalization on imports from EC partners was therefore

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/1 The discussion of protectionism is on page 9.

Table 2: TARIFF BARRIERS FACING DEVELOPING COUNTRIES IN MAJOR DEVELOPED MARKETS

(Average tariff in percent)

	United States	Japan	EC	Others
All products of which:	2.7	4.3	0.8	2.2
Primary commodities	1.8	6.9	2.5	3.7
Fuels	0.9	3.2	0.0	0.0
Manufactures	8.3	5.7	3.6	5.1

Source: UNCTAD Handbook of International Trade and Development Statistics, 1977 Supplement.

also the highest. For that reason mainly, the impact of European integration on Germany's imports from EC partners has been relatively stronger than on its exports to the Community. Although the changes in Germany's external trade regime also provided major opportunities for non-EC countries, prevailing institutional and supply conditions initially strongly favored the original EC partners.

4. Germany's overall trade balance evolved steadily from a DM3 billion deficit in 1950 to a DM38.4 billion surplus in 1977; the regional distribution of the balance, as well as the changes therein between the 1950s and subsequent periods, show some interesting patterns (Table 3). The contribution of the original five EEC partners in the increasing German surplus is minor, and relatively smaller after 1960 than before; this is consistent with the specific integration impacts described above. While Germany's deficit with the United States was increasing through the 1950s, the trend was reversed after 1960; the same holds true, but in the opposite direction, with regard to Japan which moved into a modest surplus position towards the end of the 1960s. The bulk of the increase in the German trade surplus was at the expense of the group "Other OECD".1/

5. The non-oil developing countries' contribution was marginal, but had an interesting evolution. In 1950, virtually all of Germany's deficit was accounted for by non-oil developing countries and the United States, reflecting a rapidly increasing demand for raw materials in the direct after-war period, when the reconstruction of the domestic economy was absorbing all productive capacity. During the 1950s, the gradual emergence of strong and competitive exports industries in Germany contributed to the elimination

1/ See Table 3, note b.

Table 3: GERMANY'S BALANCE OF TRADE BY REGIONS

(Customs basis; exports f.o.b. minus imports c.i.f.; millions DM)

	Trade Balance		Changes in Trade Balance /a		
	1950	1977	1950-60	1960-70	1970-77
Trade balance with:					
European Community of which	-161	9,378	2,374	1,438	5,727
Original EEC	(100)	(2,873)	(1,347)	(375)	(1,051)
United States	-1,305	1,174	-946	1,622	1,803
Japan	-5	-3,480	222	-312	-3,385
Other OECD/b	243	23,642	5,065	9,209	9,125
Non-oil Developing Countries	-2,364	874	2,912	-15	341
OPEC	571	1,463	-1,640	-2,244	4,776
Centrally Planned Economies/c	9	5,366	248	749	4,360
WORLD	-3,012	38,417	8,235	10,447	22,747

/a Absolute changes in trade balances between the indicated benchmark years; initial 1950 balances, plus the cumulative sum of the changes in these balances in the respective sub-periods equals the 1977 trade balances.

/b Including the Southern European OECD members: Greece, Portugal, Spain and Turkey.

/c Excludes transactions with the German Democratic Republic.

Source: OECD Economic Surveys: Germany, June 1978, Annex Table F.

of trade deficits, and in particular the deficit with developing countries. In the 1960s, with the EC partners absorbing the major part of Germany's increasing export capacity, the country's trade with the non-oil developing countries remained approximately in balance, and stayed that way through 1977.

6. With regard to the OPEC countries the pattern was totally different: the Federal Republic moved from an initial surplus into a steadily increasing deficit in the 1950s and 1960s. The underlying cause, however, was different for the two periods. During the former period Germany's energy consumption underwent a rapid conversion from coal, as the main source of supply, to oil; consequently, imports from OPEC increased at an annual rate of almost 30%, that is, at twice the rate of growth of total imports. During the 1960s imports from OPEC slowed down to 9.0% growth on average per year, that is, in line with the overall growth of imports. Exports to OPEC, however, slowed down significantly, due to the high rate of absorption of German exports within the Community. Beyond 1970 the Federal Republic, in spite of a four-fold increase in oil prices and substantial appreciation of its currency, was the only major industrialized country to actually build up a trade surplus with OPEC. This is due to a combination of factors. In the first place, Germany's trade balance with OPEC seriously understates the actual impact of rising energy prices on its overall balance, as a relatively high proportion of its energy imports enter the country through EC partners (mainly the Netherlands), in the form of refined petroleum and natural gas. The direct share of developing countries of Germany's total energy imports is one of the lowest among the industrialized countries. Secondly, the appreciation of the DM against the US dollar by 57.3% between 1970 and

1977, considerably reduced the terms of trade loss resulting from the rise in oil prices. Lastly, Germany had great success in expanding exports to the OPEC countries in that period (Table 1). Germany's export industries evidently remained competitive despite the DM appreciation.

7. The commodity composition of German imports and exports is provided in Annex Table 4, both for total trade and for trade with the developing countries; the origin and destination of German trade with developing countries by commodity, in 1976, is further detailed in Annex Tables 1 and 2.

8. Manufactures account for almost 90% of Germany's total exports and for 95% of its exports to developing countries. Southern Europe and the Middle East absorbed more than 50% of manufactured exports to all developing countries, and all developing countries accounted for almost one quarter of total German exports in that category.

9. During the period 1968 to 1976 the value of German exports to the developing world increased at a higher rate than its total exports (22.1 and 19.3%, respectively); this was true for all major primary and manufactured components of exports, with the exception of "chemical elements and compounds" and "iron and steel". The strongest relative export performance to the developing markets was in all major components of machinery and transport equipment. Some very spectacular developments appear at a more disaggregated level; for example, German exports to developing (mostly OPEC) countries of building materials which were almost non-existent in 1968,

increased by more than 40% per annum through 1977 and in the latter year these countries accounted for 43% of total exports of building materials. This is a typical example of "export creation", most certainly connected with the upsurge in construction projects contracted to German firms by the oil-rich countries.

10. Imports from developing countries in 1968-76, moved in line with the overall growth of German imports. The developing countries were able to compensate for the decline in their share in primary markets (including fuels) by a rather strong penetration of German markets in manufactures. The value of developing countries' manufactured exports to the Federal Republic(in almost equal proportions from Asia and Southern Europe) increased at a rate close to 34% per annum, pushing their share in Germany's total imports from 5.4% in 1968 to 11.5% in 1976. In that year, for example, 48% of German imports of clothing and 23% of textiles, originated in developing countries. Although textiles and clothing are the most highly publicized cases of market penetration by developing countries, in terms of the rate of penetration of the German market, machinery is an even more spectacular case. From an almost zero level in 1968 developing countries managed to export machinery worth more than US$800 million to Germany, almost 8% of the country's total imports in that category. Furthermore, machinery exports which accounted for less than 5% of the developing countries' manufactured exports to the Federal Republic in 1968, had grown to a 14.5% share in 1976, and had the same relative importance as textiles.

11. In the field of manufactures, the drastic improvement in the developing countries' trade position vis-a-vis the Federal Republic is illustrated by the fact that while in 1968, German exports of manufactures to developing

countries were eight times the value of its imports of manufactures from these countries, in 1976 they were only three times as much. (The comparable ratio for German manufactures trade with the world as a whole is two.)

12. The Federal Republic has been remarkably successful in recent years in holding the line against protectionist pressure groups. It has been one of the most liberal of the industrialized countries, with a strong commitment to trade which has proved highly beneficial for the economy.

13. There are few examples of German protective measures. Most EC safeguard measures taken against manufactured imports from third countries in 1973-78, have been imposed at the behest of the United Kingdom, France, Ireland or Italy, and Germany has resisted protectionist actions by the Community. Export subsidies in the Federal Republic are relatively low, and certainly so in comparison to the EC partners. The German steel industry did not favor the "Davignon" plan (calling for various measures to rationalize and reduce supply within the Community, among others through voluntary export restraints and the application of minimum domestic prices), and evidently went along only in the name of EC solidarity.

Workers' Remittances and Tourism

14. In 1975, there were about 6.3 million foreign workers in Western and Northern Europe. The Federal Republic of Germany had the largest volume of immigrants, followed by France, Switzerland, Belgium, Netherlands, Sweden, Austria and Luxembourg.

15. The number of foreign workers in the Federal Republic, and their share in total employment, has increased about nine-fold over the period 1960-73. In the 1973, the peak year, there were 2.5 million foreign workers in Germany, representing 9.4% of total employment. The 1974/75 recession triggered a freeze on new immigration to Germany, a steady decline in the number of foreign workers, as well as in their share of total employment. Since Germany's policies on foreign workers have not changed, despite the recent recovery in economic activity, in 1977 the number of foreign workers in the Federal Republic was down to 1.9 million, still representing 7.5% of total employment.

Table 4: EMPLOYMENT IN GERMANY, 1960-1977

(Thousands)

	1960	1970	1973	1974	1975	1976	1977
Total Employment	26,247	26,668	26,712	26,215	25,323	25,088	24,972
Foreigners	279	1,807	2,498	2,381	2,061	1,925	1,872
% of total employment	1.1	6.8	9.4	9.1	8.1	7.7	7.5

Source: OECD Economic Survey: Germany, June 1978.

16. The bulk of immigrant labor consists of semi-skilled or skilled production workers. They have been employed mainly in the manufacturing, construction and services sectors. In 1975, 60% of foreigners were employed in the manufacturing sector, 13% in services, 11% in construction, 6% in commerce, 1% in agriculture and 9% in other sectors.

17. The net outflow of workers' remittances over the period 1960-77 moved parallel with the number of workers, reaching a peak of $3.7 billion in 1973, and declining thereafter to $3.2 billion in 1977.

Table 5: NET OUTFLOW OF WORKERS' REMITTANCES FROM GERMANY
(millions of US$)

	1970	1973	1974	1975	1976	1977
Receipts	322	670	791	968	1,312	1,597
Payments	1,948	4,386	4,416	4,424	4,319	4,775
Net Outflow	1,626	3,716	3,625	3,456	3,007	3,178

Source: IMF.

18. The destination of workers' remittances has remained pretty much unchanged. In the 1970s, over 80% of the net outflow went to developing countries, mainly in Southern Europe. Turkey and Yugoslavia have been the major individual recipients, increasing their shares in the total net outflow from 53% in 1971 to 63% in 1977.

Table 6: NET OUTFLOW OF WORKERS' REMITTANCES FROM GERMANY BY COUNTRY OF DESTINATION, 1971-1977

(In percent of total)

	Southern European Developing Countries							
	Spain	Greece	Turkey	Yugoslavia	Portugal	Italy	Others	Total
1971	10.1	11.6	27.9	24.8	3.1	17.8	4.7	100.0
1977	7.0	10.2	33.6	28.9	3.1	12.5	4.7	100.0

Source: Deutsche Bundesbank, January 1979

19. The net outflow of tourism and travel payments from the Federal Republic, fueled by successive DM appreciations against the currency of host countries, almost doubled between 1974 and 1978, reaching approximately $9 billion in 1978. About 20% of this outflow benefits developing countries, almost entirely in Southern Europe, mainly Spain which absorbs about half of it.

Table 7: TRAVEL: DISTRIBUTION OF NET PAYMENTS FROM THE FEDERAL REPUBLIC OF GERMANY BY DESTINATION, 1974-1978

	1974	1975	1976	1977	1978[e]
	(In percent of total)				
Developing countries of which:	20.1	19.8	19.3	18.8	20.2
Southern Europe	17.6	17.9	17.6	17.4	18.2
(Spain)	(9.3)	(10.2)	(9.8)	(10.0)	(10.3)
Others	2.6	1.9	1.7	1.4	2.0
TOTAL World (%)	100.0	100.0	100.0	100.0	100.0
(in US$M)	4,719	5,660	5,644	7,007	9,059

[e]Estimate.

Source: Deutsche Bundesbank, January 1979.

ANNEX

Table 1: GERMANY'S IMPORTS (c.i.f.) BY COMMODITIES AND REGIONS: 1976

(Millions of US dollars)

	(SITC Code)	World Total	Developed Countries	Developing Countries	CPE's/a	of Developed Countries: E.E.C.	of Developing Countries: Africa	Latin America and Caribbean	Middle East	Asia & Pacific	Europe	(OPEC)
1. Food and Beverages	(0+1+22+4)	13,711	9,110	3,904	540	6,875	700	1,695	95	654	760	229
2. Non-food Agriculture	(2 -22 -27 -28)	4,356	2,785	1,033	397	1,260	292	198	78	336	129	109
3. Fuel and Energy	(3)	15,828	5,060	9,403	1,329	4,541	4,218	289	4,806	25	65	9,018
4. Non-fuel Minerals and Metals	(27+28+68)	5,575	1,684	1,469	379	615	404	638	14	269	144	113
5. Manufactures	(5 to 9 -68)	48,313	42,641	5,577	1,680	29,237	215	462	354	2,313	2,233	247
6. TOTAL	(0 to 9)	87,783	61,280	21,386	4,325	42,528	5,829	3,282	5,347	3,597	3,331	9,716

/a Centrally Planned Economies.

NOTE: Definitions of LDC regional classifications are consistent with those in the WDR, but differ from those used by IMF and OECD.

Source: OECD, Trade by Commodities, Series C, 1976.

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Table 2: GERMANY'S EXPORTS (f.o.b.) BY COMMODITIES AND REGIONS: 1976

(Millions of US dollars)

						of Developed Countries	of Developing Countries					
	(SITC Code)	World Total	Developed Countries	Developing Countries	CPE's/a	E.E.C.	Africa	Latin America and Caribbean	Middle East	Asia & Pacific	Europe	(OPEC)
1. Food and Beverages	(0+1+22+4)	4,529	3,810	552	162	3,111	233	45	107	65	102	191
2. Non-food Agriculture	(2 -22 -27 -28)	1,483	1,141	270	65	836	20	28	37	13	171	40
3. Fuel and Energy	(3)	2,933	2,474	125	50	1,799	32	21	17	10	44	27
4. Non-Fuel Minerals and Metals	(27+28+68)	2,687	2,280	281	116	1,669	37	51	63	38	94	79
5. Manufactures	(5 to 9 -68)	90,400	61,194	21,422	6,533	39,234	4,037	3,345	5,893	2,429	5,718	7,927
6. TOTAL	(0 to 9)	102,032	70,899	22,650	6,926	46,649	4,359	3,490	6,117	2,555	6,129	8,264

/a Centrally Planned Economies.

NOTE: Definitions of LDC regional classifications are consistent with those in the WDR, but differ from those used by IMF and OECD.

Source: OECD, Trade by Commodities, Series C, 1976.

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Table 3: GERMANY'S TRADE WITH DEVELOPING COUNTRIES BY REGION (SELECTED COUNTRIES): 1960-1977 (SELECTED YEARS)

(Millions of US dollars)

	1960	1965	1970	1975	1976	1977	Percentage Share 1960	Percentage Share 1977	Average Growth Rate (%) 1960-1977
xports (f.o.b.) to:									
1. Southern Europe	628	1,078	2,204	6,334	6,489	7,312	23.5	27.1	15.5
2. Africa	438	527	948	3,634	4,359	5,665	16.3	21.0	16.3
Algeria	14	16	99	611	741	1,079	0.5	4.0	29.1
Libya	20	42	46	536	523	650	0.7	2.4	22.7
Nigeria	40	77	102	652	867	1,293	1.5	4.8	22.7
Egypt	113	102	122	423	583	589	4.2	2.2	10.2
3. Latin America and Caribbean	774	827	1,392	3,644	3,490	4,109	28.9	15.2	10.3
Brazil	129	90	310	1,207	1,089	969	4.8	3.6	12.6
Venezuela	91	106	146	371	540	985	3.4	3.6	15.0
Argentina	150	115	211	325	347	433	5.6	1.6	6.4
Mexico	75	125	184	457	435	330	2.8	1.2	9.1
4. Middle East	271	364	583	4,783	5,757	6,841	10.1	25.3	20.9
Iran	118	158	322	2,107	2,295	2,741	4.4	10.1	20.3
Saudi Arabia	16	36	65	566	1,192	1,713	0.6	6.3	31.6
Iraq	33	40	19	1,051	898	780	1.2	2.9	20.5
5. Asia	568	739	935	2,260	2,532	3,076	21.2	11.4	10.5
India	213	262	156	354	369	493	7.9	1.8	5.1
Indonesia	65	56	92	394	478	476	2.4	1.8	12.4
6. Oceania	2	5	19	19	23	17	0.0	0.0	13.4
7. LDC Total (1 to 6)	2,681	3,540	6,081	20,674	22,650	27,020	100.0	100.0	14.6
8. Total Exports	11,422	17,911	34,189	90,021	102,032	117,932			14.7
(~~Percent of~~ LDC Total, 7 ÷ 8) 0207	(23.5)	(19.8)	(17.8)	(23.0)	(22.2)	(22.9)			
Memo: OPEC	431	575	959	6,563	7,934	10,262			20.5
Centrally Planned Economies	536	672	1,475	7,083	6,929	7,224			16.5
ports (c.i.f.) from:									
1. [Sou]thern Europe	417	635	1,062	3,000	3,553	4,017	15.8	16.6	14.3
2. [Afr]ica	501	1,133	1,827	4,913	5,829	6,587	19.0	27.3	16.4
Algeria	26	60	150	1,025	1,146	1,176	1.0	4.9	25.1
Libya	1	371	664	1,391	2,099	2,162	0.0	8.9	57.1
Nigeria	68	105	155	962	976	1,104	2.8	4.6	17.8
3. Latin America and Caribbean	884	1,185	1,460	2,712	3,282	4,216	33.5	17.4	9.7
Brazil	120	204	309	899	961	1,152	4.6	4.8	14.2
Argentina	131	176	173	256	355	562	5.0	2.3	8.9
Chile	120	152	252	214	299	298	4.6	1.2	5.5
Colombia	69	89	111	228	335	508	2.6	2.1	12.5
4. Middle East	418	469	717	4,367	5,125	5,278	15.9	21.8	16.1
Iran	142	155	239	1,469	1,988	1,868	5.4	7.7	16.4
Saudi Arabia	126	132	200	1,592	1,798	160	4.8	0.7	1.4
Bahrain	25	0	6	740	1,987	1,866	0.9	7.7	28.9
5. Asia	412	491	732	2,582	3,428	4,063	15.6	16.8	14.4
Taiwan	5	30	77	372	436	533	0.2	2.2	31.6
Hong Kong	23	83	189	685	907	900	0.9	3.7	24.1
South Korea	1	4	20	301	405	518	0.0	2.1	44.4
Malaysia	n.a.	n.a.	85	225	310	377	n.a.	1.6	n.a.
India	47	61	71	196	297	337	1.8	1.4	12.3
Philippines	53	66	43	188	242	313	2.0	1.3	11.0
6. Oceania	4	8	11	25	169	30	0.2	0.1	12.6
7. LDC Total (1 to 6)	2,636	3,921	5,809	17,599	21,386	24,191	100.0	100.0	13.9
8. Total Imports	10,175	17,611	29,814	74,208	87,783	100,700			14.4
(~~Percent of~~ LDC Total, 7 ÷ 8) 27	(25.9)	(22.3)	(19.5)	(23.7)	(24.4)	(24.0)			
Memo: OPEC	646	1,177	1,757	7,230	8,830	9,043			16.8
Centrally Planned Economies	474	730	1,200	3,492	4,326	4,793			14.6

[No]te: Definitions of LDC regional classifications are consistent with those in the WDR, but differ from those used by IMF and OECD.
n.a. = not available

[So]urce: IMF, Direction of Trade, 1958-62, 1964-68; OECD, Statistics of Foreign Trade, Series A, 1973, 1976, 1978.

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Table 4: FEDERAL REPUBLIC OF GERMANY TRADE WITH DEVELOPING COUNTRIES AND WITH WORLD BY COMMODITIES: 1968 AND 1976

(In current million US dollars)

Commodities	(SITC Codes)	Trade with Developing Countries 1968	1976	Percentage Shares 1968	1976	Annual Growth Rates (%) 1968-76	Trade with World 1968	1976	Percentage Shares 1968	1976	Annual Growth Rates (%) 1968-76	Shares of Developin Countries in FRG Trade with World 1968	1976
EXPORTS (f.o.b.)													
1. Food and Beverages	(0+1+22+4)	84	352	1.8	2.4	26.5	744	4,529	3.0	4.4	25.3	11.3	12.2
2. Non-Food Agriculture	(2-22-27-28)	64	270	1.4	1.2	19.7	437	1,483	1.8	1.5	16.5	14.6	18.2
3. Fuel and Energy	(3)	32	125	0.7	0.6	18.6	826	2,933	3.3	2.9	17.2	3.9	4.3
4. Non-Fuel Minerals and Metals	(27+28+68)	82	281	1.8	1.2	16.6	861	2,687	3.5	2.6	15.3	9.5	10.5
of which: Non-ferrous metals	(68)	73	228	1.6	1.0	15.3	640	1,902	2.6	1.9	14.6	11.4	12.0
5. Manufactures	(5 to 9-68)	4,323	21,422	94.3	94.6	22.1	21,975	90,400	88.5	88.6	19.3	19.7	23.7
of which:													
Chemical elements and compounds	(51)	213	855	4.6	3.8	19.0	965	4,223	3.9	4.1	20.3	22.1	20.2
Plastic materials	(58)	126	663	2.7	2.9	23.1	648	3,227	2.6	3.2	22.2	19.4	20.5
Textile yarn, fabrics, etc.	(65)	176	676	3.8	3.0	18.3	1,001	3,849	4.0	3.8	18.3	17.6	17.7
Iron and steel	(67)	281	978	6.1	4.3	16.9	1,829	6,655	7.4	6.5	17.5	15.4	14.7
Manufactures of metals, NES	(69)	174	791	3.8	3.5	20.8	882	3,412	3.6	3.3	18.4	19.7	23.2
Finished structural parts and structures, NES	(691)	19	293	0.4	1.3	40.8	93	646	0.4	0.6	27.4	20.4	43.4
Machinery other than electric	(71)	1,268	6,903	27.6	30.5	23.6	5,498	22,280	22.1	21.8	19.1	23.1	31.0
Electrical machinery and appliances	(72)	441	2,591	9.6	11.4	24.8	1,947	9,410	7.8	9.2	21.8	22.7	27.5
Transport equipments	(73)	689	4,146	15.0	18.3	25.1	3,908	16,837	15.7	16.5	20.0	17.6	24.6
Scientific and control instruments, photo goods, clocks	(86)	129	527	2.8	2.3	19.2	752	2,731	3.0	2.7	17.5	17.2	19.3
6. Total Exports	(0 to 9)	4,585	22,650	100.0	100.0	22.1	24,842	102,032	100.0	100.0	19.3	18.5	22.2
IMPORTS (c.i.f.)				Shares in Non-Energy Imports					Shares in Non-Energy Imports				
1. Food and Beverages	(0+1+22+4)	1,334	3,904	42.6	32.6	14.4	4,151	13,711	22.9	19.1	16.1	32.1	28.5
of which:													
Fruits and vegetables	(05)	455	1,029	14.5	8.6	10.7	1,188	3,526	6.6	4.9	14.6	38.3	29.2
Coffee, tea, cocoa, spices	(07)	388	1,313	12.4	11.0	16.5	460	1,540	2.5	2.1	16.3	84.3	85.3
Feeding stuff for animals excluding unmilled cereals	(08)	150	382	4.8	3.2	12.4	288	826	1.6	1.1	14.1	52.1	46.2
Oil seeds, nuts and kernels	(22)	73	373	2.3	3.1	22.6	274	1,105	1.5	1.5	19.0	26.6	33.8
2. Non-Food Agriculture	(2-22-27-28)	494	1,033	15.8	8.6	9.7	1,561	4,356	8.6	6.1	13.7	31.6	23.7
of which:													
Wood, lumber and cork	(24)	116	289	3.7	2.4	12.1	319	847	1.8	1.2	13.0	36.4	34.1
Textile fibers, not manufactured, and waste	(26)	216	329	6.9	2.7	5.4	465	992	2.6	1.4	9.9	46.5	33.2
3. Non-Fuel Minerals and Metals	(27+28+68)	766	1,469	24.4	12.3	8.5	2,453	5,575	13.6	7.7	10.8	31.2	26.3
of which:													
Metalliferous ores and scrap	(28)	304	834	9.7	7.0	13.4	876	2,256	4.8	3.1	12.6	34.7	37.0
Non-ferrous metals	(68)	419	554	13.4	4.6	3.6	1,320	2,660	7.3	3.7	9.2	31.7	20.8
4. Manufactures	(5 to 9-68)	539	5,577	17.2	46.5	33.9	9,928	48,313	54.9	67.1	21.9	5.4	11.5
of which:													
Textile yarn, fabrics, etc.	(65)	125	802	4.0	6.7	26.2	1,090	3,549	6.0	4.9	15.9	11.5	22.6
Machinery other than electric	(71)	13	325	0.4	2.7	49.5	1,334	5,888	7.4	8.2	20.4	1.0	5.5
Electrical machinery and appliances	(72)	13	482	0.4	4.0	57.1	699	4,426	3.9	6.2	25.9	1.9	10.9
Clothing	(84)	120	1,975	3.8	16.5	41.9	539	4,161	3.0	5.8	29.1	22.3	47.5
Miscellaneous manufactures	(89)	27	259	0.9	2.2	32.7	392	2,090	1.8	2.9	23.3	8.2	12.4
5. Total Imports excluding Fuels and Energy	(0 to 9-3)	3,133	11,983	100.0	100.0	18.3	18,093	71,955	100.0	100.0	18.8	17.3	16.7
6. Fuels and Energy	(3)	1,402	9,403	30.9	44.0	26.9	2,057	15,828	10.2	18.0	29.1	68.2	59.4
of which: Petroleum, crude and partly refined	(331)	1,350	9,008	29.8	42.1	26.8	1,401	9,487	7.0	10.8	27.0	96.4	95.0
7. Total Imports including Fuels and Energy	(0 to 9)	4,535	21,386	100.0	100.0	21.4	20,150	87,783	100.0	100.0	20.2	22.3	24.4

NOTE: Definitions of LDC regional classifications are consistent with those in the WDR, but differ from those used by IMF and OECD.

Source: OECD, Trade by Commodities, Series C (Market Summaries: Exports and Market Summaries: Imports), January-December 1968 and January-December 1976.

ANNEX

Table 3: GERMAN DIRECT INVESTMENT FLOW BY AREAS (NET): 1962-1976

	All Countries	All Countries (excl. tax haven countries) (A)	Developed Countries (B)	Developing Countries	Developing Countries (excl. tax haven countries) (C)	East Bloc Countries (D)	Tax haven Countries a/	Percentage Share: Developed Countries (B/A)	Percentage Share: Developing Countries (C/A)	Percentage Share: East Bloc Countries (D/A)
	In millions of US dollars b/							%		
1962	278	278	176	102	102	-	neg.	63.3	36.7	-
1963	280	280	212	68	68	-	neg.	75.7	24.3	-
1964	285	285	239	46	46	-	neg.	83.9	16.1	-
1965	278	276	215	63	61	-	2	77.9	22.1	-
1966	420	404	314	106	90	-	16	77.7	22.3	-
1967	517	516	408	109	108	-	1	79.1	20.9	-
1968	574	540	394	180	146	-	34	73.0	27.0	-
1969	833	697	529	304	168	neg.	136	75.9	24.1	-
1970	958	928	731	227	197	neg.	30	78.8	21.2	-
1971	766	912	632	134	280	neg.	-146	69.3	30.7	-
1972	883	836	507	376	329	neg.	47	60.6	39.4	-
1973	2,110	2,096	1,446	663	649	1	14	69.0	31.0	-
1974	1,748	1,704	1,303	444	400	1	44	76.5	23.5	-
1975	2,124	2,089	1,522	602	567	neg.	35	72.9	27.1	-
1976	2,008	1,903	1,232	766	661	10	105	64.7	34.7	0.6
End 1976 c/	18,685	18,265	13,029	5,644	5,224	12	420	71.3	28.6	0.1
1962-1970	4,423	4,204	3,218	1,205	986	neg.	219	76.5	23.5	-
1971-1976	9,639	9,540	6,642	2,985	2,886	12	99	69.6	30.3	0.1
19[illegible]6	14,062	13,744	9,860	4,190	3,872	12	318	71.7	28.2	0.1
1962-[illegible] Average	491	467	357	134	110	neg.	24			
1971-197[illegible] Average	1,607	1,590	1,107	498	481	2	17			
1962-1975 Average	937	916	657	279	258	1	21			
1963-1970 Average Annual Growth Rate (%)	16.7	16.3	19.5	10.5	8.6					
1971-1975 Average Annual Growth Rate (%)	13.1	12.7	9.1	22.5	22.3					
1963-1975 Average Annual Growth Rate (%)	15.1	14.7	14.9	15.5	14.3					

a/ Bahamas, Bermuda, the Netherland Antilles and Cayman Islands (from 1973).
b/ Calculated by using German Mark-US dollar exchange rates (IMF, "af" rates).
c/ Accumulated total net flow of 1952 to June 1976, calculated tentatively by using an average rate of German Mark-US dollar exchange rate for 1976 IMF, "af" rate).

Note: neg. = negligible

Source: Bundesministerium der Justiz, Bundesanzeiger, various issues.

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Table 6: GERMAN DIRECT INVESTMENT FLOW TO DEVELOPING COUNTRIES BY SELECTED RECIPIENT COUNTRIES (NET):[a] 1965-76

(In millions of dollars)[b]

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Southern Europe	27.8	31.6	27.4	26.2	49.9	48.2	83.0	163.2	307.9	130.7	133.6	200.0[d]
Greece	2.9	3.8	3.0	3.6	2.7	2.9	7.8	5.9	16.1	12.5	17.6	30.0
Spain	16.4	22.7	20.3	20.5	46.5	41.8	63.9	153.3	279.8	113.0	89.8	36.0
Turkey	3.5	5.1	4.1	2.1	-0.3	3.6	4.7	1.7	2.9	0.1	2.0	3.1
Africa	13.6	23.7	26.1	33.9	15.8	57.9	65.7	83.3	113.5	10.7	109.0	64.8
Egypt	0	-0.03	0.1	0.2	0.03	0.03	0.03	0.03	0.1	3.2	15.0	23.9
Algeria	2.1	0.1	0	0.03	0	0.2	-0.1	-15.9	0.1	6.2	48.2	8.9
Libya	1.9	2.9	20.0	43.4	13.5	19.2	1.9	3.8	1.3	-54.4	1.8	4.1
Canary Islands (Spanish)	0.9	0	0.1	0.5	1.4	23.6	50.8	59.0	90.1	25.3	15.4	7.7
Kenya	-0.4	1.7	0.7	0.4	0.8	2.4	0.5	2.4	4.1	2.6	2.6	3.9
Liberia	0.8	12.6	0.4	0.5	-2.3	5.9	0.9	2.2	-11.8	2.3	1.1	0.4
Nigeria	2.6	0.3	0.4	0.1	-0.1	1.2	-0.2	13.1	12.0	16.9	10.4	3.8
Zaire	0.4	0.2	-0.1	0.03	0.8	0	0.4	6.7	10.7	1.4	0.4	3.2
Latin America and Caribbean	16.2	39.1	47.6	117.9	230.2	105.4	-46.8	66.4	137.1	253.9	302.5	384.9
	(14.0)	(23.7)	(47.0)	(79.0)	(94.1)	(75.1)	(99.4)	(19.6)	(127.9)	(208.6)	(267.5)	(280.3)
Mexico	2.4	4.4	11.6	8.1	18.8	7.2	15.0	-4.7	29.8	10.0	7.7	19.7
Panama	0.8	0.03	0.1	1.5	13.7	16.6	4.1	-15.6	3.0	6.8	20.0	1.6
Trinidad & Tobago	0	0	0	0	0	0	0.03	4.8	0.2	0.2	19.2	11.7
Argentina	2.1	4.7	4.4	8.5	10.5	13.0	7.4	6.2	13.3	9.3	11.6	-4.7
Brazil	3.9	11.9	14.3	57.0	39.7	35.1	51.3	49.6	70.8	165.0	183.2	229.0
Chile	0.7	3.0	5.0	1.8	6.3	2.2	-0.9	-2.4	-0.4	3.0	1.2	2.1
Colombia	4.4	-1.5	3.1	1.5	-0.6	-1.1	1.2	0.1	-0.6	1.5	3.2	1.6
Peru	0.2	0.6	1.4	0.3	1.1	0.2	0	0.03	0.4	6.0	11.1	7.4
Venezuela	0.1	0.4	1.1	0.5	1.0	0.7	0.5	1.9	4.1	4.9	3.5	2.1
Middle East	2.1	7.2	2.0	1.1	3.4	9.0	11.0	45.7	81.5	20.8	44.0	94.5
Iran	1.6	3.5	0.5	0.6	2.7	7.2	3.9	4.7	5.4	4.5	26.9	45.8
Israel	0.1	3.1	0.1	0.1	0.3	1.3	9.6	39.5	73.6	9.7	6.9	35.7
United Arab Emir.	0	0	0	0	0	0	0	0	3.1	1.9	7.1	0.4
Asia & Oceania	8.1	4.3	6.1	5.8	2.7	6.3	24.0	17.4	23.2	27.8	33.0	21.5
Hongkong	0	0.5	0.3	-0.03	0	0.3	1.2	0.7	0.6	5.2	9.7	8.3
India	5.3	2.5	4.6	1.6	1.9	0.6	3.2	-0.3	-3.6	1.4	1.5	0.2
Indonesia	0	0	0.1	0.3	1.0	2.2	1.6	2.9	5.6	8.0	4.7	0.3
Malaysia	0.2	0.1	0.1	0.4	0.2	0.5	1.1	0.3	1.5	5.6	3.5	3.1
Pakistan	1.2	1.0	1.4	0.3	0.8	0.6	1.6	-0.03	3.0	0.5	0.9	0.3
Singapore	0	0	0	0.5	0.3	0.6	6.3	8.3	14.6	-1.0	5.5	17.7
Total (1)	62.8	106.0	109.2	180.0	303.9	227.3	133.8	375.9	663.3	643.9	602.0	765.8
Tax Haven Countries (2)[e]	2.2	15.6	0.6	33.9	136.0	30.4	-146.2	46.8	14.4	45.3	35.0	104.6
Oil Exporters (3)[f]	6.5	7.3	23.4	44.9	18.3	31.2	10.2	15.8	32.0	-4.5	123.6	86.2
Spain, Greece & Israel (4)	19.5	29.6	23.4	24.2	49.5	45.9	81.1	198.8	371.5	135.1	114.3	79.8
Total (excl. tax haven countries) (1) - (2)	60.6	90.4	108.6	146.1	167.9	196.9	280.0	329.1	648.9	598.6	567.0	661.2
Total (excl. tax haven countries, oil exporters, Spain, Greece & Israel) (1)-(2)-(3)-(4)	34.6	53.1	61.8	77.0	100.1	119.4	188.5	114.5	245.4	270.0	329.1	495.2

	Cumulative Total[c] 1952-76	1965-1970	1971-1976	1965-1976	1965-1970 Average	1971-1976 Average	1965-1976 Average	Percent of Total (Excl. Tax Haven Countries) 1965-70	1971-76	1965-76	1952-76
Southern Europe	1579.2[d]	205.1	995.4	1200.5	34.2	165.9	100.0	26.6	34.5	37.8	29.2
Greece	123.6	18.9	71.9	90.8	3.2	12.0	7.6	2.5	2.5	2.5	2.4
Spain	1151.1	168.7	715.8	884.0	28.0	119.3	73.7	21.8	24.8	24.2	22.3
Turkey	55.3	18.1	12.0	30.1	3.0	2.0	2.5	2.3	0.4	0.8	1.1
Africa	897.3	171.0	447.0	618.0	28.5	74.5	51.5	22.2	15.5	16.9	17.2
Egypt	53.0	0.3	42.3	42.6	0.1	7.1	3.6	0.04	1.5	1.2	1.0
Algeria	62.8	2.4	47.4	49.8	0.4	7.9	4.2	0.3	1.6	1.4	1.2
Libya	132.8	100.9	-41.5	49.4	16.8	-6.9	4.1	13.1	-1.4	1.3	2.5
Canary Islands (Spanish)	327.9	26.5	248.3	274.8	4.4	41.4	22.9	3.4	8.6	7.5	6.3
Kenya	27.9	5.6	16.1	21.7	0.9	2.7	1.8	0.7	0.6	0.6	0.5
Liberia	55.8	17.9	-4.9	13.0	3.0	-0.8	1.1	2.3	-0.2	0.4	1.1
Nigeria	72.2	4.7	56.0	60.7	0.8	9.3	5.1	0.6	1.9	1.7	1.6
Zaire	30.3	1.3	22.8	24.1	0.2	3.8	2.0	0.2	0.8	0.7	0.6
Latin America and Caribbean	2562.4	551.8	1098.2	1650.0	92.0	183.0	137.5				
	(2142.3)	(332.9)	(998.3)	(1331.2)	(55.5)	(166.4)	(110.9)	(43.2)	(36.6)	(35.4)	(41.0)
Mexico	203.2	52.5	77.5	133.0	8.8	12.9	10.8	6.8	2.7	3.5	3.9
Panama	81.9	32.7	19.9	52.6	5.5	3.3	4.4	4.2	0.7	1.4	1.6
Trinidad & Tobago	36.9	0	36.1	36.1	0	6.0	3.0	0	1.2	1.0	0.7
Argentina	230.3	43.4	43.1	86.5	7.2	7.2	7.2	5.6	1.5	2.4	4.4
Brazil	1370.7	165.9	748.9	914.8	27.7	124.8	76.2	21.5	26.0	25.0	26.2
Chile	41.1	19.0	2.6	21.6	3.2	0.4	1.8	2.5	0.1	0.6	0.8
Colombia	49.5	5.8	9.0	14.8	1.0	1.5	1.2	0.8	0.3	0.4	0.9
Peru	46.1	3.8	24.9	28.7	0.6	4.2	2.4	0.5	0.9	0.8	0.9
Venezuela	32.2	3.8	15.0	18.8	0.6	2.5	1.6	0.5	0.5	0.5	0.6
Middle East	379.4	24.8	297.5	322.3	4.1	49.6	26.9	3.2	10.3	8.9	7.3
Iran	134.2	15.5	95.2	111.7	3.8	15.9	9.3	3.1	3.5	3.1	3.6
Israel	202.3	4.9	175.0	179.9	0.8	29.2	15.0	0.6	6.1	4.9	3.9
United Arab Emir.	12.6	0	12.5	12.5	0	2.1	1.0	0	0.4	0.3	0.2
Asia & Oceania	276.0	36.7	146.9	183.6	6.1	24.5	15.3	4.8	5.1	5.0	5.3
Hongkong	29.3	1.1	25.7	26.8	0.2	4.3	2.2	0.1	0.9	0.7	0.6
India	70.9	16.5	2.4	18.9	2.8	0.4	1.6	2.1	0.1	0.5	1.4
Indonesia	31.5	3.6	23.1	26.7	0.6	3.9	2.2	0.5	0.8	0.7	0.6
Malaysia	18.7	1.5	15.1	16.6	0.3	2.5	1.4	0.2	0.5	0.5	0.4
Pakistan	23.3	5.3	4.3	11.6	0.9	1.1	1.0	0.7	0.2	0.3	0.4
Singapore	58.8	1.4	51.4	56.8	0.2	8.6	4.7	0.2	1.8	1.5	1.1
Total (1)	5643.3	989.2	2984.7	3973.9	164.9	497.5	331.2				
Tax Haven Countries (2)[e]	420.0	218.7	99.9	318.6	36.5	16.7	26.6				
Oil Exporters (3)[f]	541.2	131.6	261.3	392.9	21.9	43.6	32.7				
Spain, Greece & Israel (4)	1476.0	192.1	980.0	1172.9	32.0	163.5	97.7				
Total (excl. tax haven countries) (1) - (2)	5223.3	770.5	2884.8	3655.3	128.4	480.8	304.6	100.0	100.0	100.0	100.0
Total (excl. tax haven countries, oil exporters, Spain, Greece & Israel) (1)-(2)-(3)-(4)	2205.3	444.8	1642.7	2089.5	74.1	273.8	174.1				

a/ Reinvested earnings are not included because of lack of data.
b/ Figures in terms of Deutsche Mark are converted by applying DM-US dollar exchange rates (IMF, "af" rates).
c/ Converted by applying tentatively the DM-US dollar exchange rate for 1976 (IMF, "af" rate).
d/ From 1976, including Portugal.
e/ Bahamas, Bermuda and the Netherlands Antilles.
f/ OPEC countries + Bahrain, Brunei, Oman and Trinidad & Tobago (as listed in Table 8.1, Annex 8, Prospects 76).

NOTE: Country details do not add up to regional totals due to incomplete country listing; regional details may not add up due to rounding.

Source: Bundesminister der Justiz, Bundesanzeiger, various issues.

EPDIE
6/5/78

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 13, 1979

FROM: Eugene H. Rotberg

SUBJECT: Borrowing Operations in Germany: Briefing Note

This paper describes (a) the banking system in Germany, (b) the Bank's borrowing activity from the start of our operations in Germany in 1957 to the end of calendar year 1978, and (c) our projected plans for Deutsche mark borrowings in FY80. We have also included schedules showing gross and outstanding borrowings by banking sectors in Germany (Attachment I), gross and outstanding borrowings by currencies and sources and the relative importance of our outstanding German borrowings to our total indebtedness (Attachment II), and the principals and their respective institutions with whom we have direct dealings (Attachment III).

(a) The Banking System

There are essentially three banking streams in Germany:

1. Commercial Banks: There are approximately 270 banks operating in this sector, with some 6,000 branches throughout Germany. They offer to the public the same type of services offered by their American counterparts. But, unlike their American or British counterparts, commercial banks in Germany are also "investment bankers". As such, they engage in underwriting, stock exchange transactions, brokerage, arrangements for mergers and acquisitions. They also own substantial parts of German industry and are heavily represented on the boards of industrial organizations. The Deutsche Bank A.G., the Dresdner Bank A.G. and the Commerzbank A.G. are the largest commercial banks. They cover the country much in the same way as does, say, Merrill Lynch, in the United States in their investment banking business.

While the private banking system is highly concentrated and exercises an overwhelming influence over banking, the commercial banks' share of total banking volume is only 25%. The remaining 75% volume of banking business is done by the savings and cooperative banking systems.

2. Savings Banks: There are about 650 public savings banks, which are owned or whose obligations are guaranteed by local administrations, local governments, municipalities, etc. They lend to small businesses, government and local or state instrumentalities. Their branches number 16,000. The public savings banks within each State are a part of a "Regional Savings Banks Association". At the top of the various regional groupings of the public savings banks are 12 "Landesbanken"/"Girozentralen" (central clearing and savings banks). Their guarantors or owners in turn are the respective State Governments

and the member savings banks within each region. The key function of the central savings banks is to manage the excess liquid funds of their member public savings banks. The largest "Landesbanken"/"Girozentralen" are the West-deutsche Landesbank Girozentrale, the Bayerische Landesbank Girozentrale and the Norddeutsche Landesbank Girozentrale.

In addition there are 12 "free" savings banks which are neither tied to nor owned by local authorities. They are private foundations or societies. Their branches number 800. They hold about 10% of total depositary savings in the savings banks sector. They are grouped together in an Association of Free Savings Banks. But they are also members of the Regional Savings Banks Associations of their location.

The Deutsche Girozentrale-Deutsche Kommunalbank-(DGZ) used to be, at the federal level - at the top of the pyramid - the central bank for the 12 regional central savings banks. However, its function as the manager of the savings banks' liquidity has eroded; nonetheless it continues to be the "head" institution of the German savings banks and, as such, has strong ties with (a) the 12 regional central savings banks, (b) certain large public savings banks within the regional groupings, and (c) the 12 "free" savings banks. The DGZ is a public financial intermediary with no private ownership; 50% of its capital is owned by the 12 regional central savings banks and 50% by the regional savings banks associations. The DGZ has -ranched out to become an institution which can be likened to British merchant and investment banks and, as such, also acts as an underwriter and a large-scale lender.

An important aspect of developments in this sector after World War II is that the 12 Landesbanken and some of the larger savings banks have tended gradually to become universal banks in competition with the commercial banks, engaging in foreign business, making loans to industry, etc. They have gained a strong position in light of their ability to raise funds to finance their activity through their ownership by their respective States and, of course, the very large pool of depositary savings over which they have control.

3. Cooperative Banks: This sector is composed of 5,100 cooperative banks with 19,500 banking offices throughout Germany. It is the densest banking network in Germany. At the bottom of this system are cooperative banks, agricultural and industrial trade and service cooperatives, consumer cooperatives, cooperative building societies who lend to local buesinesses, farmers, artizans, local government, etc. At the regional level, the cooperatives are controlled by 9 regional cooperative banks. At the top, as central manager both as to policy and liqudiity, is the Deutsche Genossenschaftsbank (DGB). 75% of the DGB's capital is owned by the 9 regional institutions, about 1% by the Federal government and the remaining fraction by other cooperatives. The DGB manages the liquidity of the regional central cooperative banks and acts on behalf of the 9 regional banks. For example, a loan extended to the Bank by the DGB is automatically made also on behalf of the regional banks.

(b) Funds Raised by the Bank through December 31, 1978

This section describes our relationship first with the Bundesbank and then with the three major elements in the German banking system.

1. Borrowings from the Bundesbank: The Bank initiated its borrowing operations in Germany in 1957, with the Bundesbank. This was a 3-year note issue in dollars, in the amount of $100 million. The first borrowing in Deutsche mark was also with the Bundesbank, in 1958, for a 3-year note of DM 200 million. These initial transactions formed the basis for our recurring rollover transactions with the Bundesbank.

In the 1960's the Bundesbank gradually converted maturing dollar holdings to Deutsche mark. In 1961 we had outstanding with the Bundesbank dollar and Deutsche mark borrowings aggregating $1.3 billion equivalent at current exchange rates which essentially has remained unchanged, since '61 i.e. there has been no net increase in outstanding borrowings: outstanding borrowings with the Bundesbank at December 31, 1978 amount to DM 2.4 billion ($1.3 billion equivalent) with an average maturity of 4.9 years, at an average cost of 7.34%. Additionally the Bundesbank holds $46 million of our 2-year Central Bank issues. (See Attachment I hereto).

Should we not now [illegible] advances — $1.42 bn [illegible] how much should it loan '83 —

The Bundesbank has always rolled over maturing obligations. In the 1960's our relationships were with Dr. Blessing and Dr. Tungeler. Today we deal with Drs. Emminger, Poehl and Gleske. Up to February 1, 1978, the interest rate charged the Bank on its rollover transactions was approximately at the mid-point between the rate of United States dollar and DM government obligations having a 4 to 5 year maturity. The reason for this was that originally about 50% of the Bundesbank's holdings were denominated in United States dollars. Because of high prevailing interest rates in the United States, the Bundesbank agreed that from August 1, 1978 onwards, 75% weight would be given to the DM rate element in the computation of our rollover rates, in order to lower the cost to the Bank. Overall, the rate structure for our rollovers has been to our advantage even on the basis of the earlier 50-50 mid point computation.

2A. Public Issues through Commercial Banks: The Bank entered the German public market with its first borrowing in 1959. This was a 15-year public issue in the amount of DM 200 million. The Deutsche Bank was the lead or principal manager and the Dresdner Bank the co-manager. The Deutsche Bank has remained the principal manager, and for all our public issues we negotiate and deal directly only with the Deutsche Bank. The rest of the syndicate has always been entirely German. This pattern has been retained up to the present time, with the exception that the status of the Commerzbank and the Westdeutsche Landesbank was raised in 1977 to co-managers. The effect of this change was that we could raise the volume of individual issues to an average of DM 400-500 million from an average level of about DM 300 million, although the Deutsche Bank expressed the view that it could have brought about such increase without the addition of two new co-managers.

At present the lead manager and the 3 co-managers together take an underwriting quota of about 51% of our public issues. The remaining 49% quota is distributed amongst 51 German institutions. The savings banks sector, represented by all the central savings banks including the Deutsche Girozentrale-Deutsche Kommunalbank, holds an 18% share of total underwriting. The cooperatives sector, represented by the Deutsche Genossenschaftsbank, takes only a 3% share therein. Clearly, according to our and the Deutsche Genossenschaftsbank's views, this is too small a portion for their placing power, and we have already raised the quota from the earlier 2% and expect to raise it further. (More important are our direct transactions with the cooperative banks described in 4 below).

Are we making adequate use of public savgs Bks + coop Bks

During the first 10 years of operations in Germany the Bank raised 4 public issues aggregating DM 970 million; during the last 10 years ending in 1978 the Bank raised 21 issues aggregating DM 5.5 billion. This increasing volume is a reflection of (a) the gradual development of the capital market and increasing savings in Germany and (b) speculative interest outside Germany in the Deutsche mark as an international currency. We might point out, in this connection, that the Bank has not followed the example of other international issuers, which in recent years have internationalized their syndicates for DM issues. A consequence of the Bank's keeping a totally German syndicate is that we believe we have the benefit, on one hand, of the strong international placement power of most members of our syndicate to channel our DM bonds to non-residents when there is strong international demand for the DM and, on the other hand, we are assimilated in Germany with domestic public entities and have been able to place our bonds domestically during periods when the external demand for DM was weaker and domestic savings strong. To overcome the problem of the changing absorption capacity of the domestic market and therefore of the relative role the various banks in the syndicate can play as to the placement of our bonds, we developed with our underwriters a system whereby the four managers retain for non-resident placement specific amounts in excess of their respective standard quota in the syndicate, which excess we have made to vary in size with the relative strength of the foreign versus the domestic market for a particular issue. For example, our 5-3/4% DM 500 million bonds of 1979 were offered in a market where demand from non-residents was very strong, and the management group alone took 70% of the issue compared to their standard quota of about 51%.

Should we internationalize our syndicate

The ability of the market (both domestic and international) to absorb our DM bonds has provided continuity in our borrowing operations in Germany. Except for periods of relatively high interest rates, such as in 1971, 1975 and during the energy crisis in 1974, we have been a "continuous" borrower. On average the Bank has raised 2 public issues per year in recent years, for a total volume since 1959 of 25 public issues aggregating DM 6.5 billion. The flexible system of adapting the respective underwriting roles within our German syndicate to varying market conditions - "speculative" demand by non-residents versus demand based on a liquid domestic market - has permitted us to recently substantially increase the volume of funds raised through public issues; during the last 4 calendar years, the volume of public issues was DM 3.6 billion. (See Attachment I).

2B. Private Placements and Loans with and from Commercial Banks: In addition to public issues the Bank has developed a variety of transactions which are done directly with a few or a single commercial bank. First, our public issues are supplemented by transactions in the form of notes offered only to institutional investors in the domestic and foreign markets. These are not listed or traded in the market. The first such issue, in 1972, was done with and through the entire German syndicate. This was awkward and unnecessary for a private placement. Therefore, subsequent private placements of notes were underwritten and placed only by the Deutsche Bank and Dresdner Bank. Total transactions of this type to date aggregate DM 1,050 million of which DM 950 million was raised in the last 4 calendar years. To insure smooth operations for this kind of offering, we believe that the Deutsche Bank should continue to be the lead manager for private placements of notes with institutional investors, but we expect to increase the volume in future years as a result of the recent enlargement of, and the planned participation in future offerings by the other three members of the management group for our public issues.

> Should we consider "other" "pkgs" 7 mths + notes to appeal to other investors

In 1977 the Bank took up a new type of transaction available in the market - Schuldscheindarlehen; these are loans which are participated out in large denominations. These loans reach essentially the market of insurance companies, pension funds and similar institutional accounts. So far we have had two such operations aggregating DM 200 million under the leadership of the Deutsche Bank. They differ from the notes in the previous paragraph in that they are somewhat less liquid.

Finally, as an additional source of funds we recently began to simply borrow directly from commercial banks through direct fixed-term loans, i.e. we use the banks as a primary source rather than as intermediaries. These loans are kept in the portfolio of the lenders. They have permitted us to take advantage of high liqudiity without interference with our other market operations. Such loans are also expected to be rolled over at maturity. The first such loan, DM 400 million solely from the Deutsche Bank, was raised in 1976. This was followed in 1978 by a DM 500 million loan from a group of 7 banks headed by the Deutsche Bank, the 3 co-managers of our public issues and the Bayerische Hypotheken-und Wechsel-Bank, the Bayerische Vereinsbank and the Deutsche Genossenschaftsbank.

The total volume of private placements (notes and loans including direct bank loans) raised outside the savings and cooperative sectors i.e. only from commercial banks consists of 11 transactions aggregating DM 2.2 billion. DM 2 billion thereof, all done in the last 4 years, remain outstanding. (See Attachment I).

3. Private Placements and Loans - Savings Banks Sector: Our relationship with the savings banks started in 1968 with direct placements of notes with the Westdeutsche Landesbank Girozentrale (West LB) and in 1969 with direct loans from the Deutsche Girozentrale-Deutsche Kommunalbank (DGZ). We wanted these new relationships to be supplementary to our public issues. The relationship with the West LB which started out very promisingly later developed problems. We did not wish to take the same funds as any of the sources tapped by our relationships with the commercial banks but we had not specifically restricted the notes for placement in and transfer within the savings banks sector. As a result, some of the notes flowed out of the savings banks sector and their placement probably overlapped with the placements of bonds and notes we were making with or through our German syndicate. While we have not repeated our earlier notes placements with the West LB, this institution is now a co-manager for our public issues and we are hopeful that they will participate in the future in those of our transactions or even initiate such transactions which are restricted to the savings banks sector and, thus, are in fact supplementary to other traditional sources of funds.

Our other operations in the savings banks sector have always been restricted. During the last few years we tapped this market (a) at the federal level through loans syndicated under the leadership of the DGZ, which are restricted for transfer only to the regional central savings banks and (b) at the regional level through private placements of notes with savings banks in Bavaria under the leadership of the Bavarian central savings banks - the Bayerische Landesbank Girozentrale, which notes can only be transferred to savings banks as beneficial owners in Bavaria. Our operations to date were as follows: 14 with the DGZ aggregating DM 1,745 million, 4 in the late 1960's with the Westdeutsche LB amounting to DM 800 million and 2 with the Bayerische Landesbank for DM 400 million. Again, the bulk of these transactions, DM 1.9 billion out of a total of DM 2.9 billion, was done during the last 4 years. (See Attachment I).

Is improvement syndicate broad enough (or should not other channels) tap Pub Svgs Bks + Coop Bks fully

Except as noted above for the Westdeutsche LB, for our transactions in this sector there is virtually no transferability out of the savings Banks, e.g. to individual or institutional depositors, since that could overlap our other relationships. We have good prospects of further expanding this relationship (a) through the DGZ, to achieve increased volume for loans with the 12 regional savings banks, (b) through the DGZ, to the 12 "free" savings banks described in A above and (c) separately and additionally through the stronger regional central savings banks, individually, to reach the public savings banks in several states other than Bavaria.

4. Private Placements and Loans - Cooperative Banks: The cooperative banking sector became a source of funds for the World Bank in 1969. In this sector we deal only with the Central Bank of the cooperative banks - the Deutsche Genossenschaftsbank (DGB). But (a) loan transactions with the DGB are automatically done also on behalf of the 9 regional central cooperative banks and (b) private placements of notes with the

DGB are channeled through the regional banks to their member cooperative banks, agricultural credit banks, etc., as well as their clients. Through our placements of notes with the DGB we also reach, when the DM is attractive to non-residents, cooperative banks outside Germany in Belgium, France, Italy, The Netherlands and Scandinavian countries. So far, the Bank has made 4 transactions with the DGB aggregating DM 650 million, DM 500 million of which was done during the last 4 years. (See Attachment I).

The above volume is relatively modest for Bank borrowings from an institution which (a) is at the head of a network of cooperative banks which manages 25% of all savings in the German banking system and (b) has very strong affiliations, and therefore outlets, with the central cooperative institutions throughout Western Europe. But here again our efforts are in the direction of reconciling the DGB's desire to compete with the commercial banks in Germany as intermediaries and our desire to tap additional sources without interference with our other private placements. Prospects for enlarging this source of funds are promising and we are often restricted from a further penetration of this sector merely by our choice - usually when the "non-resident market" reached through our public issues and other private placements is more attractive than the "domestic market".

5. DM Borrowings from Sources Outside Germany: At a very early stage in 1959, a 2-year DM 10 million private placement of notes was made with the European Investment Bank.

Are we adequately tapping (D $s svgs of FRG) non-residents DM

In order to tap new sources of funds and in an effort to increase Bank borrowings from OPEC, two private placements were made with the Saudi Arabian Monetary Agency and one with the Kuwait Investment Company (in partnership with Dresdner Bank as required by German regulations). Thus our DM operations directly with OPEC have amounted to DM 500 million.

6. Summary of Borrowings: Total gross borrowings in Deutsche mark including DM borrowings (a) from the Bundesbank (b) from German residents (individuals and institutions) (c) from identified sources outside Germany such as OPEC, and (d) non-resident purchases of our DM public bond issues and private placements of notes (most of which are in fact sold by the Swiss and distributed out of the German banks' underwriting) amount to DM 20.6 billion and $1.4 billion (mainly inflated by roll-overs with the Bundesbank) for a total of 157 transactions. However, outstanding borrowings at December 31, 1978 amount to DM 12. 9 billion and only $46 million, equivalent at current exchange rates to $6.8 billion. As reflected in Attachment I hereto, one-half of the gross volume in Deutsche mark - DM 10.5 billion - was borrowed during the last 4 years. Our outstanding DM debt went from DM 6.2 billion - December 31, 1974 to DM 12.9 billion at December 31, 1978. Therefore, while dollar borrowings in Germany have become negligible and are now in fact limited to purchases of two-year issues by the Bundesbank, the

volume of funds borrowed in Deutsche mark has increased considerably in recent years. This is due to (a) the larger groupings for the leadership of our borrowing operations in Germany (b) the different types of loans and private placements used to raise funds from institutional investors, (c) the penetration of the savings and cooperative banking sectors, (d) the loans we are raising directly from the underwriting banks themselves, both individually and jointly (e) the increase in savings in Germany and (f) non-resident demand for DM. The currency and source distribution of Bank borrowings set forth in Attachment II hereto indicates that of total Bank borrowings outstanding at December 31, 1978 the DM share by currency is about 26% of total outstanding debt. By source of borrowings, Germany accounts for about 25% of the Bank's total outstanding debt. Under the former classification - by currency of borrowings - the DM is in second place; under the latter classification - by source of borrowings - Germany is in first place. Note, however, the aforementioned 25% proportion by source of borrowings is inflated because, according to our estimate an average of about 60% of our public issues of bonds and private placements of notes with commercial banks is in fact placed outside Germany. We estimate therefore that out of a total of DM 6.7 billion outstanding for such transactions, DM 4 billion was in fact sold outside Germany, which reduces the 25% "source" basis for savings to about 17%.

(c) Borrowings in FY80

We would anticipate to conclude about 12 borrowing operations in Germany in FY80 aggregating in excess of DM 3 billion. This would comprise approximately 4 public issues for DM 1 billion, 6 private placements and loans for DM 1.6 billion and 2 rollovers with the Bundesbank for DM 500 million.

Total Gross Borrowings
FY79 4.3
80 5.2
81 6.2
84 7.1

We would expect that interest rate levels for World Bank bond issues of about 8 years in the German capital market would be in the range of 6.75 - 7% - possibly higher, and for long-term funds in the form of loans about 7.50 - 7.75%. They will continue to rise. They have already risen by 125 basis points from April 1978 to date (about 75 basis points since July 1978) and are expected to go higher next fiscal year.

[illegible] outlook for interest rates

cc: Mr. Cargill

Financial Operations Staff:mb

ATTACHMENT I

BORROWINGS IN GERMANY

(in millions)

	GROSS BORROWINGS				TOTAL (22 Years)				
					Gross Borrowings		Outstanding at 12/31/78		
	8 Calendar years (1957/64)	5 Calendar years (1965/69)	5 Calendar years (1970/74)	4 Calendar years (1975/78)	No. of Issues	Amount	No. of Issues	Amount	Proposed Borrowings for FY80
PUBLIC ISSUES (with German Syndicate)									
Deutsche Bank (leader) and Dresdner Bank (co-manager)	DM 200	DM 1,020	DM 1,750	DM 1,550	19	DM 4,520	17	DM 3,804	
Deutsche Bank (leader) and Dresdner Bank, Commerzbank, Westdeutsche Landesbank Girozentrale (co-managers)	-	-	-	2,000	6	2,000	6	2,000	
TOTAL PUBLIC	DM 200	DM 1,020	DM 1,750	DM 3,550	25	DM 6,520	23	DM 5,804	DM 1,000
PRIVATE PLACEMENTS & LOANS									
Deutsche Bank and entire German syndicate	DM -	DM -	DM 150	DM -	1	DM 150	-	DM -	
Deutsche Bank and Dresdner Bank	-	-	-	600	4	600	4	600	
Deutsche Bank (alone)	-	-	-	900	5	900	5	900	
Deutsche Bank (as leader of a group of 7 banks)	-	-	-	500	1	500	1	500	
Sub-total	DM -	DM -	DM 150	DM 2,000	11	DM 2,150	10	DM 2,000	DM 800
Cooperative Banking Sector									
Deutsche Genossenschaftsbank Sub-total	DM -	DM 150	DM -	DM 500	4	DM 650	4	DM 537	DM 250
Savings Banking Sector									
Westdeutsche Landesbank Girozentrale	DM -	DM 800	DM -	DM -	4	DM 800	4	DM 532	
Deutsche Girozentrale - Deutsche Kommunalbank (as leader of regional central savings banks)	-	150	145	1,450	14	1,745	4	DM 750	
Bayerische Landesbank Girozentrale (as leader for placements with Bavarian savings banks)	-	-	-	400	2	400	2	400	
Sub-total	DM -	DM 950	DM 145	DM 1,850	20	DM 2,945	10	DM 1,682	DM 550
TOTAL PRIVATE	DM -	DM 1,100	DM 295	DM 4,350	35	DM 5,745	24	DM 4,219	DM 1,600
BUNDESBANK									
DM Transactions	DM 1,460	DM 1,904	DM 2,402	DM 2,101	51	DM 7,867	12	DM 2,402	DM 500
US$ Transactions	$ 896	$ 150	$ -	$ -	21	$ 1,046	-	$ -	$ -
2-Year US$ Bond Issues	$ 131	$ 17	$ 52	$ 106	22	$ 306	3	$ 46	$ 29
DM BORROWINGS OUTSIDE GERMANY (Identified)									
European Investment Bank	DM 10	DM -	DM -	DM -	1	DM 10	-	DM -	DM -
OPEC	-	-	-	500	2	500	2	500	200
GRAND TOTAL	DM 1,670	DM 4,024	DM 4,447	DM 10,501	114	DM20,642	61	DM 12,925	DM 3,300
	$ 1,027	$ 167	$ 52	$ 106	43	$ 1,352	3	$ 46	$ 29

Treasurer's Department
Financial Operations Division
February 9, 1979

ATTACHMENT 11

TOTAL BANK BORROWINGS

(Amounts Expressed in Millions of U.S. Dollar Equivalents
Based on Book Rates of Exchange)

	Public Borrowings		Private Borrowings		Total Borrowings		
	Original Amount	Amount Outstanding	Original Amount	Amount Outstanding	Original Amount	Outstanding at 12/31/78 Amount	% of Total
BY CURRENCY OF ISSUE							
United States dollars	$ 8,040	$ 6,132	$10,008	$ 3,692	$18,048	$ 9,824	36.5%
Deutsche mark	3,567	3,234	7,616	3,862	11,182	7,097	26.4%
Japanese yen	1,403	1,357	3,565	2,584	4,968	3,941	14.7%
Swiss francs	1,543	1,151	3,871	3,354	5,414	4,505	16.7%
Other currencies	1,081	701	987	835	2,069	1,536	5.7%
TOTALS	$15,634	$12,575	$26,047	$14,328	$41,681	$26,902	100.0%
BY COUNTRY OF BORROWING							
United States	$ 8,035	$ 6,132	$ 25	$ 25	$ 8,060	$ 6,157	22.9%
Germany	3,567	3,234	8,383	3,589	11,950	6,823*	25.4%**
Japan	1,403	1,357	3,565	2,584	4,968	3,941	14.6%
Switzerland	1,543	1,151	3,428	2,921	4,971	4,072	15.1%
OPEC	502	350	2,580	2,546	3,082	2,896	10.8%
Two-Year Central Banks	-	-	6,565	1,350	6,565	1,350	5.0%
Other	585	351	1,500	1,313	8,085	1,663	6.2%
TOTALS	$15,635	$12,575	$26,046	$14,328	$41,681	$26,902	100.0%

*Of which we estimate 32% ($2,200 million) placed outside of Germany, mostly in Switzerland.

**Estimated "Net" placements in Germany is about 17%.

Treasurer's Department
Financial Operations Division
February 9, 1979

Managers of World Bank's DM Issues and their Principals

DEUTSCHE BANK AG, Frankfurt (Lead Manager)

1. Dr. Wilfried Guth, Member and Speaker of the Board of Managing Directors
or Dr. Robert Ehret, Member of the Board of Directors

DRESDNER BANK AG, Frankfurt (First Co-Manager)

2. Dr. Hans Friedrich, Chairman and Speaker of the Board of Managing Directors
or Mr. Rolf Diel, Member of the Board of Managing Directors

COMMERZBANK AG, Frankfurt (Co-Manager)

3. Mr. Robert Dhom, Speaker of the Board of Managing Directors
or Mr. Juergen Reimnitz, Managing Director

WESTDEUTSCHE LANDESBANK GIROZENTRALE, Duesseldorf (Co-Manager)

4. Dr. Johannes Voelling, Chairman of the Managing Board
or Dr. Walter Seipp, Deputy Chairman of the Managing Board

DEUTSCHE GENOSSENSCHAFTSBANK, Frankfurt (Manager of issues with Cooperatives)

5. Dr. Felix Viehoff, Chairman and Speaker of the Board of Managing Directors
or Mr. Helmut Guthardt, Deputy Chairman of the Board of Managing Directors

DEUTSCHE GIROZENTRALE -DEUTSCHE KOMMUNALBANK-, Frankfurt (Manager of Loans from Central Savings Banks)

6. Mr. Ernst Otto Sandvoss, Chairman of the Management Board
or Dr. Eberhard Zinn, Member of the Management Board

BAYERISCHE LANDESBANK GIROZENTRALE, Muenchen, (Manager of issues with savings banks in Bavaria

7. Dr. Gerhard Tremer, Member of the Board of Management
or Dr. H.P. Linss, Member of the Board of Management

4. Bond market rates rise sharply

Major public issues that followed each other in a too rapid succession have caused a sharp jump in DM bond market rates towards the end of February. First, there were the so-called Carter bonds with which the US government is raising funds to consolidate the US balance of payments deficit. The German bond markets still absorbed this issue (almost DM 5 bn) with relative ease, with 2-1/2 year paper carrying 6.3 percent interest and 3-1/2 year paper 6.6 percent, but this was already noticeably higher than at the end of 1978, when the corresponding rates were around 5.5 and 6 percent, respectively. But the real shock came a day later when the government put a large tranche of federal bonds on the market. In order to place the DM 2.5 bn issue, the following rates had to be set: 5 year maturity 7 percent, 8 years 7.2 percent, 10 years 7.4 percent, 11 years 7.44 percent and 12 years 7.48 percent. This drove up yields in some cases by 0.3 to 0.4 percentage points in one day.

Since then, the market has not recovered, and predictions are that interest rates will stay at this high level for the time being, and perhaps even rise further along with the overall recovery of the German economy. Bond market specialists blame the Bonn government for the worst possible timing as well as carelessness. In an editorial comment, the business daily Handelsblatt severely criticized responsible high level officials in the Finance Ministry for having "floated above the clouds of daily bond market events", while leaving the heavy workload of managing an increasing federal debt to those below them, who may have been overtaxed. Handelsblatt further reported that the division chief in charge of the federal government's capital markets operations has been relieved from his duties for the time being.

UNITED KINGDOM

1. International Year of the Child: Mrs. Hart's views

In a recent keynote address in the U.K. to mark the international year of the child Minister for Overseas Development Judith Hart pointed out that the youngest members of the community "are the vast majority of the population in the developing countries". Speaking of ways in which young people impinge on the development process, she said: "Education in the developing world poses difficult problems. In a way it has to make its own case: it must fit a child for a useful place in the society he is growing up in. Often there is a wide gap between the best education available to a relatively small minority and that available to the poorest. The result is that the country concerned finishes up with a surplus of

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unskilled labor and a surplus of highly-trained top men - but in between there is a gap in the middle-management range that is crippling major operations like railways and ports. Perhaps this is where today's children can come into their own: I have certainly been arguing their case in the countries I have visited in the last year or so. But their future, once again, is inseparably linked with economics. Will they be able to go on and receive this middle-level education - or will they have to leave school at a very early age and work in the family business or on a neighbouring farm?

"Naturally, and rightly, we deplore child labor. We can afford to do so: in many developing countries it is a stark necessity which can only be removed when the general level of prosperity is raised and parents can bring up a young family in happiness and security without using them as a juvenile labor force. So if the rights of the child are to become a reality the major requirement is going to be economic development at a pace and in a manner which will allow the poorest countries to devote sufficient of their limited resources to the achievement of those rights. That is where both internal development and the aid programs of donor nations and multilateral agencies must help.

"But we must all tread carefully. One of the effects of an emphasis on economic growth rather than the subsistence economy has been the effective disintegration of many very ancient and well-tried forms of social organisation. In particular, I am thinking of the extended family system from which some developed countries could learn a lot. Migration to cities and the growth of a consumer society is a definite threat to some of these very worthwhile and effective social patterns. The burden of such disintegration probably falls most heavily on the youngest members of the community - and since they are the vast majority of the population of developing countries it is a problem we cannot ignore.

"So what kind of society can we see developing over the next decade? New institutions must be developed to take the place of the old family and tribal systems where these are broken down: where they are not broken down but have adapted and survived they must be strongly encouraged to flourish and gain in their social role. This is where our idea of integrated rural development has an important part to play. It will encourage development within the context of social justice for all, and perhaps that will mean the development of new groupings, perhaps tied to the family and perhaps not. Their strength will derive from their common purpose and their value to all members of the group."

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GERMAN STAFF IN THE BANK

On December 31, 1978, there were 120 German professionals in the Bank Group. This is 4.79% of the total number of 2,504 professionals. (Germany's share in the Bank's subscribed capital is 5.12% and it has 4.64% of the total voting power.) Statistics on German professional staff are provided in Annex 1.

Problems of Recruitment

The number of German professional staff has been stagnant in the past couple of years. The main reasons are:

(1) Salaries in Germany for professionals in mid-career are almost as high as Bank salaries. It is also common practice in German companies as well as in the German Technical Aid Agency to pay considerable allowances for overseas assignments which usually permit substantial savings. Therefore, Bank salaries offer no incentives to qualified German professionals.

(2) The depreciation of the dollar against the Deutsche Mark has definitely damaged the Bank's position in attracting qualified German professionals. Germans traditionally place great importance on savings and a healthy social security, and the decline of the dollar is causing considerable concern to existing staff as well as potential candidates.

(3) Job security and loyalty to employers are very important factors in Germany. Overseas experience is often still not considered to be an advantage by German employers. Even German companies have difficulties in filling professional positions abroad although they often involve promotion upon return. Employment outside Germany with non-German employers for a prolonged period creates considerable re-entry difficulties for such individuals in the German employment market. Thus, Germans interested in overseas assignments would rather go abroad for a German company which offers employment continuation upon return than working for foreign employers.

(4) Career prospects for highly qualified professionals, especially those with fluency in foreign languages, are very good in Germany but limited in the Bank for mid-career professionals.

(5) Since the German industry is highly sophisticated, professionals are usually specialized and often do not meet the Bank's requirements of broad experience, especially in technical disciplines.

(6) Germans share the disadvantage of a few member countries of the Bank in terms of useful languages for Bank work. They have to offer fluency in two foreign languages and have to compete in this respect with native English, French and Spanish speaking candidates.

(7) In Germany, more than 40% of married women are employed. German wives moving to Washington frequently face the psychological and financial loss of employment. Due to language and other employment difficulties, the relaxation of G(iv) regulations governing the employment of spouses is no real improvement for German spouses of Bank employees.

(8) Although perhaps less important, many mid-career professionals consider the higher education of their children as a problem when employed outside Germany. There is a very good German high school in Washington, but for college or university education, they have to send their children back to Germany where tuition is rather inexpensive compared to the United States but where costs for room and board are very high. The Bank's education benefits favor the reimbursement of tuition whereas little help is provided to cover room and board.

Recruitment Strategy

The above factors are the more serious problems frequently met by the Bank in recruiting German professionals. There are, of course, additional problems depending on the circumstances of each individual. The recruitment efforts have been directed mainly to:

(1) daily newspapers and technical journals where advertisements have always produced some candidates in the past years;

(2) our official recruitment contacts, the Ministry of Economic Cooperation and the Bureau for Recruitment of German Professionals for International Organizations (BFIO), who have always been very helpful in supplying applications of interested candidates;

(3) unofficial recruitment contacts with professional associations, universities and other suitable sources;

(4) recruitment through the Young Professionals Program; and

(5) concentrating on professionals who offer qualifications relevant to the Bank, e.g., economists.

Compensatory Payments for German Staff

The German Government has had increasing difficulties filling its quota (especially at the Division Chief level and above), within the U.N. Secretariat and in a number of specialised agencies. It is also concerned, in a general way, about adequate representation of Germans on the staff of all international organizations. In 1976, the government decided to put an interministerial working group to the task of studying the situation, and in October 1977, the group produced a report. The main proposal of the report, to make compensatory payments to German nationals on the staff of international organizations, was adopted by the cabinet in March 1978 and included in the 1979 federal budget, which is in the process of being approved.

Specifically, the new provisions say that German nationals are entitled to receive a compensatory payment in cases where a "special interest" of Germany is involved. Special interest cases will be decided by the Ministries of Foreign Affairs, of the Interior and of Finance plus the specialized Ministry concerned. A special interest is presumed to exist where:

(a) the objective is to maintain or to strengthen the number of German nationals, particularly with regard to key positions;

(b) there is a differential in the earnings of an international employee and those of a comparable German civil servant in the same city or country, of no less than about $160 per month; and

(c) a position has to be filled which is of particular importance to the German Government because of political, scientific and other reasons.

The Compensation will be paid upon application on a monthly basis, starting April 1, 1979. It will be 80% of the differential described under (b), and it will be paid a maximum of five years for P4 level staff and below, and of eight years for levels P5 and above.

The interministerial report also dealt with a number of other possible remedies, such as unemployment insurance coverage, participation or re-entry into the German social security and health care systems, and resettlement assistance. But for the time being the straightforward compensatory payment is the only proposal that was adopted.

An association of German employees in international organizations has been organized to lobby for support at German Government level. In the fairly short time since its establishment this association has been able to establish high-level contacts with German politicians as well as the German Government. Almost 50% of the German staff in the Bank have become members of this association since its introduction in the Bank one year ago.

ANNEX 1

STATISTICS ON THE GERMAN STAFF (BANK GROUP)

A. Professional Staff on Duty as of June 30

	1968	1972	1973	1974	1975	1976	1977	1978
German	45	91	101	103	104	118	117	118
Total Bank	799	1615	1762	1870	2002	2197	2338	2445
% of Total	5.63	5.63	5.73	5.51	5.19	5.37	5.00	4.83

vs 5.11
IBRD note

B. Staff by Level as of January 31, 1979

	Q	P	O	N	M	LT	L	K	J	U	Total Prof.	A-I	Total A-Q
No.	1	6	3	13	27	13	43	11	0	3	120*	24	144

* of which 5 women

February 13, 1979 - Personnel Services

RECRUITMENT AND TERMINATIONS OF GERMAN PROFESSIONAL STAFF

FY1968 THROUGH FY1978 a/

IBRD AND IFC

	FY68	FY71	FY72	FY73	FY74	FY75	FY76	FY77	FY78
RECRUITMENT b/									
IBRD	6	9	11	16	12	5	19	11	10
IFC	2	1	1	2	-	-	-	-	1
	8	10	12	18	12	5	19	11	11
Total number of professional staff recruited - IBRD/IFC	117	325	319	309	304	327	359	303	296
Number of German professionals recruited expressed as a percentage of total	6.8	3.1	3.8	5.8	3.9	1.5	5.3	3.6	3.7
TERMINATIONS									
IBRD	2	6	6	7	9	3	5	10	9
IFC	-	1	-	1	1	1	-	2	1
	2	7	6	8	10	4	5	12	10
Total number of professional staff terminated - IBRD/IFC	80	128	148	162	196	195	164	162	189
Number of German professionals terminated expressed as a percentage of total	2.5	5.5	4.0	4.9	5.1	2.1	3.0	7.4	5.3

vs desired 7 approx 17

vs 6 9 12 desired

vs 4.832 total staff

a/ No data are available for FY69 and FY70

b/ Includes promotions to J-level and Technical Recruits, i.e. return from Sabbatical, Secondment, LWOP

Recruitment Division
February 1979

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Turkey needs a large amount of fresh money but these funds will be wasted unless accompanied by a major reordering ...

TO: Mr. Robert S. McNamara

DATE: February 14, 1979

FROM: Munir P. Benjenk

SUBJECT: TURKEY: Brief for Your Discussions in Bonn

1. During your forthcoming visit, the German Government will probably wish to explore the Bank's views and posture on Turkey regarding: (a) the economic situation and the new policy measures needed from the Turkish Government to emerge from the present crisis; (b) the "joint solidarity assistance action" entrusted to OECD Secretary General Mr. van Lennep, following Guadeloupe where the Germans agreed to take the lead in the matter with Turkey; and (c) the steps required to improve project implementation, especially as regards the Elbistan power project for which Germany is the major lender.

Economic Situation and New Policy Measures

2. Economic developments since your visit to Turkey last April are summarized in Annex 1. As a result of the stabilization measures agreed under the IMF Standby Arrangements in April 1978, economic indicators, including the budget deficit, money supply and credit, show substantial improvement in 1978 as compared to 1977. For example, compared to corresponding periods in 1977 (March '77-February '78), in 1978 (March '78-February '79) the consolidated budget is estimated to have a deficit of TL 5 billion (TL 24 billion in 1977), total Central Bank credits increased by 22 percent (45 percent in 1977), while the credit to the public sector increased by 31 percent, much less than the increase of 76 percent in the same period of the preceding year. On the other hand, the financial position of the SEEs is more difficult to evaluate; despite several large and overdue increases in a wide range of SEE prices in 1978, operating losses rose to TL 50 billion in 1978 compared to TL 20 billion in 1977. Besides, the large wage settlement with the largest trade federation, which seems to form the pattern for similar settlements, is worrisome; and inflation appears to have reached the high level of 50 percent. Neither exports nor worker remittances have responded as much as expected to the March 1978 devaluation; however, by restraining imports to only \$4.6 billion (compared to \$5.8 billion in 1977 and \$5 billion envisaged under the Standby), the current account deficit is estimated at about \$1.6 billion in 1978, compared to \$3.6 billion in 1977 and \$1.8 billion forecast under the Standby.

3. The economic situation remains precarious. Although by the end of 1978, Turkey had completed negotiations with (a) almost all the OECD countries on the rescheduling of \$1.2 billion of guaranteed bilateral debt service payments, and (b) obtained commitments from a variety of new external sources totalling nearly \$1.0 billion, external financing continued to be extremely tight. Furthermore, the rescheduling of commercial banks' debts of about \$3.0 billion and the fresh loans (present figure is about \$400 million) expected from them, were not concluded and are unlikely to be signed until the ongoing renegotiation of the IMF Standby is completed.

Need 500m from OECD
US - aid 100
Ex-Im 50
FRG (last yr 50) 100
Others 150 (ask FRG to push - US will help)

Bk could but fund Prog Loan in terms of conditions accepted \$100-125m

4. Discussions were initiated with IMF in December to revise the April Standby, but these have not been concluded. IMF believes that what is required now are: a further major devaluation, stronger measures to reduce SEE losses, effective restraints on wage increases, and adjustments in credit ceilings. Without agreement on these revisions, IMF will not release the late November and January '79 tranches. The Government's position as stated by Prime Minister Ecevit and Finance Minister Muezzinoglu to Mr. Bart in December, is, that it would take in its own time the required stringent and politically difficult stabilization measures after it had obtained pledges for the large input of external aid necessary to make them successful, to avoid the predicament in which it was caught last year. We feel that the political crisis which nearly toppled the Ecevit Cabinet in December and the continued unrest (which led to martial law in several provinces), did not allow another course of action. I anticipate that, provided it is assured of sufficient external aid, the Government will launch a new stabilization package after the ongoing debate in the Parliament this month on the 1979 Annual Program and Budget and then discuss it with IMF. It followed the same technique last year.

5. The essential components of this package should be for the short term those sought by the IMF, with which we fully concur. These measures would, however, be merely a palliative if they were not accompanied by medium-term policies attacking the structural roots of Turkey's problems. These policies were outlined in your November 21, 1978 letter to Prime Minister Ecevit (in Annex 2 with his reply). They include: (a) an export and tourism drive, for which a further devaluation is a key prerequisite; (b) measures to curb inflation, including effective demand management, restraints on investment and consumption (public and private), and increases in public sector revenues; (c) measures to increase productivity, especially in the public sector; and (d) a reorientation of the structure of production to alleviate the serious unemployment problem.

6. Although the new 5-Year Plan, approved in November, aims at correcting the structural weaknesses in Turkey's balance of payments through emphasis on exports, a major shift away from Turkey's traditional import substitution strategy and growth policies is not apparent in that document. It is, therefore, essential that despite what is stated in the Plan (essentially a political document) the Government should pragmatically tailor development targets and objectives to the availability of resources, through the mechanism of Annual Programs approved each year by Parliament. The Bank economic mission scheduled for April, which will focus more on medium-term strategies and policies in the context of the new Plan, will be discussing these issues.

OECD's Assistance Plan

7. In this background the direction and outcome of the action entrusted to Mr. van Lennep becomes quite critical for Turkey (Annex 3 contains the official press releases from Germany and OECD). While the Bank has agreed to cooperate fully with OECD in its preparation work and subsequent meetings, it would be useful if you could convey the Bank's

preliminary views during the Bonn meeting. Clearly, Turkey is expecting too much in money terms from the exercise and is apparently linking it to the sizeable gap of nearly $15 billion needed to implement the new Plan. On the other hand, OECD countries are in no position to come anywhere close to providing this. Besides a $400 million Eurodollar loan that OECD is talking about (presumably the fresh monies agreed to in principle by the commercial banks), the US has included only $100 million in the FY80 AID appropriation bill for Turkey; Germany is talking of upping its 1978 commitment level by between $100 million to $150 million; and the Saudis are apparently prepared to give $250 million over three years, but outside the OECD framework. Furthermore, the OECD press release specifically states that the assistance plan would complement the IMF arrangements; and from the informal talks I had with the OECD Deputy Secretary General, it appears that Mr. van Lennep plans to include, in addition to IMF's requirements, a set of medium-term policies upon which the aid package would be contingent. While we cannot but agree that unconditional aid might be wasted, it is to be feared that differences in perception on both sides and the emergence of a rather small aid program predicated on far-reaching policy changes and administered by a heavy apparatus (a group of senior officials from OECD countries, assisted by "wise men") is likely to invite an adverse Turkish reaction that the West has again let it down.

Turkey must prepare realistic Plan

8. In this context and considering the limited familiarity of the OECD staff with Turkey's economic and political problems and negotiating tactics, it appears advisable that: (a) the policy package to be included in the plan of assistance be consonant, to the maximum extent possible, with the positions taken by the IMF and the Bank; (b) the van Lennep exercise be delinked from the needs of the new Plan and the assistance in 1979 be designed to help Turkey to bridge the minimum foreign exchange gap of about $1.3 to $1.5 billion (para. 8 of Annex 1); and (c) all donors do not make their contributions available at once, but while committing a sum, release it in installments during 1979 to permit Turkey to follow the lines of the revised IMF Standby Agreement. The German Government, which is one of the closest to Turkey's preoccupations, may lend a sympathetic ear to advice along the above lines. The crux of the message is that, while the rescue operation should be predicated on policy changes, it should not be expected to resolve overnight Turkey's long-standing problems which, like its short-term debt, may take a decade to cure.

Project Implementation

9. Another major concern of all donors has been the poor Turkish performance in project implementation. In this regard, following your visit to Turkey last April, the Government has established a new machinery consisting of senior officials of the Prime Minister's Office, the Treasury and the State Planning Organization to coordinate the implementation of ongoing Board projects. A Joint Review was held in Washington in late June with this team. Unlike the past, this new Turkish team had made a considerable and genuine attempt to analyze bottlenecks and identify solutions. Solutions to some of the difficult problems were agreed upon. Although not all have

been implemented yet, improvement in performance is becoming evident and a cooperative attitude being displayed for resolving issues and finding pragmatic solutions. Since March 1978, the pace of disbursements has improved from 66 percent to 72 percent of figures forecast at appraisal and that of commitments from 73 percent to 82 percent. Acceleration should become manifest over the next few months. However, the key problems still tending to slow down implementation continue to be: (a) lack of sufficient foreign exchange (over and above what the Bank has provided) because of cost overruns; (b) shortage of local currency (Elbistan is a prime example of this); and (c) unavailability of experienced project staff in required numbers, despite provision of more attractive contract terms by the new government. These and other project specific problems will be reviewed at the next Joint Review with the Government scheduled in Ankara in March or April. Similar mechanisms for projects financed from OECD sources might help alleviate pervasive problems.

10. Amongst projects jointly financed by the Bank, Germany and EIB and still facing implementation problems, is Elbistan. In view of the significant German interest in the project, they might raise it with you. Because of past delays, the four power-generating units are now expected to be commissioned only in 1981, some 2-1/2 years behind schedule. However, following the co-lenders' mission in May 1978 and a detailed review of the bottlenecks, several remedial actions have been taken. Consequently, some improvements have been registered in project management and coordination and, thereby, in the physical aspects of project execution. Despite attempts to recruit personnel on significantly improved contract terms, adequate site staffing still remains a problem. So is inadequate financing, both domestic and foreign. Since 1978, despite interim arrangements made by the Treasury to cope with the problem, it is not foreign exchange but rather the availability of local currency that has become the immediate serious constraint on physical construction advancing at an adequate pace. However, shortage of foreign exchange for the project will begin to loom large in the near-term future. Against the currently estimated foreign exchange cost of $925 million, Turkey has mobilized only $710 million (almost all committed). It must find the balance of $215 million. Germany and EIB appear to be responsive to the Turkish proposal to provide supplementary financing. In this background, the German delegation, during its meeting with Mr. Stern at the bi-annual Bank-German meeting in October 1978, pressed the Bank to consider supplementary financing, to which a cautious response was given in view of our current policy on such financing. What is more important at this stage is to continue to press the Government - as we have done - to take the steps required to straighten out implementation before the next construction season in the spring. Failing such steps, it would be difficult for the Bank to continue to be associated to the project.

11. As regards the Program Loan, disbursements began only in late January, partly because even the modified ICB procedures for contracts of $1 million or more, normally take time to complete. Besides, the Government also found that suppliers insisted on a full cash backing for letters of credit opened through the Central Bank, although they knew that the Program Loan was available. Consequently, the Government felt it necessary to obtain advance Bank approval of large contracts and seek our unqualified or qualified

"commitments to reimburse" against the relevant letters of credit. In addition, it was forced to find some $55 million of scarce foreign exchange resources to create a special "revolving pool of foreign exchange" with which to back up Turkish letters of credit as demanded by foreign suppliers. Understandably, all these special arrangements took some weeks to complete, and handicap a faster rate of loan commitments. Nevertheless, the Bank has already approved $72 million of contracts informally, including issue of $16.7 million of agreements to reimburse. Disbursements totalled about $4 million by mid-February. The Government projects disbursements to reach $64 million by end-April, $120 million by end-June and $150 million by end-August. To avoid a repetition of Turkish difficulties in opening acceptable letters of credit and to ensure a rapid pace of commitments, Turkey has approached the Deutsche Bank, Morgan Guaranty and the Swiss Banking Corporation for overdraft facilities of $20 million each. It might be useful, if you could invite the German authorities to persuade the Deutsche Bank to help Turkey to overcome this very genuine and temporary bridging problem, by providing the requested overdraft.

12. Finally, it might be useful to mention that, anticipating that project implementation will improve gradually and that the revision of the IMF Standby will be satisfactorily completed in the coming months, we are continuing to process the FY79 and 80 pipeline. In FY79 we have already provided $152.5 million (Program Loan and Bati Raman Engineering). The Grain Storage ($85 million) and Port Rehabilitation ($75 million) loans are being processed towards negotiations, on the understanding that they would be submitted to the Board only after IMF agrees to release the November 1978 and January 1979 tranches. Subject to this, Bank lending in FY79 should total about $312 million, with some prospect of advancing one of the two projects (totalling about $120 million) currently scheduled for early FY80. Should the medium-term policy outlook emerging from our April economic mission and the van Lennep exercise appear conducive to sustained improvement in the economic situation, and should the review of export performance (scheduled for April) under our present Program Loan indicate that they are benefitting from the present export drive, I would consider that we should bring the second program loan, currently programmed for FY81S, forward into early FY80. Such a loan should command a high priority in our lending.

Attachments

cc: Messrs. Stern (VPO), Knox (EMP), Dubey (EMNVP), Faruqi/Wood (EM2)

AJDavar/MPBart:bb

Mr. Robert S. McNamara - 5 - February 14, 1979

commitments to roll over against the relevant letters of credit. In addition, it was forced to find some $55 million of scarce foreign exchange to set up a separate special "revolving pool of foreign exchange" with which to back up Turkish letters of credit as demanded by foreign suppliers. Understandably, all these special arrangements took some weeks to complete, and handicap a faster rate of loan commitments. Nevertheless, the Bank has already approved $72 million of contracts informally, including issue of $40.7 million of agreements to reimburse. Disbursements totalled about $4 million by mid-February. The Government projects disbursements to reach $64 million by end-April, $120 million by end-June and $150 million by end-August. To avoid a repetition of Turkish difficulties in meeting suppliers' demands of credit and to ensure a rapid pace of commitments, Turkey has approached the Deutsche Bank, Morgan Guaranty and the Swiss Banking Corporation for temporary facilities of $50 million each. It might be useful, if you could invite the German authorities to persuade the Deutsche Bank to help Turkey to overcome this very genuine and temporary bridging problem, by providing the requested overdraft.

12. Finally, it might be useful to mention that, anticipating that project implementation will improve gradually and that the revision of the IMF Standby will be satisfactorily completed in the coming months, we are continuing to process the FY79 and 80 pipeline. In FY79 we have already provided $161.5 million ([illegible] Engineering). The Grain Storage ($85 million) and Port Rehabilitation ($75 million) loans are being processed towards negotiations on the understanding that they would be presented to the Board only after IMF agrees to release the November 1978 and January 1979 tranches. Subject to this, Bank lending in FY79 should total about $412 million, with some prospect of advancing one of the two projects (totalling about $120 million) currently scheduled for early FY80. Should the medium-term outlook emerging from our joint economic mission and the van Lennep exercise appear conducive to sustained improvement in the economic situation and should the review of export performance (scheduled for April) under our present program loan indicate that they are benefitting from the planned export measures, I would consider that we should bring the second program loan, currently programmed for FY81, forward into early FY80. Such a loan should command a high priority in our lending.

Attachments

cc: Messrs. Stern (VPO), Knox (EAP), Dubey (EMNVP), Faruqi/Hood (EMN)

KDehmer/MPBart:bb

Turkish view

IMF the devil [Ecevit in a back against the wall mood; very diff to get them out] -

IMF has prevented Comm Bks making deal with Turkey.

IMF has undermined Turkish political process - 4 prior willing to make deal

"We will not budge on devaluation (may be they accept multiple exchange rate -
they speak of stimulus to exports + no stimulus to [illegible] imports)

IMF

"If they really mean a multiple rate affecting all elements of trade it might be acceptable

∴ possible element of compromise is Turks propose multiple rate; IMF & agree we won't stand on theology if they propose a truly effective multiple exch rate we will accept it (as they did in UAR for a time).

Would req. 40 ± 2 rate for workers remit; unfavored exports; tourism; avg. cost of imports; same rate for [illegible]

Van Lennep

"He (Van L) is in a difficult pos - not dealing solely in money but all 7 4 (with possible FRG) are adamant on IMF agmt + they say "don't get involved in IMF bus. let them settle it first" -
But he believes the Turks are adamant - it's a "technical" "he thinks it might be wise to take 40% 50% of steps -
He feels precluded by his principles from trying to bring IMF + Turks together -
[but perhaps he could play role re multiple exch rates]
[he was completely silent on [illegible]; he needs political support - at a min Schmidt could ask de Lar. + Van L + Turkish min join him in Bonn or [illegible] to start by getting them together in [illegible]]

New funds (amount not yet known): IMF 130; Bks 400; Govts 400-500. Needed 3.5b [illegible];
new Witt Fac (perhaps 300m+ in next 18 mos); IBRD 150m Prog'l loan -
+/or Extended Fund Fac (3 yrs) with Bk -
or "new funds" contingent on step-by-step approach -

Turks don't want "wise men" apptd by OECD; IBRD staff [illegible] can undertake "med-term" look for use of all parties -

Ecevit doesn't believe Comm Bks + IMF work together
[illegible] bi-l progs of OECD for [illegible] to [illegible] past

TURKEY - CURRENT SITUATION

The Ecevit Government

Mr. Ecevit's Government took office in early January of ~~this year~~ '78. It has a very small majority in Parliament, 228 members out of a total of 450. 214 members belong to Mr. Ecevit's own Party, the Republican Peoples Party (RPP), the remainder are 11 independents, 10 of whom are Ministers in the Government and who defected from Mr. Demirel's Justice Party, thus causing the overthrow of the late Government. Three additional members of Parliament support the Government, belonging to small splinter Parties. The Government, while having a center-left orientation, is still considered too conservative by the left wing of the RPP, which numbers around one-quarter to one-third of the Party membership in Parliament and frequently harasses the Prime Minister and his principal colleagues. While the Government's majority is very small, it is not likely to be replaced by any other Government in the near future as it is unlikely either that the independent Ministers will desert the Government or that the left wing of the RPP will deliberately overthrow their own Prime Minister and thus risk elections. Nevertheless the parliamentary situation is very tense, with the opposition openly obstructing the work of Parliament and the Prime Minister and the leader of the opposition hardly being on speaking terms.

Law and Order

The Government inherited from its predecessor a chaotic situation both on the political and the economic side. Well armed extreme right wing and left wing groups were engaged in urban guerilla activity with serious loss of life and, more dangerous still, neofascist groups had infiltrated the public administration at various levels including the police force. Various extreme left wing groups dominated at least one of the two major labor federations and the teaching profession. Only the Army seemed relatively - though not entirely - free from such political infiltration. In order to restore some effectiveness to public administration, the Ecevit Government has spent a great part of its first year trying to remove politicized elements (right wing) from strategic positions in the civil service and in the Governorates, although its opponents are now charging that the officials removed have been replaced by leftwing individuals. As far as can be judged, this allegation is true only in a few cases. While trying to transform the discredited police force into a more reliable instrument - so far with only limited success - the Government has attempted to use the paramilitary gendarmerie to restore law and order. Inspite of numerous arrests and the dismantling of a number of neofascist and leftist cells, this effort has so far been ineffective and the extremist activities have become more virulent, leading to over 700 killings since the beginning of the year. A greater part of this terrorism is caused by the neofascist sympathizers of one of Turkey's legal Parties, the National Action Party, but the extreme leftists have not lagged far behind in their own terrorism. While this internecine warfare has had a mainly ideological character in the large cities in western Turkey, it has taken on a religious and ethnic aspect in the eastern Provinces, where the traditional enmities between Sunni and Shiite muslims, Turks and Kurds, have been fanned by agitators with tragic consequences and loss of life. The Prime Minister, devoted to western ideals of civil liberties, for a long time resisted the advice received from many that stricter security measures were required to restore law and order. Last week, after particularly bloody events, the Government reluctantly decided to impose martial law over much of eastern Turkey and also in the two principal cities of Istanbul and Ankara. It may be that the Prime Minister's earlier reluctance to involve the Army was partly due to suspicion of the existence of some right wing elements within the Armed Forces, but in recent months, through retirements and promotions, most of the key posts in the Army are now said to be held by officers considered free from any particular ideology. Martial law has been imposed many times in Turkey in the past 30 years and it has traditionally been successful in restoring law and order, at least temporarily, although with a partial curtailment of civil liberties. It can be expected that the Ecevit Government will be more sensitive to this latter aspect of military rule than many of its predecessors.

The Economic Situation

The present Government inherited an economy on the verge of collapse. By the end of 1977, inflation was close to 35% and the Government was no longer able to obtain foreign exchange to pay for current imports or to meet its debt liabilities. International commercial banks (mainly U.S. German, Swiss and British), some of which had somewhat rashly advanced vast amounts to Turkey during the 3 year coalition Government under Mr. Demirel, gradually realised that these short-term loans had been frittered away on current expenditure and unviable prestige investments and that Turkey was in no position to repay these loans. Relations with the International Monetary Fund were at a standstill and the World Bank was no longer lending to Turkey. The budget was hopelessly unbalanced and the huge deficit further fueled inflation.

In its first few months, the new Ecevit Government tried with some success to reverse this trend. While a feeling of national pride led the Government to prepare its own stabilization program rather than to negotiate it with the IMF, the results, when announced, were broadly acceptable to the IMF, except for a devaluation of 25% which was, even then, considered insufficient. An IMF standby agreement was subsequently negotiated and two credit tranches released during the year. Simultaneously, the Government undertook debt rescheduling negotiations, both of Government-guaranteed debts within the OECD framework ($1.2 billion) and with the commercial banks ($3 billion) and agreements in principle were rapidly reached with both groups of creditors. The World Bank resumed lending to Turkey and, in addition, Turkey negotiated a number of useful trade and credit agreements with eastern European countries. By June of this year, it looked as if the new Government would overcome the disastrous economic legacy of its predecessor.

However, things rapidly took a turn for the worse again. The Government's actions, although politically difficult and unpopular, turned out to be insufficient to overcome the longstanding structural weakness of the Turkish economy. A number of reasons can be given for this outcome: First, the efforts made to control inflation were quite insufficient; no machinery for price or rent control was put into effect and the labor unions in the large cities, Mr. Ecevit's natural constituency in the urban areas, received wage increases far exceeding either the rate of inflation or a rise in productivity. Inflation thus increased to 50-60%, rapidly negating the impact of the already insufficient devaluation. Thus, the traditional Turkish propensity to import continued to be encouraged by an overvalued exchange rate and the opportunity to begin the transformation of the economy toward an export orientation was missed. Although there have been some increases in exports this year as compared to last year, much of this is due to the export of agricultural stocks, while industrial exports have remained stagnant. Secondly, the unrealistic exchange rates discouraged the flow of remittances from Turkish workers in Western Europe, which have been a traditional source of foreign exchange for the Turkish economy. These remittances reached the country through the black market or through illegal imports of non essential goods. Tourism income, a large potential resource, continued to be negligible, in view of the uncompetitive facilities offered, as compared to Turkey's neighbors. Finally, while the negotations for rescheduling of Government-guaranteed debts were rapidly concluded with most countries during the summer and fall, the negotiations for the rescheduling of the much larger commercial bank debts have dragged on and are still not finally concluded. A particularly important component of these latter negotiations, namely provision of new credits by the commercial banks amounting to $500 million, is still in abeyance and the amount so far agreed - only in principle - does not exceed $350 million, which is just enough to keep Turkey going for a few months. The Turkish Government now threatens not to conclude the rescheduling agreement with these banks unless the $500 million loan, which it considers an integral part of the agreement, is forthcoming. The commercial banks, on the other hand, seem to be dragging their feet because of new doubts relating to Turkey's creditworthiness, the lack of which they equate with Turkey's inability to maintain a good working relationship with the IMF.

Turkey's Relationship with the IMF

The IMF came to the conclusion in the late summer that the standby agreement concluded last March had not produced the expected results for the reasons explained above. They therefore began pressing the Turkish Government not only for a stricter adherence to this agreement, some of whose clauses were being violated, but also for a new and much more radical stabilization program, which would restore Turkey's international credit-worthiness, allow a new and more realistic rate of exchange to fluctuate with future inflation, reduce credit and encourage a permanent export orientation of the economy. The Turkish Government has strongly resisted this, not necessarily in principle, but because the Government feels, with some justification, that a new stabilization program, without influx of fresh funds would suffer the fate of the previous one, which has left Turkey without raw materials and its industry working at 50% of capacity, thus making it unlikely that additional production for export can be obtained. The IMF, on the other hand, feels, also with some justification, that large amounts of fresh money - even if available - would once again be used by the over-protected local industries exclusively for production for the home market, unless there is a massive devaluation which will make and keep exporting more profitable than importing. Any political judgment on this situation must bear in mind that both sides are right; Turkey needs a considerable amount of fresh money, at least for the next 18 months to get the economy moving again, but these funds would be wasted unless accompanied by a major recasting of Turkey's economic structure.

Unfortunately, the argument between Turkey and the IMF has become politicized. The traditional nationalistic feelings of the Turkish authorities, equating the IMF stand with "foreign intervention", are being fanned by both the left wing and right wing press. Furthermore, Turkey's present leaders have been in opposition since 1963 and a number of trends in world economic relations that have evolved since then have caught them unawares. First, the Turkey of the 1950s and 1960s had become used to being a perennial recipient of foreign aid by successfully appealing to NATO solidarity and particularly to its special ties with the United States. Such appeals no longer yield automatic results and, in any case, the amounts which Turkey's economy needs are beyond the relatively restricted aid budgets of western aid donors. Secondly, Turkey has not realized that it is now a middle-income country and that most regular bilateral aid is reserved for the very poor countries. Third, Turkey has not yet understood that most of its capital inflows, as a middle-income country must, in the future, come from a combination of loans from commercial banks, the World Bank, the European Investment Bank and from occasional balance of payments support from the IMF. Bilateral aid can play a part but in view of the amounts involved, this impact can only be minor. Fourth, Turkey resents what is now a fact of international economic life, that the commercial banks look upon the IMF for a "seal of approval" before they will commit themselves to ambitious operations in a developing country.

For all these reasons, the Ecevit Government has had a tendency to seek to by-pass the IMF by applying to NATO, to the EEC and bilateral allies and using the time-honored technique of the 1950s and 1960s of apparent toying with neutralism.

A Possible Solution

In view of the threatening instability in Turkey and the dire straits of the economy, emergency action is necessary on a once-and-for-all basis on the part of the OECD countries, which would be similar to what was done for Portugal a year ago, with considerable success, as it turned out. The $750 million raised for Portugal, under U.S. leadership, together with the stabilization program imposed by the Government with the agreement of the IMF seems to have restored equilibrium to Portugal's balance of payments although many structural problems remain to be resolved. Turkey needs a similar approach and the amount required would be about $ 1-1/2 to $2 billion in the next two years. Some of this money can be raised in the commercial banks which would regain their confidence in Turkey if it were backed by the western allies and if a sensible stabilization program were undertaken. But at least for the next year or two, a special effort on the part of the Western countries seems essential. Psychologically, it is very important both for Turkey and for the international community that two things should be simultaneous, namely the effective setting up of an emergency fund for Turkey and the approval by the Government and Parliament of a new stabilization program on the lines suggested by the IMF. This juxtaposition could be effected in such a way as to prevent Turkey from feeling it has "surrendered" to an international entity while, at the same time, not undermining the Fund's traditional duty to remedy fundamental disequilibria in its member countries. It may be possible to achieve such a climate by asking a group of "Wise Men" to visit Turkey and make recommendations on what needs to be done. The main outlines of what is required are, however, already known, namely, a large devaluation, whose gains would be preserved by a system tying the rate of exchange to the rate of inflation, a price, wage and rent freeze, at least for the first few months of the new program, the usual credit ceilings, a vigorous program to encourage tourism, a number of export incentives and a greater effort by the Government to gain the confidence of financial markets and rely less on bilateral donors. Any emergency fund should be released in tranches; it should be generous in size, but conditional on radical structural reforms.

The program

December 28 1978

Mr. Koch-Weser

FORM No. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk, EMNVP

DATE: March 2, 1979

FROM: Rainer B. Steckhan, EUR

Steckhan

SUBJECT: Emergency assistance for Turkey -- A German view

1. While in Bonn yesterday, I talked to people at the Foreign Office about the state of play on Turkish emergency assistance.

Burden sharing

2. Of the total envisaged emergency assistance of up to US $ 600 mn. in Mr. Van Lennep's view 60 percent or $ 360 mn. should come from the big four (France, Germany, U.K., U.S.). Germany has already announced a contribution of $ 100 mn. in the form of commodity aid (i.e. an untied credit -- this contribution still requires parliamentary approval in the form of a supplement to the 1979 budget) and feels strongly that the U.S. should put up substantially more, say $ 160 mn. (which is at least $ 60 mn above what the U.S. have announced). In this connection, Chancellor Schmidt has written to the U.S. Government on February 23 (as he has to the Governments of France, Japan and the U.K.) and this was followed up by Under-Secretary Hermes visiting the U.S. Chargé d'Affaires in Bonn this week.

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3. Germany's emergency aid to Turkey would come in addition to the normal project aid which is DM 130 mn. for FY 79 and the losses of the export insurance company Hermes which the Government has underwritten and which amount to more than DM 200 mn. in 1978 and to an estimated additional DM 600 mn. in 1979.

4. As far as the other two partners are concerned, the Germans have received unconfirmed reports that the French would be willing to put up Fr. Frs. 300 mn. (U.S. $ 70 mn) in the form of export credits and otherwise. U.K. has not announced any amount, except to say that its contribution would be very "modest". By the way, the Japanese Ambassador to the OECD, on whom I happened to pay a courtesy call this week, felt that it would be very difficult for Japan (who had not been invited to the Guadeloupe meeting at which the emergency action was decided) to make a significant contribution if the U.K. as a key participant at the Guadeloupe summit were not to take "its share".

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5. Forty percent of $ 140 mn. Mr. Van Lennep hopes to collect from the remaining dozen or so DAC members to which he has already written and which have also been contacted by the German ambassadors to these countries.

6. In the German view, the emergency aid is of course contingent on a satisfactory agreement between the IMF and Turkey, but not contingent on additional recommendations of Mr. Van Lennep.

Next steps

7. Today Friday March 2, Mr. Van Lennep, German Under-Secretary Hermes and the Turkish Finance Minister are meeting in Paris to pave the way for subsequent IMF discussions with Turkey and for Mr. Van Lennep's plan to formulate with the help of "wise men" (still to be selected) recommendations for medium term policies to remedy structural problems of the Turkish economy. Thereafter, the IMF would hopefully resume negotiations with Turkey. Towards the end of March Van Lennep hopes to be able to call a meeting of the 17 or so donor members of DAC where representatives would announce their contributions.

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ECONOMIC SITUATION

For the first time in several years the Federal Government sees a strong year ahead. 1979 is expected by government and OECD to be a year of solid growth (4 percent against 3.4 percent in 1978) and low inflation (government forecast 3 percent - OECD forecast 2.75 percent - against 2.5 percent in 1978). This gives the Federal Republic of Germany the best outlook among major OECD countries. While Japan may achieve a somewhat higher rate of growth (OECD forecast 4.75 percent) than Germany, Japanese consumer prices are expected to rise by a full 4 percent in 1979. The U.S. GNP is forecast by OECD to grow by only 2 percent and prices to rise by 7 percent in 1979. The OECD prediction for France in 1979 is a 3.5 percent growth and a 9.25 percent price rise. For all OECD countries, a 3 percent real GNP growth and a 6.5 percent rise in consumer prices is forecast for 1979. Bonn's hope for a strong 1979, however, is fraught with some uncertainties.

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Growth

Rising growth in the second half of 1978 provoked in part by a drop in the savings rate and a corresponding increase in consumer demand, and in part by fiscal stimulation (DM 14 bn in tax cuts and added spending, equivalent to 1 percent of GNP) following the Bonn summit, set the stage for a strong upturn. The last months of 1978 already showed annual growth rates of around 4 percent. A long and bitter steel strike through December and the first half of January was settled without lasting effects on growth. Thus, the stimulus measures are expected to be effective in maintaining a satisfactory expansion at least through the first half of 1979, but it is in the second half where the picture gets murky.

The government has repeatedly stressed that the present fiscal package fully responds to its commitment at the Bonn summit and that, therefore, further measures to boost the economy are not envisaged. It considers that the fiscal stimulus which produced a record budget deficit of DM 31 bn (18 percent of total revenues) sufficient to make GNP growth self-sustaining. Skeptics inside and outside of Germany fear that this is far from certain. OECD experts, in particular, think that it would be a smaller risk for the German Government to err on the side of over-stimulation because there is a real danger that the present expansionary phase may simply peter out. This danger may be enhanced by a touch of the brake by the Bundesbank which this January cut rediscount quotas and raised from 3.5 to 4 percent the rate at which it will grant advances to the banking system against

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securities. Not surprisingly, the Finance Ministry immediately denounced this move because of its risks to the economic upswing.

The budget

In mid-January, the Bundestag approved the federal budget for 1979 which provides for total spending of DM 204 bn, an increase of 7.8 percent over actual spending of DM 189 bn in 1978. Aid appropriations are DM 4.6 bn which is 30.5 percent more than the DM 3.5 bn actually spent in 1978, but only 15 percent more than the DM 4 bn that was appropriated for aid in 1978. Aid, together with urban construction (DM 4.3 bn), research and technology (DM 5.6 bn), education (4.2 bn), belongs to the medium-sized items in the federal budget. The biggest items are the budget of the Ministry of Labor (DM 46.5 bn, mainly for unemployment compensation), defense (DM 36.7 bn), transport (DM 26.3 bn) and youth, family and health (DM 18.2 bn).

The rapid rise of the overall size of the budget as well as the deficit and the resulting interest payments (which in 1979 will amount to DM 13.4 bn against DM 11.4 bn in 1978) had made government officials sensitive as to any further above-average rises of expenditure. Nevertheless, the government is planning to increase the aid budget faster than total expenditures, thus trying to increase ODA to some 0.35 percent of GNP by 1982.[1/] A large federal deficit is a new and irksome phenomenon in German public finance, and it was most severely criticized by the opposition during the 1979 budget debate. Because of feelings against high public deficits, Finance Minister Hans Matthöfer had to undertake to scale down public borrowing requirements over the following three years.

1/ Medium-term Budget Projections

Year	Amount (DM bn)	Increase in %
Federal Budget		
1979	204	7.8
1980	217	6.2
1981	228	5.0
1982	238	4.4
Aid Appropriations		
1979	4.5	15.0
1980	5.1	8.2
1981	5.5	9.5
1982	5.9	6.9

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Prices

Last year's low inflation rate of 2,75 percent is partly explained by special events such as an unusually good harvest and cheaper imports due to the appreciation of the DM. Since such events are not likely to recur, the government predicts a slight rise of the inflation rate to 3 percent. Other reasons for this prediction are livelier consumer demand and the 1 percentage point rise in the country's value-added tax to 13 percent this summer. Nevertheless, after Switzerland, Germany is expected to remain the OECD country with the lowest inflation rate. In fact, the fight against inflation is foremost in the government's mind and widely supported by the public which has kept the memory of rampant inflation of the 1920s, and their political consequences in the 1930s.

Foreign Trade

External demand, which in the past has often provided the main impulse needed to pull the German economy out of a recession, cannot be relied upon this time. Export volumes are projected to rise by 5 percent in 1979 - in line with the OECD forecast for the expansion of world trade - which may be on the high side in view of the feeble growth of many of Germany's main trading partners. Imports are forecast to rise by 7 percent, thus somewhat narrowing Germany's trade surplus. In addition, the situation in Iran may endanger a portion of German exports. The most serious threat to German exports, however, would be a further significant fall of the dollar, in which much of its trade with third countries is denominated. This has put the Bundesbank in a dilemma. If it stops supporting the dollar, as Bundesbank Vice-President Karl-Otto Pöhl recently hinted, a further decline of the dollar cannot be excluded with the subsequent further loss of competitivity of German exports. However, if it supports the dollar to prevent a further rise of the Deutsche Mark, the money supply will rise in Germany and increase the inflationary potential. The limited credit restrictions mentioned above illustrate the concern of the Bundesbank.

In view of Germany's heavy dependence on foreign trade (which accounts for about a quarter of GNP) it is deeply concerned at the dollar's continued fall. Well over half of all German exports go to other West European countries inside and outside the EEC. In this situation, it has become important for Germany to attempt to create a new zone of stable exchange rates within Europe. Hence, the European Monetary System (EMS). It is most disappointing to Chancellor Schmidt and President Giscard d'Estaing who had pushed the EMS against much skeptical advice from monetary experts, that its establishment on January 1 has had to be postponed because of an unresolved conflict between the new system and the price compensation scheme for EEC farm products.

Unemployment

The unemployment situation casts a shadow on some of the bright aspects of 1979. Despite the pick-up of the economy, even government expects only a minimal decline in 1979 to just below one million, equivalent to 4 percent of the labor force. Unemployment in the neighborhood of one million had been considered to be unacceptable for any prolonged term, but this has now gone on for more than four years with, so far, little lasting damage to the social fabric. Of course, the situation would be much worse had there not been a significant decline in the number of foreign workers, from a maximum of 2.5 million in mid-1973 to an average of 1.8 million in 1978.

January 1979 brought a disappointing increase in the unemployment rate to 5.1 percent of the labor force (4.3 percent seasonally adjusted), but this was mainly due to an unusually harsh winter. If the employment situation does not improve even in a period of economic recovery, those in Germany who have begun to speak in favor of more tying of aid, and of a shift to bilateral aid, may raise the tone of their demands.

A Look Back - The German Economy in 1961-76

The German "economic miracle" (Wirtschaftwunder) - the post-war reconstruction boom - was one of the more highly publicized economic phenomena of the 1950s. The Federal Republic entered the 1960s as the strongest economy in Western Europe. Its per capita GDP and private consumption, although lower than in the U.S., were already above the average levels prevailing in the European Community (EC). Its investment ratio was well above that of the major industrial nations, with the exception of Japan, and a high ratio of domestic savings to GDP was reflected in a substantial surplus on the current account of its balance of payments. Furthermore, the German economy had reached near-full employment in 1960 when a 1.2 percent rate of unemployment was matched by a twice-as-high rate of vacancies. Finally, although the major impact of European economic integration and trade liberalization under GATT was still to come, the Federal Republic of Germany was already a relatively open economy, with high ratios of imports and exports to GDP for a country of that size (Table 2).

During the 1960s, German economic performance came pretty much into line with the rest of the EC. The overall growth of output dropped from an 8 percent annual rate in the 1950s to about 4.5 percent during the 1960s;

investment in machinery and equipment slowed down from a 10.6 percent to a 7.2 percent annual rate of growth in real terms. Per capita GDP increased at the same rate as on average in the EC, and so did the volume of exports. Per capita consumption, however, increased slightly more rapidly, which was reflected in a relatively high growth rate in the volume of imports.

Germany during this period had a virtually stagnant labor force, with a declining domestic supply of labor, and a spectacular increase in the number of foreign workers (20.5 percent per annum). When the number of foreign workers in the Federal Republic of Germany reached its peak of 2.5 million or 9.3 percent of the total labor force in mid-1973, the accompanying outflow of migrants' remittances was about US$3.7 billion.

Despite a tight labor market, the rate of increase of prices in Germany compared very favorably to that in the other industrialized countries (Table 2). The reasons for this were tough anti-inflationary demand management, the large increases in the number of foreign workers, and the relatively moderate attitude of trade unions. This resulted in increases of unit labor costs in Germany in 1960-73 that were among the lowest for the major industrialized countries. But there were two undesirable side-effects: tight demand management policies dampened the rate of productivity growth, and the sqeeze on non-wage incomes (Table 2) reduced the rate of return on investment. These phenomena are thought to be contributing to the current depression in investment activity and reducing the growth potential of the German economy.

The development of strongly competitive export industries in Germany was aided by the undervaluation of the currency through most of the 1950s and 1960s. Labor shortages also contributed indirectly to a reorientation of investment activity towards capital-intensive technology and capital intensive economic sectors (intermediate products, agricultural and industrial machinery, electrical equipment and motor vehicles).

Successive appreciations of the DM in the 1970s, reflecting the continuous preoccupation of the German authorities with inflation, do not seem to have seriously damaged the relative competitiveness of exports. Although the real growth rate of exports slowed down from 8 percent in 1961-70 to 6.8 percent in 1971-76, it was still significantly above the average OECD performance in the same period. The growth of GDP has shown a more pronounced deceleration since the early 1970s than that of exports, and there has been a concommitant slowing down in the demand for imports. As a result, Germany's balance-of-payments situation has been highly favorable in recent years.

Table 1

ECONOMIC AND AID INDICATORS

	Year	Germany	France	EEC	USA
Area in 000 km^2	1977	249	547	1,525	9,363
Population in million	1977	61.4	53.1	259.2	216.8
GDP in billion current dollars	1977	514	381	1,597	1,884
GDP adjusted for purchasing parity					
- in billion dollars	1973	297	246		1,303
- US = 100	1973	23	19		100
Index of GDP/capita adjusted for purchasing parity. USA = 100	1975	79.2	79.5		100
GDP real growth rate (in %)	1978	3.4	3.0		3.7
	1977	2.6	3.0		4.9
	1965-76 (average)	3.3	4.7		2.7
Unemployment (% of labor force)	1978	4.3	5.5	5.7	6.0
Inflation (% change of consumer prices)	1978	2.75	9.5		7.0
TRADE INDICATORS					
Share in GDP (%) Exports	1977	22.9	16.7		6.4
Imports	1977	19.6	18.5		7.8
Destination of Exports	1977	100.0	100.0		100.0
OPEC		7.9	7.9		12.4
Other LDCs		15.3	21.7		27.6
Other		76.8	70.4		60.0
Origin of Imports	1977	100.0	100.0		100.0
OPEC		8.7	15.3		16.0
Other LDCs		15.6	15.3		30.9
Other		75.7	69.4		53.1
DEVELOPMENT AID					
Total aid budget in bil. curr. $	1978	2.49	2.82	8.8(1) 1.2(2)	6.21
as % of GNP	1977	0.27	0.60	0.31	0.33
as % Central Gov't. budget	1977	2.6	3.2	2.2	1.2
Multilateral share of total aid	1977	26	15		30

(1) Figure concerns EEC/DAC members (Ireland and Luxembourg are not DAC members).
(2) These are Community commitments during 1977, including the EEC budgetary allocations as well as funds for European Development Fund and European Investment Bank, including an interest subsidiary fund for European Investment Bank.

Sources: OECD, DAC, World Bank

INDICATORS OF COMPARATIVE ECONOMIC PERFORMANCE, 1961-1976

Per Capita	GDP (Million US$ at 1970 prices) 1976		1961-76	Private Consumption (Million US$ at 1970 prices) 1976		1961-76
	(US$M)	(1961=100)	% Growth p.a.	(US$M)	(1961=100)	% Growth p.a.
Federal Republic of Germany	3,511	160	3.2	1,958	167	3.5
European Community	2,855	161	3.2	1,709	163	3.3
United States	5,413	145	2.5	3,541	153	2.9
Japan	2,420	280	7.1	1,284	261	6.6
OECD Total	3,362	161	3.2	2,088	164	3.4

In % of GDP	Domestic Savings (at current prices)/a		Gross Fixed Capital Formation (at current prices)		Imports of Goods and Services (at 1970 prices)		Exports of Goods and Services (at 1970 prices)	
	1961	1976	1961	1976	1961	1976	1961	1976
Federal Republic of Germany	29.3	24.2	25.2	20.7	12.8	23.6	15.5	26.7
European Community	24.1	22.3	21.6	21.0	15.8	26.0	17.1	28.2
United States	18.4	16.7	17.3	16.2	3.7	5.7	4.6	6.9
Japan	38.9	32.3	33.2	29.6	7.9	11.0	7.2	16.1
OECD Total	21.8	21.4	20.1	20.6	9.4	15.0	10.1	16.3

% Growth p.a. (at 1970 prices)	GDP		Imports of Goods and Services		Exports of Goods and Services	
	1961-1971	1971-1976	1961-1971	1971-1976	1961-1971	1971-1976
Federal Republic of Germany	4.5	2.4	9.3	5.7	8.0	6.8
European Community	4.5	2.9	8.3	5.8	8.0	6.4
United States	3.9	2.9	8.4	2.9	6.1	6.9
Japan	10.1	5.1	12.2	8.2	16.1	11.1
OECD Total	4.7	3.3	8.5	5.6	8.2	6.5

/a GDP minus private and public final consumption expenditure.

Source: OECD, National Accounts 1976, Vol. 1.

Table 3

LABOR COSTS AND PRICES: COMPARATIVE PERFORMANCE 1960-1973

(% increase p.a.)

	Compensation per employee	Labor productivity	Unit/a labor cost	GDP deflator	Memorandum Items: Indicator of gross profit margins/b	Memorandum Items: Price of goods and services exports /c (in domestic currency)	Memorandum Items: Price of goods and services exports /c (in US$)
Federal Republic of Germany	9.2	4.4	4.6	4.2/d	-0.4	2.2	5.7
France	9.9	4.8	4.9	4.9	0	3.0	3.8
United Kingdom	8.2	2.8	5.3	5.2	-0.1	4.3	3.1
Italy	11.6	5.6	5.7	5.4	-0.3	3.3	3.9
United States	5.6	2.0	3.5	3.4	-0.1	3.3	3.3
Canada	5.8	2.5	3.2	3.8	0.6	3.1	3.3
Japan	14.0	8.9	4.7	5.5	0.8	2.0	4.4

/a Column 1 ÷ column 2.
/b Column 4 ÷ column 3; a minus sign indicates a decline in the share of non-labor income in total income.
/c 1961-1973.
/d 1961-1973.

Source: OECD Working Party No. 2, CPE/WP2(78)4.
OECD National Accounts 1976, Vol. 1.

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POLITICAL SITUATION

Background and Government structure

The Federal Republic of Germany came into being 30 years ago when the occupation statute granted West Germany full powers of self government. For the first 20 years it had a CDU-led government (with Konrad Adenauer serving as Chancellor for almost 14 of the 20 years) and for the last 10 years the SPD, in coalition with the FDP, has formed the federal government.

The Federal Republic is a federation of ten states (Länder) ranging in size from North Rhine Westphalia (17 million inhabitants) to Bremen (0,7 million inhabitants), plus the eleventh State of West Berlin which is still under allied control. Each state has a parliament and a state government under a prime minister (Ministerpräsident). The federal parliamentary system is a bicameral one, with the Bundesrat as upper house (where 45 delegates represent the states, and each state has 3 to 5 seats according to its size) and the Bundestag (with 518 nationally elected members) as the lower house. The Bundestag bears the major responsibility in the legislative process while the Bundesrat, whose consent is needed to enact a bill, essentially has the right to delay or to block legislation with which it does not agree. A mediation committee will then have to settle the conflict, but this has rarely been necessary.

The head of state is the Federal President (Bundespräsident), presently Walter Scheel (FDP), whose duties are largely ceremonial. The President of the Bundestag (Bundestagspräsident), presently Professor Karl Carstens (CDU), has traditionally been elected from the strongest party. The head of government is the Federal Chancellor (Bundeskanzler), presently Helmut Schmidt (SPD), who is elected by a majority of the Bundestag. The Chancellor appoints the members of his cabinet, which in coalition governments like the present one is the result of much horsetrading between the coalition partners. After Konrad Adenauer (1949-1963), Ludwig Erhard (1963-1966), Kurt Georg Kiesinger (1966-1969) and Willy Brandt (1969-1974), Helmut Schmidt is the fifth chancellor of the Federal Republic of Germany. His present term runs until the fall of 1980 when federal elections must be held.

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The parties

There are three major political parties. The largest group consists of the Christian Democratic Union (CDU) and its Bavarian sister party, the Christian Social Union (CSU). Together they obtained 255 parliamentary seats (48.6 percent) in the 1976 general elections. The Christians are a party with conservative tendencies and big-business connections, but are open to step by step political and social reforms. In foreign policy, the Christians are resolute partisans of the Western alliance and of the European community. Under its pugnacious and dynamic leader, Franz Josef Strauss (who is also Prime Minister of the State of Bavaria), the Bavarian CSU has recently been toying with the idea of becoming a nationwide independent party in an effort to take away votes from the government coalition and - together with the CDU - to try to win the 1980 general elections.

The next largest party is the Social Democratic Party (SPD) with 224 seats (42.6 percent). While other German parties were founded after 1945, the SPD has a history of more than a 100 years. Through the decades, it has evolved from a militantly proletarian labor party (but always keeping its distance from the communists) to a more broadly based party with mass appeal. Today, it is interesting to note that the income of the average SPD member is slightly in excess of the average income in Germany and about half of the party members own a house, an apartment or a piece of land. The party's traditional aimshave beena more equitable society and better working conditions.

In recent years the SPD has promoted structural reforms, such as basic improvements in the social security and education system, worker participation in the management of enterprises (workers and employees are now represented on the supervisory boards of medium-sized and large companies) and a certain amount of state control over the economy, but more by stimulation than by direct intervention. While important state-owned enterprises are to be found in many sectors of the economy, including energy and automobiles, the basic character of the German economy as a free enterprise economy has been left untouched by the Social Democrats. However, the party has a youthful and vociferous left wing clamoring for radical changes in the basic structure of the German economy. In foreign policy, the bulk of the Social Democrats have promoted a policy of détente towards Eastern Europe, at the same time slightly de-emphasizing the Atlantic Alliance.

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Since 1969 the junior partner in the Social Democrat-led federal government has been the Free Democratic Party (FDP) which gained 39 seats (7.9 percent) in the 1976 general elections. Their share has been on a declining trend through the decades. Their support comes mainly from white-collar workers, parts of big business, academia and the professions. Under the pressure of their younger members, the Free Democrats have moved from a traditional laissez-faire liberalism to a stronger role for government in the economy and more welfare. Many would consider the FDP as a necessary counter-weight against the radical wing of the SPD in the governing coalition.

Beyond these major parties, there is a large number of small and unstable political parties at the extremes of the political spectrum. Recently, most of these parties have stayed below one percent of the total vote. Groups of environmentalists who showed some strength in state elections in the spring of 1978 made precious little impact in state elections in the fall of 1978. At any rate, since 1961 none of the small parties have reached five percent of the vote, which is the constitutional minimum a party must obtain in order to be represented in Parliament. Even at a time of recession, when, in theory, German extremists would stand to gain, they have not done so.

The Trade Unions

With a membership of about eight million (of a total labor force of 23 million) the German Federation of Trade Unions (Deutscher Gewerkschaftsbund - DGB) under Heinz Vetter (whom you have met in Washington) is a powerful organization. There are also some minor splinter unions with a total membership of 1 million or so. Two broad issues are of concern to the unions: how to reconcile their members' claim for more wages and less working hours with unemployment stubbornly in excess of 4 percent, and how to reach social parity of working men with management in decision-making.

Up until a year or two ago, these issues and the economy in general had been discussed in the framework of the so-called "concerted action" meetings held two or three times a year with employers' representatives, ministers, the President of the Bundesbank and other representatives of the economic establishment. The meetings had the primary purpose of getting agreement on the medium-term economic

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outlook so as to decide how much scope existed for wage and price increases. This was abandoned when the unions felt that the process had begun to work against them, and there was growing pressure from a new breed of university-educated trade unionists as well as from the shop floor. The long and bitter strike of German steel workers around the turn of last year may be an indication that the perhaps too "civilized" way of settling labor's demands may be a thing of the past. Moreover, the union movement is getting second thoughts about the middle-of-the-road leadership of the SPD, its traditional ally in the past.

German trade unions have not yet reacted negatively to growing LDC imports. However, there is some discontent among the membership and growing uneasiness in the trade union leadership in this respect.

The Churches

The Catholic church, once a staunch supporter of the CDU/CSU and the Protestant church (which, however, had never been closely allied with any party) have lost a good deal of their influence in public life. Church attendance, for instance, is down. In the aid field, both churches are by far the most active among the NGOs, and their thinking on development is far ahead of their membership. Misereor, the Catholic development aid organization, has collected a total of DM 1.5 billion from Catholic individuals over the last 20 years and is now donating around DM 80 million a year for development projects. Brot für die Welt (Bread for the World), the Protestant equivalent, has collected some DM 0.6 billion in donations for development purposes.

The Schmidt administration and the present political scene

Chancellor Schmidt is the uncontested key figure of the political scene in Germany, a politician at the height of his power and popularity. Opinion polls show that his performance is rated slightly better than that of Chancellor Adenauer at the peak of his career, and noticeably better than that of Chancellor Brandt. Mr. Schmidt manages to keep a workable national consensus at a time when ideological polarization among the followers of the big parties is increasing. He is truly a chancellor of the majority of the people and his personal popularity far exceeds that of his party.

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Critics blame him for a lack of spectacular achievements and political vision as well as for insufficient attention to long-term issues such as energy, including nuclear power,and structural unemployment, in particular youth unemployment. But Mr. Schmidt has impressed the voters by a deft management of various crises since 1974: the oil price rise, economic recession, unemployment and a terrorist wave in late 1977 which shook the foundations of the country. Mr. Schmidt has resisted pressure from other Western governments to vigorously stimulate the German economy because of his fears of unfettered inflation, and he can now claim to have led the German economy to the threshold of a sound recovery.

At the Bonn summit in July 1978 and the mini-summit at Guadeloupe in January 1979, Mr. Schmidt emerged as one of the most prominent Western leaders. This has further increased his stature in the eyes of the German voter. However, his candid comments on aid (see separate summary) have drawn fire from the Third World, but the softening of his stance in Jamaica may increase his stature in the North-South dialogue.

On the surface, the political future of Mr. Schmidt looks safe. There is very little doubt that he would easily win a federal election if one had to be called today. The opposition Christian Democrats are in a state of disarray. Their leader, Helmut Kohl, is under heavy attack from within his own party ranks, particularly from Bavarian Prime Minister Franz Josef Strauss, because of wavering leadership and his inefficiency in exploiting government weaknesses. It is uncertain whether Mr. Kohl will remain the CDU's candidate for the chancellorship and the party chairman for long.

Nonetheless, there are some inherent weaknesses in Mr. Schmidt's government that may come to the surface in a time of crisis. First, there is the fact that the coalition commands a very small majority margin (of only ten seats) in the Bundestag. A few dissidents in the ranks of the coalition parties could cause a government defeat; a recent vote on the German nuclear energy problem, for example, brought the government close to the brink. Second, Mr. Schmidt's coalition partner,the Free Democratic Party, is a small party torn by internal strife between its conservative and progressive wings, and has a diminishing voter base.

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Moreover, there will be three state elections in the spring this year (on March 18 in Rhineland Palatinate and Berlin,and on April 23 in Schleswig Holstein). However, no major surprises are in the wind and, hence, it is not expected that CDU state governments would obtain a two-thirds majority in the Bundesrat which could block major government legislation.

Foreign policy

Last year's events such as the May visit to Germany of Soviet leader Brezhnev, the July visit of U.S. President Carter, the Bonn summit (and earlier the Bremen meeting) seem to suggest that the Federal Republic's political stature in world affairs may increasingly match its economic strength. But as the Financial Times (on which some of this analysis is based) put it last year "Germany is playing a world role without seeking to become a world power". Because of its Nazi past (which was brought home to a large audience when "Holocaust" was televised in January 1979), Germany can only play such a role in the company of allies, and this is why Germany has been a strong supporter of the European Economic Community and of the Atlantic Alliance. In the last few years a particularly close relationship, including twice-yearly government consultations, has developed between France and Germany, based on a personal friendship between President Giscard d'Estaing and Chancellor Schmidt.

Another legacy of the war is the division of Germany and its proximity, along an extended frontier, with East-bloc countries. Defense therefore provides a powerful motive for Germany to participate in the Western alliance, with its atomic shield for non-nuclear Germany. Détente is a different political approach to the same problem. Under Chancellor Willy Brandt, a series of treaties were negotiated with Eastern European countries, including the German Democratic Republic, which formally ended the war, recognized present borders and opened the way for normal relations. However, the opposition Christian Democrats have remained critical towards détente, which they felt was a give-away of Western positions, and even Chancellor Schmidt and Defense Minister Apel are beginning to emphasize their preference for a stronger Western defense posture, which would provide the base for further negotiations with the East. Mr. Brandt and SPD party secretary Egon Bahr, on the other hand, continue to advocate a policy of further easing of relations with the East in order to keep the momentum of détente going.

In the diplomatic arena, Germany is a strong supporter of free trade. This is because Germany is one of the major trading nations of the world with about a quarter of GNP going into exports, and with a

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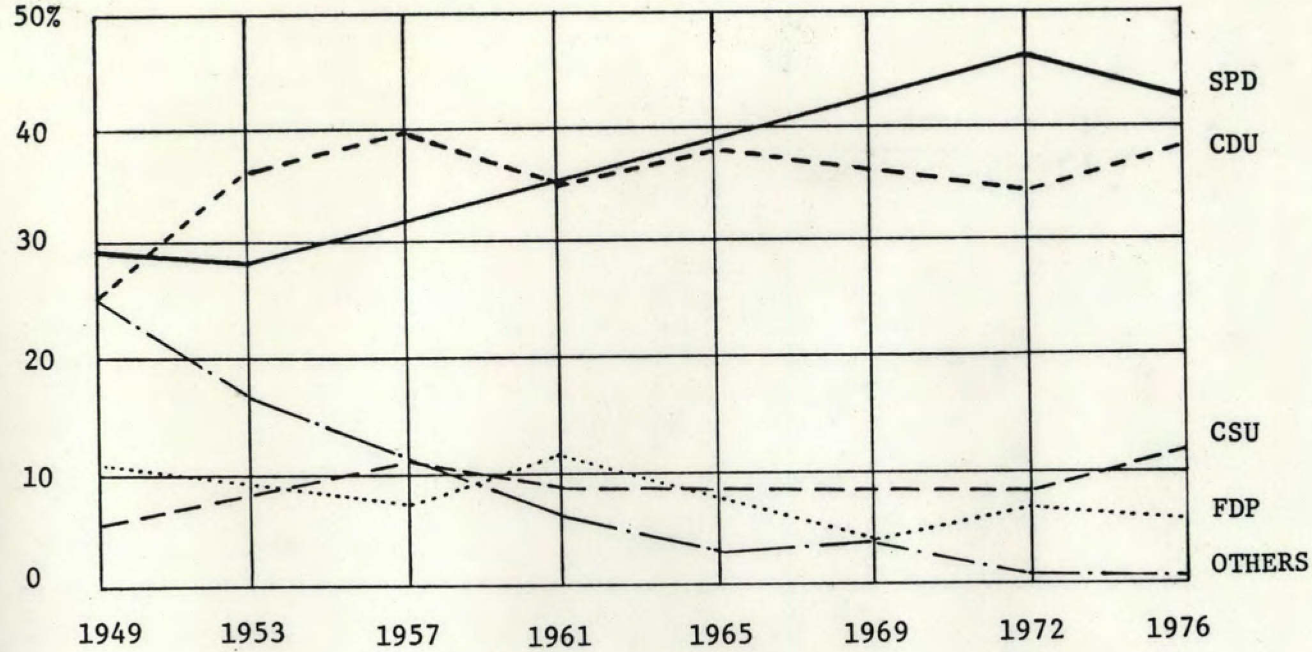
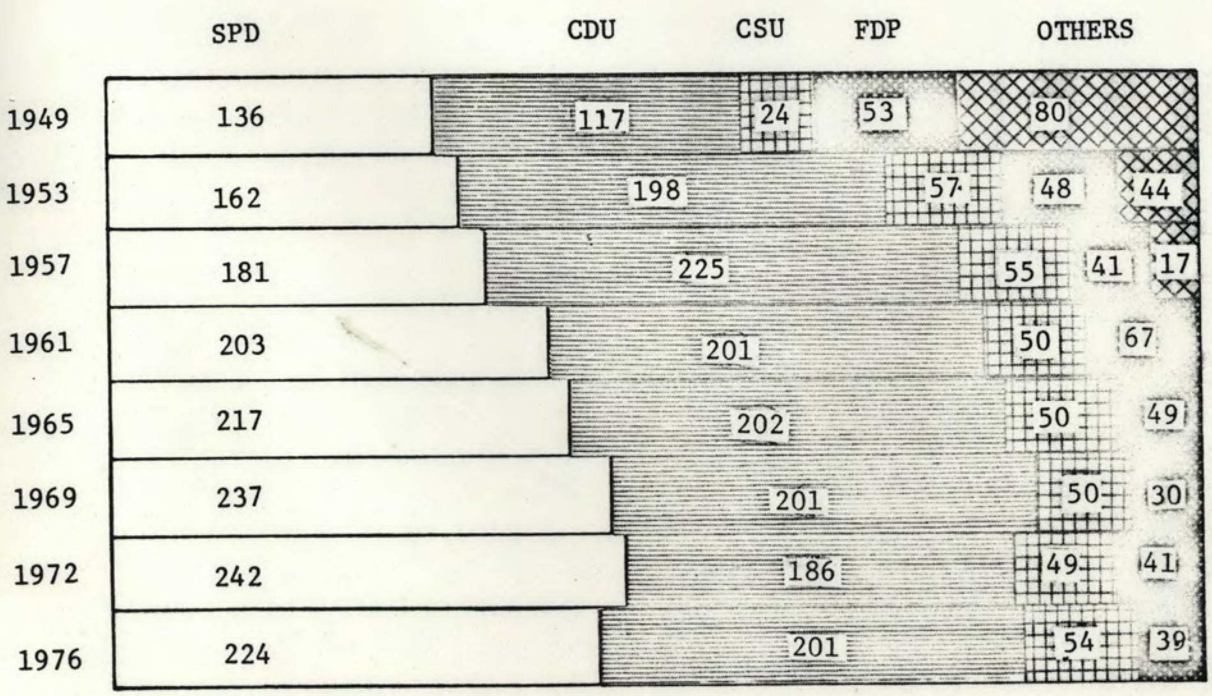
need to import almost all energy and raw materials. The security of its raw material imports and the growing importance of LDC markets for its exports are certainly two decisive components of Germany's North-South policy. In international fora, Germany will continue to be an advocate of freedom of trade and investments. It will agree to international schemes which restrict that freedom only grundgingly, out of political expediency rather than conviction.

NATIONAL ELECTIONS - SHARE OF TOTAL VOTE



DISTRIBUTION OF SEATS ON THE BUNDESTAG*



*including representatives from West Berlin.