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President G. D. Woods Briefs - 21st Annual Meeting
Europe & Middle East

1966

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Annual Meeting briefing papers, 1966 - Europe and Middle East - Briefing papers

EUROPE AND MIDDLE EAST

G. D. WOODS MEETINGS

<u>Country</u>	<u>Date</u>	<u>Time</u>
Turkey	Saturday, September 24	12:30 pm ($\frac{1}{2}$ hour)
U.A.R.	Saturday, October 1	12:00 noon (1 hour)
Yugoslavia	Saturday, October 1	11:00 am (1 hour)

Israel (Horowitz)	Thursday, September 29	4:00 pm ($\frac{1}{2}$ hour)
Switzerland (Reinhardt)	Monday, September 26	3:30 pm ($\frac{1}{2}$ hour)
Belgium (Camu)	Thursday, September 29	3:30 pm ($\frac{1}{2}$ hour)
Germany (Dr. Langer)	Tuesday, September 27	3:30 pm ($\frac{1}{2}$ hour)

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September 15, 1966

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BRIEFING PAPER - 1966

AUSTRIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Wolfgang Schmitz
Governor of Bank

Federal Minister of Finance

Hugo Rottky
Alternate Governor of Bank

Section Chief, Federal Ministry
of Finance

Ludwig Seiberl
Alternate Governor of Fund

General Manager, Austrian
National Bank

Ferdinand Hain
Alternate Governor of Fund

Chief, International Division,
Research Department, Austrian
National Bank

Advisers:

Othmar Haushofer

Alternate Executive Director of Bank

Walter Neudorfer

Counselor, Federal Ministry of
Finance

Rudolf Horak

Secretary to the Federal Minister
of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

There are no prospects for Bank lending since the economic situation continues to be favorable.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Possibility of accelerating the release of the 9% of the recent increase in Austria's Bank capital subscription (see part V (e)). With the settlement of the political crisis, the new government should be in a position to consider this question which was raised by Mr. Woods in letters of August and December 1965.

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

None

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

None

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

	(US \$ Millions)	
	Amount less Cancellations	Undisbursed Balance
Loans fully disbursed	104.9	--
of which has been repaid	<u>22.8</u>	
	8	
Total outstanding	82.1	
Amount sold	44.8	
of which has been repaid	<u>17.6</u>	<u>27.2</u>
Net amount held by Bank	<u>54.9</u>	

(b) IDA Credits as of August 31, 1966

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

Two private issues, both guaranteed by the Republic of Austria, were made in 1965 - the first of \$12 million in Belgium and Luxembourg (at 5 3/4% for 20 years issued at 97 with principal underwriters Banque Lambert, Credit-banque Luxembourgoise, White Weld and Co. of New York); and the second of S.F. 40 million in Switzerland (at 5% for 15 years with the three big Swiss banks as principal underwriters). In July 1966, Verbundgesellschaft and Donaukraftwerke A.G. raised \$15 million, guaranteed by the Republic of Austria, at 6 5/8% for 20 years issued at 96 1/2 in various markets with principal underwriters S. G. Warburg and Co., and N. M. Rothschild and Sons.

Austria is subject to U.S. Interest Equalization Tax.

(e) Bank 9% Capital Subscription

Amount: \$16.8 million. \$9.0 million released, convertible into any currency and on loan; \$7.8 million (9% of increase of capital subscription effective May 1966) available in three annual installments of \$2.6 million beginning early 1967.

(f) IDA Subscription

Part I member.	Original subscription	\$ 5.04 million
	Replenishment	5.04 million
	Total	\$10.08 million

(g) Holdings of Bank Bonds

\$20.50 million

(h) I.F.C.

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

(i) S.I.D.

Date of Signature: May 17, 1966

Date of Ratification: —

VI. POLITICAL SITUATION

The political scene in the whole postwar period was dominated by the coalition between the two leading parties, the conservatively oriented People's Party and the Socialists, neither of them able to

gain a majority in previous elections. However, the national elections of March 1966 brought for the first time an absolute parliamentary majority to the People's Party which won 85 out of a total of 165 seats against 74 for the Socialists and 6 for the Liberal Party. Negotiations to continue the coalition failed and the Socialists withdrew into opposition.

Chances are that the new Government will attempt to solve the two main long-standing issues on which the former coalition parties disagreed. The new government program provides for concluding the negotiations with the Common Market for associate membership, to be achieved by 1967 or 1968, subsequent to which Austria will withdraw from EFTA. Furthermore, it is intended to submit legislation to parliament in order to reorganize the capital market, which includes a partial denationalization of industry.

VII. ECONOMIC SITUATION

Population: 7.2 million

GNP per capita: \$1,270

Gold and Foreign Exchange Reserves (June, 1966): \$1,170 million.

Overall growth of the economy slowed down to 3% in the past year, compared with more than 6% in 1964. While exports and private consumption continued to expand rapidly, agriculture, construction activity and tourism were adversely affected by weather. Investment expenditures of industry in plant and equipment increased somewhat, interrupting the declining trend of previous years, but investment in inventories contracted strongly.

The generally declining trend of industrial investment has long concerned the authorities. The uncertainties as to the outcome of the negotiations with the Common Market and growing discrimination against Austrian products in E.E.C. markets have clouded export prospects, and conflicting policies with regard to the state-owned industries have probably acted as an additional brake. Both these factors may have a less restrictive influence on industrial investment in the future, with the new Government clearly determined to achieve association with the E.E.C. and creating new private investment opportunities in formerly state-owned industries.

Developments in the recent past supported the Government's efforts to check the inflationary pressures and the excessive inflow of short-term capital which inflated bank liquidity. Although wage rates rose even faster in 1965 than in 1964, the rise of gross monthly earnings has not accelerated, due to somewhat eased conditions on the labor market. The overall consumer price index in June 1966 fell slightly below the previous year's level. The balance of payments exerted a more restrictive influence on monetary conditions in 1965 and the first half of 1966 and the federal budget was of about neutral influence in contrast to moderately expansionary effects in previous years.

The deficit in the balance of payments, relatively small in 1965 but increasing in 1966, was largely the result of an exceptionally steep rise of imports and a comparatively slow increase of earnings from tourism. Gold and foreign exchange reserves declined for the first time in many years and were at \$1,174 million at the end of June 1966, about \$40 million below the level a year ago. They covered about 7 months' imports.

Belgium

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September 15, 1966

BRIEFING PAPER - 1966

BELGIUM

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Robert Henrion
Governor (Bank)

Minister of Finance

Hubert Ansiaux
Alternate Governor (Bank)

Governor, Banque Nationale de
Belgique

Hubert Ansiaux
Governor (Fund)

Governor, Banque Nationale de
Belgique

Marcel D'Haeze
Alternate Governor (Fund)

Director of the Treasury and Public
Debt, Ministry of Finance

Advisers:

Andre van Campenhout

Executive Director (Fund and Bank)

Herman Biron

Alternate Executive Director (Fund)

Cecil de Strycker

Director, Banque Nationale de Belgi

Jacques Mertens de Wilmars

Adviser, Banque Nationale de Belgiq

P. H. Wigny

Ministry of Finance

Louis Plum

Technical Assistant

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

(c) Topics likely to be raised by Delegation:

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

Loans fully disbursed		\$ 172.40 million
of which has been repaid		<u>78.80</u>
Total outstanding		93.60
Amount sold	131.70	
of which has been repaid	<u>77.10</u>	<u>54.60</u>
Net amount held by Bank		39.00

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Belgium is subject to US Interest Equalization Tax.

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$15 million of which \$5 million 1966 2-year bonds.

(h) I. F. C.

Not considered appropriate for IFC financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on December 15, 1965, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

Not applicable.

VII. ECONOMIC SITUATION

Population (1964): 9.70 million;

GNP per capita (1964): \$1,590;

Gold and Foreign Exchange Reserves of National Bank
(May 1966): \$2,294 million;

Net Foreign Exchange Position of Commercial Banks
(May 1966): \$514 million.

Cyprus

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BRIEFING PAPER - 1966

CYPRUS

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Renos S. Solomides
Governor of Bank

Minister of Finance

A. I. Ionnides
Alternate Governor of Bank

Accountant-General

C. C. Stephani
Governor of Fund

Governor, Central Bank of Cyprus

K. N. Lazarides
Alternate Governor of Fund

Manager, Economic Research Department,
Central Bank of Cyprus

III. BANK/IDA PROSPECTIVE OPERATIONS

The Electricity Authority of Cyprus, the borrower of our 1963 loan, has applied for \$2.8 million to assist in financing its expansion program for 1967/71. Since there will be savings of about \$3 million under the previous loan, we have proposed to provide the Bank's contribution to the expansion program by extending the use of the 1963 loan. An appraisal mission visited Cyprus in July/August and reported favorably on the expansion program.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Power Expansion Program: See III above. We should inform the delegation that the recent appraisal mission recommended the program as suitable for financing from the balance of the 1963 Loan 335 CY and we should discuss the procedures for effecting the necessary modifications in the loan documents.

Bank 9% Release: At the last Annual Meeting, the Finance Minister promised to consider release of the 9% portion of Cyprus' capital subscription (\$1.35 million). We should enquire about the position. Since the political situation is more stable now and the economy has resumed its upward trend, Cyprus could afford the release over a period of say three years.

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

None.

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

In February, the Finance Minister enquired whether the Bank would be prepared in principle to consider assisting the Cyprus Development Corporation (CDC). In our reply we expressed some doubt whether the amount of business which CDC can be expected to handle would be sufficient to establish it as a viable institution and to warrant our participation. We asked for a study of this question prior to more detailed discussions. No reply has been received but the delegation may wish to discuss this subject.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

(US \$ Millions)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1963	Electricity Authority of Cyprus	Power	20.4	7.6
	Amount sold		<u>1.3</u>	
	Net amount held by Bank		<u><u>19.1</u></u>	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

Advice has been given on the preparation of a study for watershed planning. The study is being financed by UNDP.

(d) Access to Private Capital Markets

None.

(e) Bank 9% Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

None.

(h) I.F.C.

IFC has no investments in Cyprus. For inquiry about assistance to the Cyprus Development Corporation. See IV (c) above.

(i) S.I.D.

Date of Signature: March 9, 1966

Date of Ratification: —

VI. POLITICAL SITUATION

In the past year the political situation has been generally quiet, although there was a rather serious incident in the port city of Famagusta in November, 1965. Small incidents occur from time to time which have the effect of maintaining tension between Greek and Turkish Cypriots. The mandate of the U.N. Peace-Keeping Force was extended in June, 1966 for a further six months. In July the Cypriot Parliament extended for one year (until August, 1967) the term of office of the President and the life of the parliament. Earlier in 1966 the President appointed two Greek Ministers to fill portfolios which, under the Constitution, were reserved for Turkish Cypriots. The United Kingdom protested at this move, but there were no serious reactions from the Turkish Cypriot side.

Press reports indicate that discussions are taking place between representatives of the Greek and Turkish Governments on the Cyprus question, but so far strict secrecy has been maintained.

VII. ECONOMIC SITUATION

Population: 610,000

GNP per capita: \$600

Gold and Foreign Exchange Reserves (June, 1966): \$145 million

With the political situation being generally quiet, the economy recovered during 1965 from the decline in the previous year. In addition, agriculture benefited for the first time in many years from heavy rains, and GNP was somewhat higher than in 1963, i.e. before the crisis. Imports, which fell by 20% in 1964, increased by 37% in 1965 whereas exports went up by 18%. The resulting trade deficit, the largest in Cyprus' history, was mainly covered through expenditures by the U.N. forces and British military bases. Earnings from tourism recovered over 1964 but due to the continuing political uncertainties remained substantially below pre-crisis levels.

Monetary stability was well maintained. The retail price index of May 1966 was less than 1 per cent above May 1965. Savings and time deposits and credit increased by about 8 per cent during 1965. The political situation still inhibits investment and encourages the holding of funds in liquid form. Government revenues which depend heavily on import duties, were good during 1965 but ordinary expenditures also increased, largely as a result of military expenditures. Government savings and development expenditures were again lower than in politically normal years.

The economic situation of Cyprus is characterized by conflicting tendencies. The political factors which cause strains in the economy are at the same time the cause of the substantial foreign exchange earnings from military expenditures. If full political stability were achieved, the latter source would diminish considerably; but this would partly be compensated by higher earnings from tourism. There will be a need to step-up development expenditures to provide employment and open up new export possibilities. In view of the decline in Government savings, this can be financed to some extent by drawing down foreign exchange reserves, although Cyprus' precarious situation makes adequate reserves an important factor in maintaining confidence in the currency.

Denmark

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BRIEFING PAPER - 1966

DENMARK

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Ivar Nørgaard
Governor (Bank)

Minister for Economic Affairs

Otto Muller
Alternate Governor (Bank)

Permanent Under-Secretary of
State, Ministry of Commerce

Erik Hoffmeyer
Governor (Fund)

Chairman, Board of Governors,
Danmarks Nationalbank

Karl Otto Bredahl
Alternate Governor (Fund)

Secretary of Public Debt,
Ministry of Finance

Advisers:

Svend Andersen

Member, Board of Governors,
Danmarks Nationalbank

Steen Secher

Head of the Secretariat for the
National Debt, Ministry of Finance

Flemming Agerup

Minister Counselor, Embassy of Denmark

Max Soerensen

Financial Secretary, Embassy of Denmark

III. BANK/IDA PROSPECTIVE OPERATION

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

No indication that Delegation would raise any questions.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

			(US \$ Millions)	
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1947	Denmark	Reconstruction	40.0	
1959	Denmark	Power	20.0	
1963	Denmark	Power	25.0	0.9
	Total		85.0	0.9
	of which has been repaid		23.8	
	Total outstanding		61.2	
	Amount sold	39.1		
	of which has been repaid	22.4	16.7	
	Net amount held by Bank		44.5	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

In contrast to previous years, during 1965 and the first half of 1966 borrowing abroad took the form of public issues rather than of private placements. As shown in the Annex here- to the amounts raised totalled only \$35 million during the whole of 1965 and \$33 million during the first five months of 1966 compared to total public borrowing abroad of \$140 million during 1964.

Denmark is subject to the U.S. Interest Equalization Tax and would be a market eligible country.

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

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

Part I member.	Original subscription	\$ 8.74 million
	Replenishment	\$ 7.50 million
	Total	\$16.24 million

(g) Holdings of Bank Bonds

\$11.00 million of which \$2.0 million 1966 2-year bonds.

(h) I. F. C.

Not considered appropriate for IFC financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on October 11, 1965, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

The Social Democratic Government under Jens Otto Krag (the Social Democratic Leader and head of the coalition in power before the general election of September 1964) has been able to rely on sufficient support from small parties and thus, although being in the minority, has been able to function effectively.

VII. ECONOMIC SITUATION

Population (January 1, 1964): 4.7 million;

GNP per capita: \$2,125 (1965);

Gold and Foreign Exchange Assets of National Bank (May 1966): \$576 million;

Imports (c.i.f.): \$2,824 million (1965).

The growth in GNP during 1965 slowed down to 4% in real terms from 7% in the previous year as a result in part of stagnation in agricultural output and a decline in the growth rate of industrial production from 13% in 1964 to 6% in 1965. The underlying slackening of domestic demand was partly a consequence of a further tightening in 1965 of the monetary and fiscal policy aimed at checking the increase in prices. In spring 1965 the Government raised various taxes and slowed down its own construction program and those of the municipalities in an effort to curb the expansionary effects of public expenditures. At the same time the National Bank entered into voluntary credit agreements with commercial banks to curtail their lending as well as with the mortgage institutions to limit the expansion of their lending and thereby reducing pressure on the capital market and in interest rates. (In spring 1965 mortgage interest rates moved up to peaks ranging from 9 to over 10% p.a.). The rise in prices already significant in previous years accelerated in 1965. In October 1965 the consumer price index was 8.1% higher than a year earlier compared to only 4.9% during the same period in 1964. The wage regulation price index rose 6.8% in the twelve months preceding October 1965, whereas the rise in wholesale prices, where imported goods weigh more heavily, has been more moderate.

The foreign exchange position has improved. The large external deficit in 1964 fell somewhat in 1965 when exports rose faster than imports and net invisible earnings increased.

The public external debt totalled \$564 million in December 31, 1965, and its service will require \$60 million in 1966. This corresponds to less than 2% of 1965 current foreign exchange earnings.

ANNEX

Danish Bond Issues Abroad
(Public Issues)

Million \$

<u>Borrower</u>	<u>Month</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
<u>January - December 1965</u>					
Kingdom of Denmark	June	20.0	6%	99	1965-79
City of Copenhagen	Nov.	15.0	6%	99½	1965-85
<u>Total 1965 \$35 million</u>					
<u>January - May 1966</u>					
Mortgage Bank of the Kingdom of Denmark	Jan.	12.0	6¼%	96½	1966-86
Copenhagen Telephone Company	April	10.0	6 3/4%	98 3/4	1966-86
Mortgage Bank of the Kingdom of Denmark	May	6.0	6½%	100	1966-71
Jutland Tf. Company Second Series	May	5.0	5 3/4%	88	1966-84
<u>Total first five months 1966 \$33 million</u>					

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September 15, 1966

BRIEFING PAPER - 1966

FINLAND

I. MEETING WITH DELEGATION

Meeting with Mr. Knapp Thursday, September 29, 1966, 9:00 a.m.
(30 minutes); to be attended by Mr. Cope and Mr. Hornstein.

II. MEMBERS OF DELEGATION

Mauno Koivisto
Governor (Bank)

Minister of Finance

Esko Rekola
Alternate Governor (Bank)

Chief of the Prime Minister's Office

Klaus Waris
Governor (Fund)

Governor, Bank of Finland

Jouko J. Voutilainen
Alternate Governor (Fund)

Director, Bank of Finland

Advisers:

Olavi Munkki

Ambassador of Finland to the U.S.

Pentti Uusivirta

Counselor, Embassy of Finland

III. BANK/IDA PROSPECTIVE OPERATIONS

A third loan to the Industrialization Fund of Finland may be considered early in 1967. The Government is expected to apply for a loan for a third road project toward the middle of 1967.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None

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

None

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

The Government is likely to inquire again about the possibility of the Bank lending for industrial projects in Finland. They may also have additional information about the proposed atomic energy project, which was first mentioned by the delegation in 1965. The Delegation might also inquire about the likelihood of a mission appraising IFF for a third loan.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

(US \$ Million)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1949	Finland	Industry	2.1	
1949	Bank of Finland	Power and Industry	12.5	
1952	Bank of Finland	Power, Industry and Agriculture	20.0	
1952	Bank of Finland	Industry	3.5	
1955	Bank of Finland	Power and Industry	12.0	
1956	Mortgage Bank of Finland Oy	Power	15.0	
1959	Mortgage Bank of Finland Oy	Industry	37.0	
1961	Mortgage Bank of Finland Oy	Industry	25.0	
1962	Mortgage Bank of Finland Oy	Power	25.0	1.7
		Subtotals	152.1	1.7

Subtotals carried forward -			152.1	1.7
1963	Teollistamisra-			
	hasto Oy	Industry	7.0	0.3
1964	Finland	Roads	28.5	12.5
1965	Teollistamisra-			
	hasto Oy	Industry	14.0	10.1
1966	Finland	Roads	<u>20.0</u>	<u>20.0</u>
Total			221.6	44.6
of which has been repaid			<u>55.8</u>	
Total outstanding			165.8	
Amount sold			53.9	
of which has been repaid			<u>37.0</u>	<u>16.9</u>
Net Amount held by Bank			<u>148.9</u>	

(b) IDA Credit as of August 31, 1966

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

The tightness of the international long-term capital market was felt rather sharply by Finland in 1965. The country's borrowing abroad declined to three bond issues totalling \$36 million in 1965 from 10 bond issues totalling \$118 million in 1964 (details see Annex hereto). Finland is still exempted from the U.S. interest equalization tax, but the U.S. balance of payments program reduced Finland's borrowing possibilities not only in the U.S. but also, indirectly, in European capital markets.

Finland would be a market eligible country for future lendings.

Bankers:

U.S.A.

Europe

Harriman, Ripley & Co.
Kuhn, Loeb & Co.
Lazard Freres & Co.
Smith, Barney & Co.
White, Weld & Co.

Commerzbank Duesseldorf
Credit Lyonnaise, Paris
Svenska Handelsbanken,
Stockholm

(e) Bank 9% Capital Subscription

Amount: \$12 million. Entire 9% released, convertible into any currency. \$8.4 million disbursed and on loan; \$3.6 million available in annual installments of \$1 million through January 1, 1969 with final installment January 1, 1970.

(f) IDA Subscription

Part I Member.	Original subscription	\$3.83 million
	Replenishment	<u>\$2.30 million</u>
	Total	\$6.13

(g) Holdings of Bank Bonds

\$6.15 million of which \$2.0 million 1966 2-year bonds.

Holdings of Borrowers' Obligations

\$8.66 millinn

(h) I.F.C.

IFC currently has one industrial investment of approximately \$800,000 equivalent in equity and debt of Huhtamaki-yhtyma Oy, a major Finnish foodstuff, pharmaceutical, and packaging company. IFC is exploring the possibilities for investment in Pargas Aktiebolag, the major Finnish producer of cement and building materials. Two earlier IFC investments in Finland, totalling approximately \$2 million, have been retired.

(i) Settlement of Investment Disputes

Finland has not yet signed the Convention on the Settlement of Investment Disputes.

VI. POLITICAL SITUATION

The general elections held on March 20/21, 1966, showed a major victory for the Social Democrats both in votes and seats and led to the end of the configuration which determined the Finnish political scene for so many years. Not until the end of May, however, did it prove possible to replace the former centre-coalition government of the Agrarian Virolainen by a so-called People's Front Cabinet headed by Rafael Paasio, leader of the Social Democratic party. With six Social Democrats, five Centre Agrarians, one Left-Wing Socialist and - for the first time since 1948 - three People's Democratic Communists, the new Government controls 152 of the 200 seats in the Parliament.

VII. ECONOMIC SITUATION

Population (1965): 4.6 million

GNP per capita (1965): \$1,400

Gold and Foreign Exchange Reserves (June 1966, Bank of Finland): \$183.8 million

Imports (c.i.f.) (1965): \$1,645 million

The still considerable real growth rate of GNP during 1965 (5% compared to 6% in the previous year) was accompanied by a remarkable slowdown in the increase of prices. During the 12 months preceding October 1965, the consumer price index rose by 4% compared to 10% in 1964. Various anti-inflationary monetary and fiscal efforts adopted during 1965 which reduced the rise in imports to 9% compared to a growth of 25% in 1964 were, however, not sufficient to reduce the deficit in the balance of payments. The deficit on current account in the balance of payments which amounted to \$180 million in 1965 as in the previous year was not offset, however, as in 1964, by a sufficient capital inflow and was, therefore, financed largely by short term borrowing and a substantial running down of the foreign exchange reserves. On December 31, 1965 the net gold and foreign exchange reserves of the banking system (including the gold tranche position in the IMF) amounted to \$239 million, about 30% lower than a year earlier.

In January 1966 new stability measures were adopted; they included selective curbs on imports of motor cars and direct Government intervention in wage negotiations (wage increases, apart from possible index adjustments are scheduled to amount to about 5¹/₂% in 1966). In April 1966 after a further weakening of the Finnish external liquidity, monetary policy was further tightened: The authorities requested that bank credits should not rise by the end of October 1966 to more than 115% of the end of 1964 level. Budget proposals for 1966, however, again provided for a substantial deficit.

The public external debt amounted to \$628 million on December 31, 1965, and its service in 1966 of \$80 million will 4.6 of 1965 foreign exchange earnings.

ANNEX

Finnish Bond Issues Abroad

January - December 1965

	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
Enso-Gutzeit Oy (Guaranteed by Kansallis Bank)	14 million	6 1/2%	97 3/4	1965-1980
City of Helsinki (Guaranteed by Republic of Finland)	\$10 million	6 1/4%	98 3/4	1965-1977
Republic of Finland	\$15 million	6 1/2%	99	1965-1980

Total \$36.2 million

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September 15, 1966

BRIEFING PAPER - 1966

FRANCE

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Michel Debre
Governor (Bank)

Minister of Economy and Finance

Bernard Clappier
Alternate Governor (Bank)

Deputy Governor, Banque de France

Jacques Brunet
Governor (Fund)

Governor, Banque de France

Maurice Perouse
Alternate Governor (Fund)

Director of Treasury, Ministry of
Economy and Finance

Advisers:

Rene Larre

Executive Director (Bank and Fund)

Jean Malaplate

Alternate Executive Director (Bank)

Gerard Teyssier

Alternate Executive Director (Fund)

Antoine Dupont-Fauville

Personal Assistant to the Minister
of Economy and Finance

Jean-Yves Haberer

Special Assistant to the Minister
of Economy and Finance

Claude Pierre-Brossolette

Deputy Director of Treasury,
Ministry of Economy and Finance

Daniel Deguen

Assistant Director of Treasury,
Ministry of Economy and Finance

Jean Carriere

Ministry of Economy and Finance

Gilbert Bouchet	Director General, Foreign Department Banque de France
Pierre Esteva	Secretary General, National Council of Credit
Pierre M. Viaud	Financial Counselor, French Delegation to the United Nations
Louis Bruneau	Financial Counselor for Latin America Ministry of Economy and Finance
Jean du Pre de Saint Maur	Financial Attache in New York, French Embassy
Robert Raymond	Representative of Banque de France in New York
Jean Vallet	Technical Assistant (Fund)

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

No indications.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1947	Credit National	Reconstruction	250.0	
1954	Overseas Railways			
	Administration	Railways	7.1	
1955	Electricite et gaz			
	d'Algerie, Algeria	Power	10.0	
1959	Comilog, Gabon,	Manganese Ore		
	Congo Braz.	Mining	35.0	
1959	SOPEG, Algeria	Pipeline	50.0	
1960	Miferma,			
	Mauritania	Iron Ore Mining	66.0	
	Total		418.1	
	of which has been repaid		132.9	
	Total outstanding		285.2	
	Amount sold	373.7		
	of which has been repaid	112.5	261.2	
	Net amount held by Bank		24.0	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to private capital market

Not appropriate.

(e) Bank 9% capital subscription

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

(f) IDA subscription

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

(g) Holdings of Bank bonds

\$40.80 million of which \$ 3.0 million 1966 2-year bonds.

(h) I. F. C.

No considered appropriate for I. F. C. financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on December 22, 1965, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

Not applicable.

VII. ECONOMIC SITUATION

Population (1965): 49.0 million;

GNP per capita (1964): \$1,811;

GNP rate of growth (1965): 3.5%;

Gold and foreign exchange reserves (May 1966): \$6,652 million.

Germany

BRIEFING PAPER - 1966

GERMANY

I. MEETING WITH DELEGATION

Meeting between Mr. Woods and Dr. Langer Tuesday,
September 27, 1966, 3:30 p.m. (30 minutes).

II. MEMBERS OF DELEGATION

Walter Grund
Temporary Alternate Governor
(Bank)

Undersecretary, Ministry
of Finance

Fritz Schiettinger
Temporary Alternate Governor
(Bank)

Assistant Secretary, Ministry
of Economic Affairs

Karl Blessing
Governor (Fund)

President, Deutsche Bundesbank

Otmar Emminger
Temporary Alternate Governor
(Fund)

Member, Board of Directors,
Deutsche Bundesbank

Advisers:

Ernst vom Hofe

Executive Director (Fund)

Otto Donner

Executive Director (Bank)

Horst Ungerer

Alternate Executive Director (Fu

Miss Helga Steeg

Alternate Executive Director (Ba

Ministry of Economic Affairs

Rolf Gocht	Assistant Secretary
Guenter Keiser	Assistant Secretary
Helmut Koinzer	Division Chief
Miss Lore Fuenfgelt	Division Chief
Klaus Flachmann	

Ministry of Finance

Hilmar H. Hartig	Deputy Assistant Secretary
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Foreign Office

Ulrich Lebsanft	Counsellor
Ernst Jirka	First Secretary, German Embassy
Walter Baeumer	First Secretary, German Embassy
Gerhard Laske	German Consulate General, New York

Deutsche Bundesbank

Heinrich Irmeler	Member, Board of Directors
Friedrich Wilhelm von Schelling	President, Landeszentralbank in Hamburg
Harald Joerges	Director
Walter O. Habermeier	
Erich Stoffers	Technical Assistant to Executive Director (Fund)

III. BANK/IDA PROJECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

(c) Topics likely to be raised by Delegation:

No information.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

None.

(b) IDA credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Not appropriate.

(e) Bank 9% Capital Subscription

Amount \$115.20 million. \$94.50 million released, convertible into any currency.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$789.76 million

(h) I. F. C.

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

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on January 27, 1966, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

Not applicable.

VII. ECONOMIC SITUATION

Population (1964): 58.2 million;

GNP per capita: \$1,780;

Imports (c.i.f.) (1965): \$17,480 million;

Gold and foreign exchange assets of Bundesbank
(July 1966): \$7,659 million;

Liabilities of Commercial Banks (net) (April 1966):
\$702 million.

ANNEX APrincipal Foreign Bond Issues in Germany in 1965
(~~DM~~ \$ Millions)

	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Date of Issue</u>
Osaka, Japan	25.0	6 $\frac{1}{4}$ %	99	Feb. 1965
Oslo, Norway	12.5	5 3/4%	100	Feb. 1965
IBRD	62.5	5 $\frac{1}{2}$ %	100	March 1965
European Coal and Steel Community	37.5	5 $\frac{1}{2}$ %	99	March 1965
British Petroleum Company, London	25.0	5 $\frac{1}{2}$ %	97	May 1965
Electricity Supply Commission (South Africa)	12.5	6 $\frac{1}{2}$ %	96 $\frac{1}{2}$	Oct. 1965
Transocean Gulf Oil Company, U.S.A.	25.0	5 3/4%	98 $\frac{1}{2}$	Oct. 1965
Eurofima	15.0	6%	99	Nov. 1965
IBM, U.S.A.	30.0	6%	100	Dec. 1965
Total	245.0			

Greece

BRIEFING PAPER - 1966

GREECE

I. MEETING WITH DELEGATION

Monday, September 26, 1966 3:30 - 4:00 p.m.

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

II. MEMBERS OF DELEGATION

Nicholas N. Porphyrogenis	Governor, Hellenic Industrial
Alternate Governor of Bank	Development Bank

Xenophon Zolotas	Governor, Bank of Greece
Governor of Fund	

John S. Pesmazoglu	Deputy Governor, Bank of Greece
Alternate Governor of Fund	

Adviser:

Themis G. Tsimonidis	Secretary to Governor, Hellenic
	Industrial Development Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

An economic mission was in Greece during April/May to review the situation of the economy and the draft five-year development plan and to undertake a study of agriculture. The economic report is expected to be distributed to the Executive Directors during October. The draft report on agriculture was sent to Greece in early September and will be discussed with the Greek authorities in October.

During the second half of August, an IFC mission appraised the National Investment Bank for Industrial Development (NIBID) for a proposed Bank loan. We expect that negotiations for a loan of, tentatively, \$10 million could take place in November. Prior to inviting negotiators, however, we will review the status of the still unsettled parts of the Greek prewar external public debt (see IV (b)).

Preparation of the highway improvement and maintenance project which was suggested in Mr. Woods' letter to Mr. Stephanopoulos in June 1965 for possible lending of up to \$20 million, has been slow. Bank staff members have made several visits to Greece to assist in preparing the project but we estimate that it will take the authorities at least until early 1967 before a project suitable for appraisal can be submitted.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

Settlement of pre-war debt? Depending on information about recent progress.

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

The delegation might ask about the possibilities for lending to agriculture and education. We should reply that we are in principle ready to consider lending in these fields but that useful discussions could be held only on the basis of specific and substantiated proposals which to our knowledge do not yet exist.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

Members of the April/May 1966 economic mission undertook a detailed study of agriculture. The draft report will be discussed with the Greek authorities in October (see IV(a)).

(d) Access to Private Capital Markets

No access at present.

(e) Bank 9% Capital Subscription

Amount: \$4.50 million. Half released subject to consultation (See IV(a)).

(f) IDA Subscription

Part II member. Subscription (90%): \$2,268,000.
No reply to request for release. (See IV(a))

(g) Holdings of Bank Bonds

\$1.00 million.

(h) I.F.C.

IFC has three active industrial investments in Greece. These are in the two leading Greek cement companies, General Cement Co., S.A. (\$3,500,000 loan) and Titan Cement Co., S.A. (\$1,000,000 loan and \$526,000 equity investment), and in an organic fertilizer company, Aevo Industrial Company of Organic Fertilizers, S.A. (\$600,000).

IFC has also an investment of \$719,082 (in the form of ordinary shares) in NIBID and is represented on NIBID's Board. For NIBID's loan application to Bank see III above.

(i) S.I.D.

Date of Signature: March 16, 1966
Date of Ratification: ---

VI. POLITICAL SITUATION

The political crisis which came to the open with the dismissal of Prime Minister Papandreou (Center Union) by the King in July 1965, was prolonged by the nomination of successive caretaker governments. In this process many Center Union deputies defected and finally Mr. Stephanos Stephanopoulos, the former Deputy Premier, was able to form a government. His party, commanding only 40 seats, depends entirely on the support of the Radicals with 99 seats, the former opposition to the Papandreou regime.

The Center Union Party still commands 121 seats and forms together with the Communists the opposition with 143 seats out of 300. Despite expectations to the contrary, the Stephanopoulos Government has so far survived. A vote of confidence in April 1966 brought a majority of four votes to the Government, which made possible the move into parliamentary recess until October/November.

VII. ECONOMIC SITUATION

Population: 8.5 million
GNP per capita: \$630
Gold and Foreign Exchange Reserves (June 1966): \$241 million

Economic growth continued at a quick pace. The growth of production in most sectors was only marginally smaller than in the previous years and resulted in a rise of real gross national income of about 7 percent in 1965, compared with almost 9 percent in 1963 and 1964.

However, the discrepancy between available resources and overall demand became more evident in the recent past. In honoring election promises made in 1964, tax reductions were paralleled by larger current budgetary expenditures, mainly for increased subsidies to agriculture and higher salaries for civil servants. These measures led first to a reduction in the surplus in the current budget in 1964. In 1965 budgetary difficulties aggravated by the political crisis removed the current surplus and necessitated drastic cuts in Government investment expenditures. In addition, price-guaranteed agricultural products stockpiled by the Government had to be financed by central bank credit to an increasing extent. The general expansion of private incomes was further promoted by increased pressure for higher wages due to the disappearance of unemployment. Consumer prices rose by 5% in 1965 compared to 1.5% in 1964.

The disequilibrating effects of recent developments were further reflected in the rapidly deteriorating balance of payments. A sharp increase of imports, particularly of consumer goods, was only partly offset by a continued substantial improvement in receipts from tourism, international shipping and remittances from workers abroad. The deficit on current account increased to \$270 million in 1965 from about \$200 million in 1964 and an average of \$90 million in 1961-63. The inflow of capital in 1965, mainly from private sources, was not sufficient to restore the balance. Gold and foreign exchange holdings declined by \$31 million to \$235 million, covering about three months' imports.

Recent actions of the Government to restore equilibrium included monetary and budgetary measures. The Bank of Greece changed its gold sovereign policy radically by abolishing the free trade in gold coins which in the past had been a major drain on foreign exchange reserves. Further support was provided by drawings on a \$30 million line of credit of the EMA. Current as well as investment expenditures of the Central Government were restricted sharply, and consumption and turnover taxes were increased. A bill increasing direct income taxes was rejected by Parliament, and it is now doubtful whether the projected budget surplus of Dr. 2 billion in 1966 will be realized.

The OECD Consortium for Greece has been somewhat more active during the past twelve months but the financial assistance provided by its members has not increased significantly. The Greek Government has pressed hard for speeding-up the commitment of the \$125 million of loans to be provided through the European Investment Bank in 1963-67 under the Agreement of Association with the EEC.

Iceland

BRIEFING PAPER - 1966

ICELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Gylfi Gislason
Governor (Bank)

Minister of Commerce

Magnus Jonsson
Alternate Governor (Bank)

Minister of Finance

Johannes Nordal
Governor (Fund)

Governor, Central Bank of Iceland

Jonas H. Haralz
Alternate Governor (Fund)

Director, Economic Institute

Advisers:

Vilhjalmur Thor

Executive Director (Bank)

Petur Thorsteinsson

Ambassador of Iceland to the U.S.

III. BANK/IDA PROSPECTIVE OPERATIONS

The \$18 million loan for the Burfell Power Project is expected to be signed in September.

A request for a second loan of about \$1 million to assist the financing of the expansion of the Hot Water System in Reykjavik is likely to be made before the end of this year.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

The Government may inquire about the Bank's willingness to consider a small second loan for the Hot Water System.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1951	Iceland	Power	2.45	
1951	Iceland	Agriculture	1.01	
1952	Iceland	Industry	.85	
1953	Iceland Bank of Development	Agriculture	1.35	
1953	Iceland Bank of Development	Communications	0.25	
1962	Iceland	Hot Water Supply	<u>2.00</u>	
	Total		7.90	
	of which has been repaid		<u>3.18</u>	
	Total outstanding		4.72	
	Amount sold	0.52		
	of which has been repaid	<u>0.05</u>	<u>0.47</u>	
	Net amount held by Bank		4.25	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

Since December 1962 when a very successful issue of £2 million was made in London, Iceland has not had recourse to foreign capital markets except for a \$250,000 privately placed bond issue of the Iceland Development Bank in October 1965; the interest rate was 6 3/8% and the issue price 100. In August 1966 Landsvirkjun, the Icelandic public power company, was able to make arrangements for placing \$6 million of government guaranteed external bonds with several institutional investors in the United States (for a period of 15 years, yielding 7 1/4% to the lenders). The success of this placement was influenced by the Alusuisse guarantee of power payments and by the parallel loan of \$18 million for the Burfell Power Project by the Bank.

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$5.00 million of which \$1.00 million 1966 2-year bonds.

(h) I. F. C.

IFC has made no investments in Iceland and does not have before it at present any financing proposals.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed and ratified on July 25, 1966.

VI. POLITICAL SITUATION

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

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

VII. ECONOMIC SITUATION

Population (1964): 189,000

GNP per capita (1964): \$1.700

Net Gold and Foreign Exchange Reserves of
Central Bank (June 1966): \$54.2 million;

Imports (c.i.f.) (1965): \$137.3 million.

In 1965 Iceland's economy continued to grow at a satisfactory rate, though somewhat lower than in previous years: GNP rose by 5.2%, compared with 5.5% in 1964 and 7.1% in 1963.

The trade deficit in 1965 amounted to \$8 million and was smaller than in the previous year. Export earnings have developed satisfactorily, partly as a result of higher export prices; the growth of imports was more moderate owing to declining purchases of fishing vessels and aircraft, and reserves increased by \$7 million.

These favorable developments were accompanied, however, by inflationary pressure generated by large budget deficits and a strong expansion of credit. The increase in the cost of living index averaged 9% in 1965 compared to 12% in 1964.

On December 31, 1965 the external public debt amounted to \$40.1 million and its service in 1966 will require \$4.9 million. This corresponds to 2.6% of the 1965 foreign exchange earnings.

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WBG ARCHIVES
September 15, 1966

BRIEFING PAPER - 1966

IRAQ

I. MEETING WITH DELEGATION

Meeting at 3:30 (30 minutes) on September 29, 1966.
To be attended by Mr. Knapp, Messrs. Cope and/or Fontein
and Mr. Bart

II. MEMBERS OF DELEGATION

Saleh Kubba
Governor (Bank-Fund)

Governor, Central Bank
of Iraq

Saadi Ibrahim
Alternate Governor (Bank)

Director General of
Budget, Ministry of
Finance

Subhi Frankool
Alternate Governor (Fund)

Chief of Banking, Central
Bank of Iraq

III. BANK/IDA PROSPECTIVE OPERATIONS

After the signing of the road loan last July there are no immediate prospects left for operations in Iraq. The Government seems determined, however, to pursue the proposals made by the Bank in 1965 for assistance to agriculture and lately requested the Bank to send a mission to study possible projects.

A pilot project submitted to the UNDP for the rehabilitation of the Greater Mussayib irrigation project envisages specifically Bank financing as a second stage. While the pilot project follows largely the Bank's past recommendations, it should still be determined whether the Greater Mussayib is a suitable project for such an experiment.

A new review of the economy would also be required before further lending to Iraq could be envisaged.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

See IV(b) below.

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

(i) Contractors' Claims:

We should reiterate that the Bank does not wish to get involved in the settlement of these disputes but that it considers it useful to be kept abreast of payments made for claims in view of the concern expressed by several member countries on this subject. The same applies to the few remaining claims for nationalized foreign properties. The Government has always been very reluctant to release any information on both categories of claims, which it considers to be a matter which does not concern the Bank.

(ii) Bank 9%:

We should ask for the release of the 9% (\$3.6 million) of the 1965 increase in subscription.

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

See III above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

			(US \$ Millions)	
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1950	Government of Iraq	Flood Control	6.3	
1966	Government of Iraq	Roads	<u>23.0</u> ^{1/}	23.0
			29.3	
		of which has been repaid	<u>6.3</u>	
		Net amount held by Bank	23.0	

1/ Not yet effective

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

None. Subject to U.S. Interest Equalization Tax.

(e) Bank 9% Capital Subscription

9% initial subscription (\$1.35 million) released, convertible into any currency. The 9% (\$3.6 million) corresponding to the 1965 increase in subscription from \$15 million to \$55 million has not been released (see IV (b) (iii) above). A further capital increase to \$64 million will be declared effective shortly.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$3 million. No subscription to the new bond issue.

(h) I. F. C.

I.F.C. has no existing investments, no active applications, and prospects for future appear limited.

(i) S. I. D.

The Bank has been informed that Iraq does not intend to sign the convention.

VI. POLITICAL SITUATION

Several important developments have taken place over the past year without, however, changing the structure of the regime which continues to be dominated by the Army and to have its course determined by the balance of forces between military groups.

During the period under review two attempts to seize power forcibly were launched by Nasserite-leaning General Razzaq (in September 1965 and June 1966). In between Prime Minister Bazzaz, heading a moderate cabinet, gave Iraq its most realistic and constructive Government since the 1958 revolution; negotiated peace with the Kurds; tried to restore the confidence of the administration and of the private sector; and moved cautiously toward the resumption of constitutional rule.

Most of these moves seem to have been tolerated rather than wholeheartedly subscribed to by the Army. When President Abdel Salam Arif died in a helicopter crash in April the Council of National Defense prevailed over the Council of Ministers to elect jointly as President his brother, General Abdul Rahman Arif, rather than Prime Minister Bazzaz. After four months of association with the latter, the new President has designated General Taleb as Premier.

It is too soon to say whether the sensible policies of the Bazzaz cabinet will be continued, in particular those concerning the Kurds and the implementation of union with the U.A.R. A settlement with the Iraq Petroleum Company might also prove less palatable to an Army-dominated cabinet than to a development-minded one.

VII. ECONOMIC SITUATION

Population (1965): about 8 million

GNP per capita (1963): about \$225

Foreign assets (end 1965): \$275 million

The Iraqi economy is becoming increasingly dependent on income from the oil sector, which must now be estimated at well over \$400 million per year. This accounts for more than 60% of the Government's domestic revenues and just fills the deficit on Iraq's non-oil

external transactions. Royalties and other oil payments increased by about 5% in 1965. As oil production is approaching the capacity of the pipelines and terminals, revenues may reach a ceiling unless agreement is reached with the oil company. Agriculture still progresses slowly although the 1965 crop was again good as a result of favorable weather conditions. This contributed substantially to the estimated 9% increase in GNP in 1965.

In spite of the heavy inflow of foreign exchange, Iraq's net reserves have failed to increase. Since 1960 foreign assets have been fluctuating around \$280 million or about 8 months' of deficit on non-oil transactions. Although the 1965 deficit on goods and services (other than oil) may be somewhat lower than in the preceding year, this is compensated by a reduction in long-term capital inflow.

Public external debt amounts presently to about \$315 million including undisbursed amounts, mainly to the USSR and Kuwait. Most of this has been contracted since 1963 and debt service, at present negligible, will increase sharply during the coming year.

Government resources in recent years have been heavily taxed by military expenditures; the settlement reached with the Kurds is essential to permit a re-allocation of resources to more productive purposes. Barring a substantial decrease in defense expenditures the Government will have to incur additional debt to finance development. The USSR has already pledged to finance the proposed Haditha dam on the Euphrates.

The 1965-69 five-year development plan calls for a near doubling of Government investment, concentrated in the first two years of the program. Such an increase is unlikely to be realized and Iraqi authorities expect a shortfall of 25-30% in Government investment during the plan period, mainly due to inadequate project preparation. No data on the past year's performance in this respect are available. Central Government development expenditures in the pre-plan period were heavily concentrated on housing and construction (more than 50% of the development budget in 1964/65) and only a minor part was allocated to agriculture (less than 10%). Under the plan almost 30% of considerably increased allocations are for agriculture.

No recent data on private investment and savings are available. Probably they have not yet recovered from the decline which set in during 1962 as a result of the unstable political situation and which was aggravated by the 1964 nationalization measures.

BRIEFING PAPER - 1966

IRELAND

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

John Lynch
Governor (Bank)

Minister for Finance

T. K. Whitaker
Alternate Governor (Bank)

Secretary
Department of Finance

John Lynch
Governor (Fund)

Minister for Finance

Maurice Moynihan
Alternate Governor (Fund)

Governor, The Central Bank
of Ireland

III. BANK/IDA PROSPECTIVE OPERATIONS

A draft economic report prepared by a mission which visited Ireland in April-May 1966 indicates that Ireland is interested in borrowing from the Bank and suggests that appropriate sectors for lending would be agriculture, industry and tourism. When the economic report has been distributed, the Bank intends to send an operational mission to Ireland to discuss possible projects for Bank financing.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

We should try to ascertain whether Ireland still wishes to borrow from the Bank, and, if so, whether the Government has given any further thought to possible projects. We should inquire about the organization and operations of the recently formed Investment Bank of Ireland. We should not contemplate lending more than \$10 million.

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

None.

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

They will probably be anxious to know when they may expect to receive a copy of the Bank's economic report and when a possible loan operation could get under way.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

In contrast to previous years the inflow of private foreign capital is not likely to be sufficient to meet the increasing demand for capital and will have to be supplemented by foreign public borrowing. As Ireland's creditworthiness has never been in question

and since its external debt is very small, Ireland should normally be capable of raising reasonable amounts in foreign capital markets.

In March 1966 the Government of the Irish Republic issued the country's first international loan, a £7 million 15-year issue with an effective interest rate of $7\frac{1}{4}\%$ (7% coupon and issue price of 97 $\frac{3}{4}$). As a consequence of the attractive terms the bonds were all over-subscribed by investors from Germany, Switzerland, Sweden, the Benelux countries and Canada. The bonds are not an attractive investment for residents of the Sterling area, who would have to pay the current investment dollar premium of some 20%.

Ireland was originally included among the countries exempted from the U.S. interest equalization tax, but was subsequently removed from the list.

Ireland would be a market eligible country.

(e) Bank 9% Capital Subscription

Amount: \$7.68 million. \$5.4 million released, convertible into any currency.

(f) IDA Subscription

Part II member. Entire 90% (\$2.727 million) released in five annual installments, convertible into any currency, through November 1, 1969.

(g) Holdings of Bank Bonds

\$2.00 million of which \$1.0 million 1966 2-year bonds.

(h) I. F. C.

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

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on August 30, 1966, and ratification procedures are being initiated.

VI. POLITICAL SITUATION

General elections, which normally would not have been due until the autumn of 1966, were announced by Prime-Minister Lemass following a by-election on March 11 in the Mid-Cork constituency which brought a drop in votes for the ruling Fianna Fail Party. The elections held on April 7, 1965, however, slightly improved

the position of the Fianna Fail Government of Mr. Lemass, who has been Prime-Minister since 1959.

On June 2, 1966 Mr. deValera (83) was re-elected President of the Republic for a further seven-year term with a narrow margin of about 7,000 votes over his opponent.

VII. ECONOMIC SITUATION

Population (1965): 2.85 million;

GNP per capita (1965): \$984;

Gold and Foreign Exchange Reserves of Central Bank and Government (June 1966): \$420 million;

Net Foreign Exchange Holdings of commercial banks (April 1966): \$275 million;

Imports (c.i.f.) (1965): \$1,040.5 million.

The growth rate of GNP slowed down from 4% in 1964 to 2.5% in 1965, mainly as a result of a slower expansion of industrial exports and a levelling off in domestic sales, as price increases absorbed a growing share of the rise in incomes. The consumer price index rose by 5% in 1965 compared to 7% in 1964 and the wholesale prices rose by 4% compared to 5% in 1964.

Ireland's imports continued to expand in 1965 while its exports levelled out owing to reduced sales of cattle. In spite of higher tourist receipts the deficit in the current account of the balance of payments increased from \$90 million to \$125 million. The simultaneous reduction of net capital inflow, from \$105 million in 1964 to \$75 million in 1965, resulted in 1965 in a deficit of \$50 million, which was financed by a rundown of reserves. During the first four months in 1966, however, the adverse trade gap was reduced to £47 million (compared to one of £63 million in the same period of 1965) as a series of financial measures adopted during 1965 started to have the desired impacts. Such measures included reductions in public expenditures, export promotion and hire purchase controls. The special import levy imposed in 1965 was therefore abolished as of September 30, 1966.

The external debt is small and its service negligible.

Israel

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September 15, 1966

BRIEFING PAPER - 1966

ISRAEL

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

David Horowitz
Governor (Bank)

Governor, Bank of Israel

Jacob Arnon
Alternate Governor (Bank)

Director General, Ministry of
Finance

Pinhas Sapir
Governor (Fund)

Minister of Finance

Y. J. Taub
Alternate Governor (Fund)

Secretary General, Bank of Israel

Advisers:

Nachum Shamir

Minister (Economic Affairs),
Embassy of Israel

S. Sitton

Counselor (Economic Affairs),
Embassy of Israel

M. Lador

Counselor, Embassy of Israel

A. Neaman

Managing Director, Industrial
Development Bank of Israel Ltd.

Avner Cassuto

Chief Fiscal Officer of the Ministry
of Finance to the Western Hemisphe

III. BANK/IDA PROSPECTIVE OPERATIONS

Negotiations for a second \$20 million Bank loan to the Industrial Development Bank of Israel are expected to begin in November.

The Government has requested a second loan for roads, and an appraisal mission to Israel is planned for late October or early November. Negotiations for this loan could probably be held early in 1967.

The study by the Bank of a second loan to the Dead Sea Works Limited to assist in financing the expansion of its potash production capacity has been suspended, pending a solution to the problem of dike construction. Earlier this year, Kaiser, the contractor for the dike construction, withdrew from the job. The Company is attempting to work out an alternative way of completing the work.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

We should again inquire whether the Government would be prepared to make the unused \$3.05 million of Israel's 9% paid-in portion of its capital subscription available in convertible currency to the extent that any part of it cannot be used on a tied basis. Inquiry should also be made with respect to the \$2.63 million representing the 9% paid-in portion of the recent increase of Israel's capital subscription.

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

None.

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

The delegation is likely to urge that the Bank expedite consideration of the second loan to the Industrial Development Bank of Israel and of the second road loan. They may also supply further information on the problems of the Dead Sea Works Limited and may indicate whether the Government intends to pursue the application for a second potash project loan.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

Year	Borrower	Purpose	(US \$ Millions)	
			Amount less Cancellations	Undisbursed Balance
1960	Israel	Port	27.5	2.1
1961	Dead Sea Works	Potash	25.0	
1962	Israel	Roads	22.0	3.7
1965	Industrial Development Bank	Industry	<u>20.0</u>	<u>8.5</u>
	Total		94.5	14.3
	of which has been repaid		<u>1.1</u>	
	Total outstanding		93.4	
	Amount sold	5.1		
	of which has been repaid	<u>1.1</u>	<u>4.0</u>	
	Net amount held by Bank		89.4	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

In addition to considerable Government borrowing from official agencies and international institutions, Israel has during the past years been raising substantial sums in the private capital markets in the U.S. and Europe and has a number of well developed banking connections. However, the Bank of Israel now advocates foreign borrowing only exceptionally and under most favorable terms. Sales of Independence and Development Bonds in the U.S. during 1965 were slightly higher than in 1964, \$88.5 million compared to \$87 million. The total net sale of such bonds was \$33.2 million during 1965 compared to \$24.6 million during 1964.

Israel would be a market eligible country after the next lending operation.

(e) Bank 9% Capital Subscription

Amount: \$8.63 million. \$6.0 million released; \$2.95 million used; \$3.05 million unused and available only for purchases in Israel.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$8.6 million of which \$3.0 million 1966 2-year bonds.

(h) I. F. C.

IFC has no existing investments or applications in Israel.

(i) Settlement of Investment Disputes

Israel has indicated that it does not wish to sign the convention on the Settlement of Investment Disputes.

VI. POLITICAL SITUATION

The general elections held on November 2, 1965 were an important contest between Prime-Minister Eshkol and Mr. Ben Gurion in their struggle which started in November 1964. In this contest the coalition of the Mapai (Labor Party) and Achdut Haavoda (further left labor party), which Prime-Minister Eshkol succeeded in constructing against Ben Gurion's strong resistance, emerged from the elections with 45 mandates. Despite difficulties after the elections Mr. Eshkol was eventually able to form a new coalition Government which has the support of the Mapai, Achdut Haavoda and the Religious Party; the Government obtained a majority of 75 votes in the 120-seat Parliament. As in all previous cabinets, the Mapai succeeded in keeping control of the most important ministries and enjoys a majority in the Government.

VII. ECONOMIC SITUATION

Population (1965): 2.56 million;

GNP per capita (1964): \$1,157;

Gold and Foreign Exchange Reserves of Central Bank:

Assets \$643.3 million (June 1966)

Liabilities: \$ 31.9 million (March 1966);

Imports (c.i.f.) (1965): \$835.4 million.

The growth rate of GNP in 1965 fell to 7% from 11% to 12% in each of the two preceding years. This was due to a shortage of labor, and to the policies of restraint followed by the authorities. These policies affected primarily investment (in particular public investment) which in 1965 was about 3% lower than in 1964. Public consumption, on the other hand, rose by 11% compared to 4.8% in 1964.

The slowing down of economic activity was accompanied by an improvement in the balance of payments. The growth rate of imports in 1965 dropped to 4% from 18% in the previous year, while exports, mainly citrus and other agricultural commodities, increased significantly (14.5% in 1965 compared to 8% in 1964). Thus, although the net capital inflow in 1965 was lower than in the previous year, the Bank of Israel's foreign exchange reserves increased by \$100 million during 1965. The increasing level of prices (the consumer price index rose by 8% during 1965) reflects in part the accelerating monetary expansion in 1963, which was not fully reflected in 1964 due to the administrative price control and wage freezes introduced after the devaluation in 1962. During 1965, however, many of the controlled prices such as for public utilities and transportation were revised; also the nominal hourly wages rose by 16% in 1965 compared to 11 to 12% in each of the three preceding years.

The authorities also used import liberalization to control prices by exposing less efficient branches of production to competitive imports. During the first stage of liberalization most administrative import restrictions were replaced by tariffs; the second stage, which will begin in November 1966, will consist in gradually lowering these tariffs.

The public external debt as of December 31, 1964, repayable in foreign currency amounted to \$890 million and its service will require \$113 million in 1966. This corresponds to 10.7% of the 1965 gross total of current foreign exchange earnings and unilateral transfers from abroad.

Italy

BRIEFING PAPER - 1966

ITALY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Guido Carli
Governor of Bank

Governor, Banca d'Italia

Paolo Baffi
Alternate Governor of Bank

General Manager, Banca d'Italia

Emilio Colombo
Governor of the Fund

Minister of the Treasury

Guido Carli
Alternate Governor of Fund

Governor, Banca d'Italia

Advisers:

Emilio Ranalli
Alfredo Vernucci
Rinaldo Ossola

Central Manager, Banca d'Italia
Director, Ufficio Italiano dei Cambi
Director of the International Economics
Research Department, Banca d'Italia
Director of Banca d'Italia and Representative in Belgium, Netherlands, and Luxembourg

Florio Gradi

Representative of the Ufficio Italiano dei Cambi in the United States

Carlo Ciampi

Senior Economist, Italian Economics Research Department, Banca d'Italia

Edgardo Valle

Alternate Director of the Representative of the Banca d'Italia in France

Silvano Montanaro

Economist, International Economics Research Department, Banca d'Italia

III. BANK/IDA PROSPECTIVE OPERATIONS

In view of the great improvement in Italy's economic position over the last two years, no further lending is contemplated at present. Disbursement of the loan of \$100 million to the Cassa per il Mezzogiorno of June 1965 was slow initially but has accelerated somewhat recently. Up to June 30, 1966, sub-projects requiring loans of about \$90 million had been approved by the three regional development institutes and it is estimated that well before the end of the year the whole Bank loan will have been committed. It is expected that the loan will be disbursed before the closing date of December 31, 1968 but the allocation of funds among the three regional development institutes may slightly differ from the originally expected ratio.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

(c) Topics to be raised by the Delegation:

If the Delegation raises the question of further Bank lending, the reply should be that the recent improvement in the Italian economy precludes further Bank lending for the foreseeable future.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

				(US \$ Millions)
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
	Loans fully disbursed		298.0	--
1965	Cassa per il Mezzogiorno	Industry	<u>100.0</u>	<u>79.6</u>
	Total		398.0	79.6
	of which has been repaid		<u>82.8</u>	
	Total outstanding		315.2	
	Amount sold		189.2	
	of which has been repaid		<u>80.4</u>	<u>108.8</u>
	Net amount held by Bank		<u>206.4</u>	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

In June 1965, the National Electric Power Corporation (E.N.E.L.) raised the equivalent in five foreign currencies of \$60 million at 6% (issue price 95) for fifteen years; this was the first combined borrowing operation in all EEC countries. In February 1966 the National Hydrocarbon Corporation (ENI) raised outside the U.S.A. \$20 million of 6%, fifteen-year bonds at 95-3/4 through White, Weld and Co.; Banca Nazionale del Lavoro; Banca Commerciale Italiana; and Euramerica - Finanziaria Internazionale S.p.A.

Italy is subject to U.S. Interest Equalization Tax.

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

Part I member.	Original subscription	\$ 18.16 million
	Replenishment	\$ 30.00 million
	Total	\$ 48.16 million

(g) Holdings of Bank Bonds

\$69.08 million.

(h) I. F. C.

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

(i) S. I. D.

Date of Signature: November 18, 1965
Date of Ratification: —

VI. POLITICAL SITUATION

The coalition between Christian Democrats and Socialists (The Nenni Socialist Party and the more moderate Social Democratic Party) has remained in power under the leadership of Prime Minister A. Moro, notwithstanding the disagreements of the left wing Socialists about the Government's policy. Largely because no alternative seems available, prospects are that the coalition will govern the country until next general election in 1968. Last June's local elections showed that the parties on the extreme right - the Monarchists and the Fascists - are consistently losing ground, while the Communists (the largest Communist party outside the Eastern bloc) are not gaining.

By next November, after nineteen years of separation, the reunification of the Nenni Socialist Party and the Social Democratic Party is expected on ideological principles largely inspired by the program of the British Labour Party. The unified party would be the third largest in Italy.

VII. ECONOMIC SITUATION

Population: 51.6 million

GNP per capita: \$1,100

Gold and Foreign Exchange Reserves (June 1966): \$3.8 billion

After the recession, recovery of economic activity began to take place in 1965 though at a very slow pace. GNP increased by 3.4%, compared to 2.7% in the previous year and to an average annual rate of 7% in 1959-63. Manufacturing production rose by 4.6%, while construction decreased by 3.6% after the previous year's stagnation. Gross investment declined by 7.9%, following the sharp fall of 9.8% in 1964.

More recently, domestic demand has been gaining strength and the prospects for 1966 are for a more sustained expansion, which is expected to lead to a 5-5½% increase of GNP. Given the present underutilization of capital and labour, it should be possible to avoid any serious pressure on prices.

Since the spring of 1964 Italy has been running a large balance of payments surplus, resulting from a rapid growth of earnings from goods and services (14% in 1964 and 20% in 1965). Of the total surplus of \$1.6 billion achieved in 1965, a considerable part was used to reduce the foreign indebtedness of the commercial banks, and the gold and foreign currency reserves rose only by \$190 million, amounting at the end of 1965 to \$3.9 billion.

The balance of payments surplus may be again substantial in 1966, but should tend to be smaller. The rise of economic activity is expected to lead to higher imports, while the Government is favouring capital outflows in order to reduce the excess of internal liquidity. For the first six months of 1966 the balance of payments surplus was \$278 million, compared to \$510 million in the corresponding period of 1965.

Jordan

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September 15, 1966
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BRIEFING PAPER - 1966

JORDAN

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Hatim S. Zu'bi
Governor (Bank)

Minister of National Economy

Nijmeddin Dajani
Alternate Governor (Bank)

Secretary General,
Jordan Development Board

Ganj Shukri
Alternate Governor (Fmnd)

Undersecretary, Ministry
of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) A mission will visit Jordan in September to appraise the Government's request for a second IDA credit of \$5.8 million for the Agricultural Credit Corporation.

(b) Further studies by the consultants to the Arab Potash Company indicate that an increase in the size of the project from 0.5 to 1 million tons/year (with a corresponding increase in cost from \$60 million to \$90 million) would substantially improve its competitiveness and profitability. Special studies by Sir Alexander Gibb and Partners have led to the design of dikes which are expected to overcome the difficulties faced by the similar project in Israel. The new feasibility report due in September will have to be discussed with the other lenders (AID and Kuwait Fund) and with the firms which are interested in entering into partnership with APC before the project can take its final shape.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

(i) Amman Water Supply:

We should take up with the delegation the question of the cancellation of the \$0.5 million under Part B of that Credit in case no reply has been received to our letter on that subject.

(ii) Nablus Water Supply:

We should remind the delegation that the \$1 million allowed for that project would be cancelled if a viable scheme is not put in shape before the closing date of December 31, 1966.

(iii) We should inquire whether any progress has been made toward the signing of the SID convention.

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

None.

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

See III and IV(a) above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

(US \$ Millions)			
Date	Purpose	Amount less Cancellations	Undisbursed Balance
Dec. 22/61	Amman Water Supply	2.0	1.1
Dec. 12/63	Water Supply	3.5	2.4
Dec. 12/63	Agricultural Credit	3.0	--
		8.5	3.5

(c) Technical Assistance Activities

See (h) below.

(d) Access to Private Capital Markets

None because of lack of creditworthiness and precarious political situation.

(e) Bank 9% Capital Subscription

Amount: \$1.47 million. No release made.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$300,000. Subscription to the new bond issue \$200,000.

(h) I. F. C.

IFC has no investments in this country. Active applications include the Arab Potash Company Project, in which an IFC equity participation and an IBRD loan are possible. After considering a proposed investment in the newly established Industrial Development Bank of Jordan (IDB), IFC has informed the Jordanians that it would not at present feel able to invest. We offered to help find a short term technical adviser pending the secondment of such a person through U.K. Technical Assistance, but after we had located one, the Jordanians informed us that British assistance would be prompter than expected and that ours was not therefore necessary. Prospects for new investments seem limited due to the small size of individual industrial projects.

(i) S. I. D.

No reaction to the Bank's proposal.

VI. POLITICAL SITUATION

The past year has been uneventful (by Jordanian standards). Continued external support enables Jordan to pursue a dynamic development policy and to show great tactical flexibility in inter-Arab politics. On the internal scene, the Tall cabinet has lasted against expectations. Relations with President Nasser are going through their cyclical strain. This is chiefly due to the break between King Husein and the UAR-dominated Palestine Liberation Organization which aims at preserving the refugee identity and creating armed refugee groups. After the short-lived appeasement of the Arab summit meetings Cairo's renewed propaganda has led the Government again to tighten security measures and to take the same stand on recent Arab issues as Saudi Arabia (which gave Jordan \$14 million this year and agreed to territorial adjustments resulting in a larger Jordanian window on the Red Sea).

VII. ECONOMIC SITUATION

Population 1966: 2.0 million;

GNP per capita, 1965 (est.): \$240;

Foreign assets (Dec. 1965): \$179 million.

Jordan, only scantily endowed with natural and other resources, continues to be heavily dependent on foreign assistance (about \$80 million a year) to support the Central Government budget (a large part of which goes to military expenditures) and to finance development projects and relief operations among the refugee population. As the foreign assistance given for these purposes usually exceeded the requirements to cover the balance of payments deficit, substantial foreign exchange reserves of \$180 million (end 1965) have been accumulated which is about $2\frac{1}{2}$ times the 1965 deficit on the current account of the balance of payments of some \$70 million.

Jordan is entering a transitional period with respect to foreign assistance. The U.S. and the U.K. are reducing the nonrepayable and untied budget support. This reduction may amount to as much as 50% by 1970. On the other hand there will be a step-up in development loans. Until 1970 the U.S. is committed to finance six projects through development loans totalling \$35 million which is more than the probable cut in budget support. PL 480 commodities received in the past on a grant basis have to be paid for in local currency since the beginning of this year.

The general trend of development in Jordan is upward. GNP has grown at 10% yearly in 1959-64 and may have continued to rise by 5 to 6% in 1965 and 1966.

Jordan is implementing a seven-year plan covering the period 1964-1970, which was approved only a few months ago. Under this plan the level of development expenditures will almost triple. It is unlikely that this can be achieved. Nevertheless a step-up in development expenditure is to be expected because of the major projects under way, such as the dam on the Yarmouk and the extension of irrigation in the Jordan valley, and of the possible launching next year of the large potash project.

BRIEFING PAPER - 1966

KUWAIT

I. MEETING WITH DELEGATION

No meeting scheduled apart from discussions on
IDA replenishment.

II. MEMBERS OF DELEGATION

Abdlatif Y. Al-Hamad
Alternate Governor (Bank)

Director General, Kuwait
Fund for Arab Economic
Development

Hamzah Abbas Hussein
Alternate Governor (Fund)

Secretary, Kuwait
Currency Board

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

(i) Assistance to Kuwait Fund:

The Fund has hardly taken advantage of the limited assistance offered by the Bank at last year's meeting. The help we gave in recruitment does not seem to have been made use of. Prospects for joint operations appear to be limited to the potash project in Jordan. We should, nevertheless, reiterate our desire to maintain close relations with the Fund.

(ii) Bond holdings:

Kuwait holds at present \$5.1 million of Borrower's obligations but no bond holdings (it had purchased in 1963 \$1 million of 2-year bonds which matured last year.) We might raise generally the question of purchases of bonds and borrower's obligations.

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

None.

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

See (a)(i) above.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

Secondment of El Fishawy's (of Legal Department) to the Kuwait Fund will extend up to the beginning of October 1966.

(d) Access to Private Capital Markets

Subject to US Interest Equalization Tax.

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

Nil. See IV(a)(ii) above. No subscription to the new bond issue.

(h) I. F. C.

No investments made and no applications.

(i) S. I. D.

No reaction to the Bank's proposal.

VI. POLITICAL SITUATION

Earlier this year Kuwait has weathered without difficulties the death of the Ruler and the accession of one of his brothers, Sheikh Sabah al Salem, as head of state. Sheikh Jabir, with whom the Bank had had relatively close relations, is now Prime Minister and crown prince, thus maintaining the traditional division of power between the Salem and Jabir families. In his first months of tenure, he has accompanied strong internal policies (especially against socialist leaning foreign elements) with prudent external relations. Kuwait's good offices have been accepted by the U.A.R. and Saudi Arabia for renewed discussions on the Yemeni question. Agreement has been reached with Saudi Arabia for the partition of the oil-producing neutral zone.

Financial assistance from Kuwait (increasingly channeled through the Kuwait Fund) continues to give to most Arab countries a definite interest in seeing Kuwait remain independent.

VII. ECONOMIC SITUATION

Population 1965: 468,000 (of which about half foreigners);

Per capita GNP 1965: \$3500;

Foreign assets end 1965: \$635 million (net).

Oil revenues for 1965/66 are conservatively estimated in the budget at \$610 million. The National Assembly has so far refused to ratify a new agreement between the Government and the Kuwait Oil Company (producing over 90% of the total output and owned by Gulf and B.P.). The Government is said to be drafting legislation, Libyan style, to ensure control over the oil companies.

Credits to the private sector are increasing substantially, which may indicate a pickup in business activity, following the slowdown that set in late 1963. Private capital movements continue to be substantial and reflect investment abroad, especially in banking and real estate.

Kuwait is trying to broaden its economic basis. Several projects including a shipyard, a pipe factory, a petrochemical and a fertilizer plant are proposed but for most industrial projects progress is slow for lack of a market and of skilled laborers. Work on the construction of water distillation plants is progressing satisfactorily.

Available resources far exceed the absorptive capacity of the country. In addition to private investment abroad there is considerable public lending abroad (see Annex), mostly directly by the government but also through the Kuwait Fund for Arab Economic Development the capital of which was raised lately to KD 200 million. In spite of the considerable capital outflow foreign assets are increasing and now amount to some two years of imports.

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LOANS FROM GOVERNMENT OF KUWAIT AND FROM KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT AS OF AUGUST 15, 1966

Borrower	Date of Agreement	Purpose	KD MILLION		Terms
			From Government	From KFAED	
ALGERIA	7/63	To Government	10.0		Interest free 25 years
	23/6/64	Haoud el Hamra-Arzew Oil Pipeline		7.5	4% - 15 years incl. 3 years grace.
	1965	n.a.	10.0		n.a.
			20.0	7.5	
DUBAI	n.a.	n.a.	0.8		n.a.
JORDAN	3/4/62	Yarmouk irrigation		4.0	3% - 20 years incl. 6 years grace.
	3/4/62	Phosphates (Al Hasa project)		3.0	4% - 10 years incl. 4 years grace.
	3/4/62	Industrial and Tourism Fund <u>a/</u>		0.5	variable
	18/7/60	Economic Development <u>b/</u>	1.0		4% - 11 years incl. 3 years grace.
	4/64	Budget assistance	5.0		4% - 15 years incl. 5 years grace.
			6.0	7.5	
IRAQ	15/10/63	Economic Development	30.0		Interest free - 25 years incl. 6 years grace.
LEBANON	16/2/61	City of Beirut	5.0		4% - 10 years incl. 4 years grace.
	1965	Budget Support	5.0		n.a.
	1966	Joun power station <u>c/</u>		2.4	4% - 14 years incl. 4 years grace.
	1966	Economic Development	5.0		4% - 15 years incl. 5 years grace.
			15.0	2.4	
MOROCCO	26/4/65	Plan Support	10.0		4% - 16 years incl. 6½ years grace.
	1966	Irrigation <u>c/</u>		7.4	3% - 25 years
	1966	Modernization agriculture <u>c/</u>		2.7	3% - 20 years
			10.0	10.1	
SUDAN	25/3/62	Railways		7.0	4% - 16 years incl. 5 years grace.
	15/7/65	Khashim el Ghirba Sugar Scheme		1.7	4% - 15 years
	Oct. 65	B.O.P. support	5.0		4% - 15½ years incl. 5½ years grace.
			5.0	8.7	
TUNISIA	21/12/63	Goulette Power Project		4.0	4% - 15 years incl. 4 years grace.
	21/12/63	Irrigation Medjerda Valley		2.0	3% - 25 years incl. 5 years grace.
	27/7/64	Budget support	4.0		3½% - 16 years incl. grace period.
			11.0	6.0	

U.A.R.	23/11/63	Economic Development	25.0		Interest free - 15 years incl. 3 years grace.
	5/7/64	Suez Canal		9.8	4% - 16 years
	n.a.	Preservation of Abu Simbel	3.0		n.a.
	n.a.	n.a.	0.8		n.a.
	29/3/65	To Government <u>d/</u>	5.0		4% - 18½ years incl. 3½ years grace.
	Feb. 1966	To U.A.R. Central Bank <u>e/</u>	15.0		Repayable in 10 years.
			<u>48.8</u>	<u>9.8</u>	
		Total	<u>139.6</u>	<u>52.0</u>	

a/ KD. 415,000 committed on February 5, 1964 for Jerusalem Intercontinental Hotel (KD 175,000 - 4%, 12 years incl. 2 years grace) and Jerusalem Electricity (KD. 240,000 - 3%, 17 years incl. 2 years grace) respectively and KD. 85,000 on March 8, 1965 for the Al Urdon Hotel in Amman (3½%, 15 years, no period of grace).

b/ Terms as reported in Bank's report on "The Economy of Kuwait".

c/ Loans reported as negotiated but not yet signed.

d/ To be used for civil projects under the direction of the Ministry of Defense.

e/ Loan to be extended by Kuwaiti banks (reportedly using Government deposits) to the Central Bank of the U.A.R. The Governments of the two countries are guarantors of their respective banking institutions.

NOTE: 1 Kuwaiti Dinar = US \$ 2.80 = £ 1.

Europe and Middle East Department
August 17, 1966

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BRIEFING PAPER - 1966

LEBANON

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Khalil Salem
Governor (Bank)

Director General,
Ministry of Finance

Raja Himadeh
Alternate Governor (Bank)

Government Commissioner to
B.C.A.I.F.

Farid Solh
Alternate Governor (Fund)

Ministry of Finance

Joseph Oughourlian

First Deputy Governor,
Banque du Liban

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) General

No operations are contemplated. The Government has taken no action on the proposals made in Mr. Woods' letter of July 1, 1964 to consider loans for development projects.

Increasing public expenditures have led the Government to scale down the investments proposed under the Development Plan. Recent loans from Kuwait will somewhat ease the situation but much larger resources are required to step-up the implementation of the Plan. Additional loans from France and the U.S.A. are reported to be under consideration.

(b) Development Banks

No progress has been made by the Government regarding the splitting of the existing multi-purpose development bank, a prerequisite for the creation of the two new agricultural and industrial credit institutions recommended by the Bank/IFC missions of 1963 and 1964. The Steering Committee for the new Industrial Bank selected by IFC in 1964 has not been reactivated despite Mr. Rosen's recommendations during his visit in April 1966. Our recommendations seem, however, to be more widely accepted than was the case in preceding years. The growing needs for development credit might lead Government and the various financial groups concerned to settle their differences in this respect.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

- (i) Ask for release on convertible basis of \$0.405 million of IDA 90% subscription. Up to now there has been no release.
- (ii) Inquire what further progress has been made toward the signing of the SID Convention. The Bank was informed on May 25 that the Cabinet had approved adherence to the Convention and that a draft law to that effect was being submitted to Parliament.

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

None.

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

None.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

(US \$ Millions)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1955	Litani River Authority	Power and Irrigation	27.0	--
	of which has been repaid		<u>2.7</u>	
	Total outstanding		24.3	
	Amount sold (of which has been repaid 0.6)		<u>2.0</u>	
	Net amount held by Bank		22.3	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

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

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

None. No subscription to the new bond issue.

(h) I. F. C.

IFC has no existing investments in Lebanon. Discussions with Consolidated Steel on financing new rolling facilities have not been successful as yet, and an investment appears doubtful. The proposal for a new development finance company, envisaging an IFC investment, is in abeyance. Press clippings from time to time indicate that the Government is still considering the matter, but we do not know more specifically what present plans are. IFC prospects in Lebanon are limited by the availability of local capital for viable projects.

(i) S. I. D.

See (V(a)(ii) above.

VI. POLITICAL SITUATION

The past year has witnessed no significant political development apart from a new cabinet. In contrast to the rest of the Arab countries, Lebanon's democratic institutions - on which relies the delicate balance between Christians and Moslems - continue to function reasonably well. President Helou steers a prudent course between Lebanon's western-oriented way of life and its links with the Arab World, thus maintaining the internal peace which has prevailed since 1958. His hold on Parliament and the administration has enabled him to carry out an unprecedented purge of the most inefficient and graft-ridden top civil servants. Prosperity remains unabated and social measures attempt to redistribute incomes more equitably.

VII. ECONOMIC SITUATION

Population 1966 (est.): 2.2 million;

Per capita GNP, 1964 (est.): \$300;

Foreign assets end 1965: \$251 million.

Private enterprise is the main pillar of Lebanon's economy. Services, especially banking, trade and tourism, form the principal source of income and make up about 60% of GNP. The economy has grown over the past decade at a sustained rate of about 5%. Economic activity accelerated in 1965 and the increase in GNP is provisionally estimated at 10%.

The growth of the economy is to a large extent dependent on private investment. Nevertheless, the Government plays a far from negligible role in development. The current \$325 million Five-Year Plan includes many infrastructure projects and its implementation progresses satisfactorily. Government efforts are lagging in irrigation, however, and the Litani waters are still only used for power generation. Lebanon has remained outside the Arab Common Market, now being formed, in order to protect its liberal economy.

Lebanon's balance of payments shows a considerable trade gap of some \$250-300 million. Even though earnings on invisibles are substantial, the deficit on goods and services amounts to some \$50-70 million. This is to a large extent covered by private transfers (around \$35 million). Private capital movements are very important but recently the new inflow of short-term capital seems to have slowed down. Public capital inflow is negligible in relation to private capital movements. The total outcome of Lebanon's complex and partly obscure external relations is reflected in its foreign assets which have increased steadily during recent years to reach an all-time high of \$251 million in December 1965. The currency remains stable.

Outstanding public debt is estimated at \$63 million, including a recent \$14 million loan from the Government of Kuwait and a \$6.7 million loan from the Kuwait Fund to the Litani River Authority. Debt service is small and total receipts from investments abroad exceed the payments (including dividends) for foreign capital in Lebanon.

Malta

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BRIEFING PAPER - 1966

MALTA

I. MEETING WITH DELEGATION

No meeting

II. MEMBERS OF DELEGATION

No delegation attending

III. BANK/IDA PROSPECTIVE OPERATIONS

The Malta Government has applied for membership in the Fund and in the Bank, IDA and IFC (December 27, 1965). Owing to delays in Malta, an early membership is not likely. A \$7.5 million loan with a U.K. guarantee was made in 1963 for a power and water distillation project. We expect the Government to ask Bank assistance for the second stage of the project. However, further lending will depend on the country's economic prospects and creditworthiness (an economic mission may go to Malta in the fall); agreement on new power rates will also have to be reached.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

1. Economic Prospects

The Maltese economy has been heavily dependent on British military expenditure. Now that this source of funds and employment is being substantially cut, there is urgent need for effective policies aimed at transformation of the economic structure. Financial problems (budget, balance of payments, capital supply) have to be investigated, as well as general prospects (association with EEC or EFTA, nature of the special relationship with U.K., situation of the dockyards, free port project, establishment of new industries). An economic mission, previously planned for August, has been postponed at Malta's request. At this stage, we can give no assurance that Malta will be creditworthy.

2. Situation of the Malta Electricity Board (MEB)

The financial situation of the MEB is not satisfactory and an increase in rates is needed. The Government has received recommendations from its consultants but has still to take action. Projects Department plans a mission to Malta as soon as possible for further discussions. On August 30, we wrote to the Minister of Finance calling his attention to the need for early action.

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

No meeting.

(c) Topics likely to be raised by the Delegation

The delegation may inquire about the possibility of further Bank lending for power. A loan would be conditional on agreement on power rates and satisfactory findings on creditworthiness.

Malta has also been interested in finance for a proposed Development Corporation which, however, would be largely government-owned.

V. (a) Bank Loans as of August 31, 1966

(U.S.\$ million)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1963	State of Malta	Power and Water Distillation	7.50	2.5
	Amount sold		<u>7.47</u>	
	Net amount held by Bank		<u>0.03</u>	

The loan is guaranteed by the U.K. Construction and disbursements are some months behind schedule. The closing date of March 31, 1966 has not been formally extended owing to our dissatisfaction with the Board's finances and rate policy. We are disbursing on an ad hoc basis and expect withdrawals to be completed early in 1967. However, some \$1-2 million will remain undisbursed as costs have been below estimates.

VI. POLITICAL SITUATION

Malta became independent in September 1964, but maintains close ties with the U.K., which provides substantial financial assistance. The first elections since independence were held in March 1966 and maintained Dr. G. Borg Olivier, the Nationalist Party leader in power for the next five years.

VII. ECONOMIC SITUATION

Population: 316,500
 GNP per capita (1965): about \$480
 Foreign exchange reserves (end 1965): \$75 million

Since 1959 the rundown of the British naval base (which used to provide 60% of foreign exchange earnings as well as a substantial contribution to GNP and employment) has created serious problems of economic readaptation. Net emigration was 22,000 during 1963-65. Under the second five-year plan (1964-68), about £38.4 million are to be spent on investment projects, of which 35% for infrastructure, 33% for social services and education and 30% for

industry, tourism and agriculture. Incentives are being provided for industrial activities, and various measures are being studied, among which is the creation of a free port. The Maltese have usually invested abroad, but confidence in the economic prospects is shown by the success of a £750,000 (\$2 million) government bond issue, floated early this year and fully placed internally. In 1965, imports were \$35 million and exports \$8.7 million. Invisibles and transfer receipts largely from the U.K. have usually matched that deficit, but it is not clear whether this will be the case in the future; exports, however, are increasing rapidly (by 30% in 1964). The U.K. Government agreed to make available £51 million for development over the period 1964-74; in addition, it has helped to cover budget deficits. Foreign debt at the end of 1965 was \$15 million, of which \$7.5 million IBRD loan and \$7.5 million various loans from the U.K. Government. Debt service in 1965 was between 2% and 3% of current foreign exchange receipts, excluding U.K. military expenditure.

Netherlands

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BRIEFING PAPER - 1966

NETHERLANDS

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

A. Vondeling
Governor (Bank)

Minister of Finance

Count J.H.O. van den Bosch
Alternate Governor (Bank)

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

M. W. Holtrop
Governor (Fund)

President, De Nederlandsche
Bank N.V.

E. van Lennep
Alternate Governor (Fund)

Treasurer General, Ministry of
Finance

Advisers:

P. Liefstinck

Executive Director (Fund and Bank)

H. M. H. A. van der Valk

Alternate Executive Director (Fund)

J. Everts

Director for Financial and Economic
Cooperation, Ministry of Foreign
Affairs

J. Grooters

Financial Attache, Netherlands Emba

Miss G. A. Koen

De Nederlandsche Bank N.V.

Baron A. W. R. Mackay

Deputy Director, De Nederlandsche
Bank N.V.

J. A. Sillem

Technical Assistant to Executive
Director (Fund)

C. van der Tak

Head, Development Aid and Inter-
national Organizations Dept.,
Ministry of Finance

D. M. N. van Wensveen

Head, International Monetary
Affairs Dept., Ministry of Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

No indications.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

A total of \$236.5 million borrowed from the Bank has been repaid.

(b) IDA credits as of August 31, 1966

None.

(c) Technical assistance activities

None.

(d) Access to private capital markets

Not appropriate.

(e) Bank 9% capital subscription

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

(f) IDA subscription

Part I member.	Original subscription	\$27.74 million
	Replenishment	\$16.50 million
	Total	\$44.24 million

(g) Holdings of Bank Bonds

\$45.58 million.

(h) I. F. C.

Not considered appropriate for IFC financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on May 25, 1966, and ratified in September 1966.

VI. POLITICAL SITUATION

Not applicable.

VII. ECONOMIC SITUATION

Population (1965): 12.29 million;

GNP per capita (1965): \$1,520;

Gold and foreign exchange reserves of
Netherlands Bank (June 1966): \$2,332 million;

Foreign exchange reserves of Commercial
Banks (May 1966): \$702 million;

Imports (c.i.f.) (1965): \$7,492 million.

ANNEX

Foreign Bond Issues in the Dutch Capital Market
(US\$ Million)

<u>Borrower</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Date of Issue</u>
CECA	11.1	5 3/4%	100	April 1965
EIB	11.1	5 3/4%	100	April 1965
ENEL, Italy	6.9	6%	95	July 1965

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WB

BRIEFING PAPER - 1966

NORWAY

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Kare Willoch
Governor (Bank)

Minister of Commerce and Shipping

Christian Brinch
Alternate Governor (Bank)

Secretary General, Royal Ministry
of Commerce and Shipping

Erik Brofoss
Governor (Fund)

Governor, Norges Bank

Thomas Lovold
Alternate Governor (Fund)

Director, Royal Ministry of Commerce
and Shipping

Advisers:

Odd Hokedal

Alternate Executive Director (Bank)

Erling Borresen

Director, Norges Bank

Gabriel Kielland

Director, Norges Bank

V. H. Schirmer

Representative of Norges Bank
for U.S.A. and Canada

Ofaf Solli

Counselor, Embassy of Norway

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

There is an indication that the Government may soon raise the question of the Bank making further loans to Norway. The Bank would not be receptive to such a request.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

			(US \$ Millions)	
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1954	Norway	Equipment for Development	25.0	
1955	Norway	Equipment for Development	25.0	
1956	Norway	Power	25.0	
1959	Norway	Power	20.0	
1960	Norway	Power	25.0	
1963	Norway	Power	25.0	16.5
	Total		145.0	16.5
	of which has been repaid		26.8	
	Total outstanding		118.2	
	Amount sold	48.6		
	of which has been repaid	26.7	21.9	
	Net amount held by Bank		96.3	

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

So far Norway's ability to raise funds abroad has not been affected by the tightening up of the capital markets. As shown in the Annex hereto, Norway raised \$107.5 million during 1965 compared to \$110 million in 1964. The terms of borrowing, however, have stiffened.

Norway is subject to the U.S. interest equalization tax and would be a market eligible country.

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

(e) Bank 9% Capital Subscription

Amount: \$14.4 million. Entire 9% released, convertible into any currency. \$12.0 million disbursed and on loan. \$2.4 million available in two annual installments: \$1.4 million on December 1, 1966, and \$1 million December 1, 1967.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$36.15 million of which \$5.0 million 1966 2-year bonds.

(h) I. F. C.

Not considered appropriate for IFC financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on June 24, 1966, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

General elections held in Norway on December 12/13 resulted in the defeat of the Labor Government, which had been in office for 30 years (except for one month in 1963) and in an overall majority for the anti-labor parties in the new Storting. After the Labor Government, headed by Mr. Gerhardsen, resigned, Mr. Per Borten, leader of the Center Party, appointed a new coalition government of the nonsocialist parties consisting of six Conservatives, three Liberals, three members of the Center Party and three representatives of the Christian Peoples' Party.

VII. ECONOMIC SITUATION

Population (1964): 3.7 million;

GNP per capita (1965): \$2,095;

Gold and Foreign Exchange Reserves of Central Bank, including IMF Gold Tranche Position (June 1966): \$491.9 million;

Imports (c.i.f.) (1965): \$2,200 million.

1965 was a good year for the Norwegian economy. The GNP rose by 5.8% in real terms, about the same as in 1964. The consumer price index rose by only 3.1% compared to 6.9% in 1964. The higher deficit on the external current account (mainly as a consequence of large Norwegian purchases of ships abroad) was amply covered by the capital inflow. Exports rose by 12%. Norway's external monetary assets rose by \$160 million (\$90 million of this was added to the official exchange reserves, whereas the rest is reflected in an increase in the net foreign assets of Norwegian banks).

As economic policy for 1965 gave priority to public services, Government expenditure was budgeted 16% higher than in 1964. To provide scope for this policy, monetary restraints were further stiffened during the year, also in view of the increased liquidity resulting from the improvement in the balance of payments.

The external public debt outstanding on December 31, 1965 amounted to \$659.3 million and its service will require \$65.2 million in 1966. This corresponds to 2.2% of 1965 foreign exchange earnings.

ANNEX

NORWAYCAPITAL MARKET

<u>Borrower</u>	<u>Month</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
				<u>January - December 1965</u>	
Sira-Kvina Kraftselskop (Norwegian State and Municipal Power Consortium)	Jan.	\$25.0 million	5 3/4	97 3/4	1965-85
City of Oslo	Feb.	DM50.0 million	5 3/4	100	1965-80
A.S. Vaksdal Mølle	March	Sfr.4.5 million	5	100	1965-73
Kingdom of Norway	March	\$30.0 million	5 1/2	98	1965-85
City of Oslo	May	\$15.0 million	5 3/4	98 3/4	1965-85
Roldal-Sudal Power Co.	Oct.	\$15.0 million	6 1/4	98 1/2	1965-85
Societe Glittre	Nov.	Sfr.4.5 million	5	99 1/2	1965-75
Kraftlaget Opplandskraft	Dec.	\$8.0 million	6 1/4	97 1/2	1965-85

Total \$107.5 million

January - June 1966

Redernes Skibskreditforening (Shipowners' Mortgage Association)	Feb.	u/c8.5 million	6	98	1966-80
City of Oslo	June	\$10.0 million	6 3/4	98 3/4	1965-76

Total \$18.5 million

Briefing Paper - 1966

PORTUGAL

I. MEETING WITH DELEGATION

No meeting scheduled with Management. (Meeting with Bank Staff to be arranged.)

II. MEMBERS OF DELEGATION

Ulisses Cortes
Governor of Bank

Minister of Finance

Luis Maria Teixeira Pinto
Alternate Governor of Bank

Vice-Governor, Banco de Fomento
Nacional

Antonio Manuel Pinto Barbosa
Governor of Fund

Governor, Banco de Portugal

Manuel Jacinto Nunes
Alternate Governor of Fund

Vice-Governor, Banco de Portugal

Advisers

Armenio Fonseca Lopes

Head of International Relations
Dept., Banco de Portugal

Hernani Caeiro Pereira

Technical Assistant, Banco de
Portugal

Luis Esteves Fernandes

Director, Banco Nacional Ultra-
marino

Albino Cabral Pessoa

Financial Counselor, Portuguese
Embassy

Daniel V. Barbosa

Governor, Banco de Fomento
Nacional

Henrique B. Correa da Silva

Member of the Board, Banco de
Angola

III. BANK/IDA PROSPECTIVE OPERATIONS

During negotiations in April for two power loans, the Portuguese indicated that the Government would like the Bank to help finance a new hydro-electric project and the third stage of Carregado Thermal Plant (see IV (c)). They also asked if the Bank would consider lending in other sectors, particularly transportation.

We said we would be willing to consider a transport project of moderate size. (See IV (c).) The Portuguese understand that future lending is related to regular review of the economy. They decided not to take up the Bank's offer to send an agricultural study mission.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

1. Economic Situation

The Bank is planning to send an economic mission in November with a special interest in reviewing the performance of the public sector (fiscal effort, public savings, investment programs and implementation, organization of capital market, etc.); other relevant issues will be the structure of the power system and transport coordination. Improvements on these matters are regarded as deserving urgent action (as would be the case for agriculture), and further lending could be made conditional upon them.

2. Structure of the Power System

The Bank's investments in Portugal have all been in the power sector (\$57.5 million) and therefore great importance is attached to the completion of the studies being carried on by the Superior Council of Public Works on the allocation of concessions and by Electricite de France on the organization of the power system. Agreement with the Government on appropriate action on the basis of these studies (to be completed later this year) is essential to further lending for power and we should ask about progress with the Electricite de France study.

3. Loan Purchases by Bank of Portugal - IBRD Bonds

There has been no response to Mr. Fontein's letter of June 22, 1966 to the Minister of Finance (attached), in which reference was made to the possibility of the Bank of Portugal purchasing earlier maturities of the recent loans. The Executive Director for Portugal says that the Bank of Portugal, as a private entity, is not entitled to do so. However, he has suggested that the Caixa Geral should make these purchases.

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

None.

(c) Topics likely to be raised by the Delegation

The Delegation may inquire about the possibility of further Bank loans. In the power sector, the next projects likely to be submitted to the Bank are the third stage of the Carregado thermal power plant and the Ataes hydroelectric project on the Douro River. The cost of these two projects will be around \$50 million; the Bank, conditional on satisfactory agreements on the structure of the primary power system and perhaps to actions on broader economic policy matters, might contribute some \$20 million (40%). However, the duration of the loans would be reduced: about 12 years for thermal and 17 for hydro projects.

It is also possible that they will refer to a highway project. A short report on a \$32 million, 4-year project for modernization and construction of certain highways has been prepared by the Highways Board of the Ministry of Public Works, and informally transmitted to the Bank. Considerable further investigation is needed, even on a preliminary basis (e.g. cost estimation, traffic studies, economic justification). We also need to be satisfied on the general highway program and on coordination between the various forms of transport. The proposed fall economic mission could make a preliminary review of project prospects. If a satisfactory project can be developed over the next year or so, a loan of about \$10 million might be considered.

2. Private Development Bank

With the recent admission of Portugal in IFC, the subject of one or more private development banks to work side by side with the existing governmental National Development Bank is likely to be raised, and possibly not only with IFC itself. It could provide a partial answer to the Bank's desire of seeing an improvement in the capital market.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966:

Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1963	Hidro-Elctrica do Douro	Hydro Elec. power	7.5	--
1963	Empresa Termoeletrica Portuguesa	Thermal power	5.0	1.9
1965	Empresa Termoeletrica Portuguesa	Thermal power	15.0	11.0
1966	Empresa Termoeletrica Portuguesa	Thermal power	10.0	19.7
1966	Hidro-Elctrica do Douro	Hydro Elec. power	<u>20.0</u>	<u>20.0</u>
	Total		57.5	52.6
	Amount sold		1.6	
	Net amount held by Bank		55.9	

(b) IDA Credits

None.

(c) Technical Assistance Activities

No information is yet available about the Government's attitude toward the Report of the 1964 Mission on financial aspects of development.

(d) Access to Private Capital Markets

Portugal has borrowed substantially abroad in the last 4 years, including a \$20 million bond issue in London in 1964 and a \$20 million bond issue in New York in February 1965. More recently, substantial amounts were borrowed on a relatively short term basis (2 years), mainly from banking institutions but practically with a supplier's credit nature. In May 1964, Portugal was included among countries to which the US interest equalization tax applies.

(e) Bank 9% Capital Subscription

\$7.2 million. Release is being made in five yearly installments, beginning June 1, 1966.

(f) IDA Subscription

Not a member. Apparently the Government is not interested, because of the effort it is already making in the African provinces, where IDA would not be prepared to give credits.

(g) Holdings of Bank Bonds

None

(h) IFC

Portugal became a member July 8, 1966, its subscription being \$443,000. Reportedly, there is interest for investments in industrial ventures (namely the expansion of the privately-owned, 250,000 ton National Steel Company) as well as for the establishment of a private development bank (IV (c) 2). Financing of a tractor plant is under consideration.

(i) Settlement of Investment Disputes

No action taken. Implications for competence of domestic courts being studied. Signature expected, but not for several months.

VI. POLITICAL SITUATION

Stability prevails; however, the succession of Dr. Salazar, now 77, is one of the major uncertainties about Portugal's

political future. The second major political problem is its relationship with the Overseas Provinces. Pressures from various African countries and their action in the U.N. resulted in the December 1965 Resolution, which, among other things, asked the Bank to refrain from giving technical and financial assistance to Portugal. The Bank did not accept this point of view.

VII. ECONOMIC SITUATION

Population: 9.2 million

GNP per capita of Metropolitan Portugal: about \$400

Gold and Foreign Exchange Reserves (May 1966): \$998 million

Portugal's growth rate in 1965 is estimated at about 7% in real terms, compared with around 4% in 1963 and 1964; this favorable result can be attributed mainly to manufacturing and construction, which increased by 10%. Agricultural performance also was notably better than in previous years: output rose by about 5 $\frac{1}{2}$ %. Domestic demand increased considerably (private consumption rose by 12%), and both wholesale and retail prices increased 3 - 4% over 1964.

Gross investment in fixed assets rose in 1965 by 4% in real terms (the increase in 1964 was only 1%). This result cannot be considered satisfactory, either in absolute terms or in comparison with the Plan target of an 8% yearly increase.

The central Government budget shows for 1965 a substantially reduced deficit (Esc 2 billion, instead of Esc 3.5 billion in 1964). This is mainly to be attributed to the rise in receipts by 18%. Military expenditure, at Esc 7.7 billion, is about 42% of total expenditures. Reforms were introduced in the fiscal system (notably a new sales tax on value-added, effective August 1, 1966) and in financial organization and banking.

The balance of payments of the Escudo Area vis-a-vis third countries showed in 1965 a surplus of Esc 2.3 billion (Esc 3.5 billion in 1964). The trade deficit of the metropole with third countries rose to Esc 8.1 billion, as a consequence of rising imports (17% over 1964) and slowed growth in exports (9% over 1964). A deficit appeared also in the trade balance of the Overseas Provinces, because of a 20% drop in exports. Tourism receipts and remittances were however very satisfactory. Portugal's external public debt as of December 31, 1965, was

equivalent to \$376 million (or 37% of international reserves). Debt service in 1966 will be equivalent to 9% of current account receipts of Metropolitan Portugal with third countries (or 6.4% of current account receipts of the Escudo Area with third countries). Without further borrowing in subsequent years, the ratio will be lower.

June 22, 1966

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

Dear Mr. Minister:

With the signing last week of the agreements for the Bank loans for the Carregado and Carrapatelo projects, I thought it would be useful to review some of the matters covered during the negotiations in April. First, however, I should like to express my appreciation of the cordial and efficient participation of the Portuguese delegation in the discussions and of the prompt settlement in the last few weeks of the points outstanding on the Portuguese side.

In the loan documents, there are two points to which I would refer. One concerns the provisions on the financing of expansion by Hidro-Eléctrica do Douro. Because it is important for HED to reduce its reliance on short-term funds, it is a condition of effectiveness for the loan to HED that the company should issue Esc 300 million of new shares and raise Esc 100 million of long-term debt in time for the loan to become effective by August 31, 1966. The Supplemental Letter on borrowing also reflects the Bank's concern that HED shall continue to secure adequate long-term capital, particularly since HED assumes that financing for Ataas will have to be provided while Carrapatelo is still being carried out. In this regard, I was glad to receive your letter of April 6, 1966 stating the Government's intention to assist HED in the issue of both bonds and shares.

Secondly, Mr. Sapateiro has confirmed by cable your Government's acceptance of provisions in the agreements which will give us greater flexibility in selling maturities of these loans. This has the advantage of increasing the availability of Bank funds for further lending and of broadening the market for Portuguese paper. In this connection, I have also suggested to Mr. Sapateiro that the Bank of Portugal should take up some of the early maturities of the two proposed loans. For some years now, several of our stronger borrowers have arranged for their central banks or foreign exchange authorities to make such purchases -- which are in fact a remunerative way of investing foreign exchange reserves. Moreover, since the purchases are in loans already guaranteed by the Government no risk is incurred.

The delegation enquired about the possibility of further Bank lending. There are, as you know, no other projects in Portugal now being considered by the Bank. Decisions on further lending would depend on a review of Portugal's economic position and on an appraisal of any new project which might emerge. More generally, there arises the question of the conditions of any such lending. In the two new loans for electric power, the Bank is providing almost 50% of the necessary funds. Because of the growing demands on our resources, at a time when conditions in international markets make it difficult to raise large sums, we shall have to reduce our rate of lending in more developed member countries. We shall also need to shorten the duration of our loans, as we have just done for the two recent loans. At the same time, we wish our borrowers to resort to the international capital markets to the extent possible and it has often been advantageous to have such efforts made in step with our own loans. The Bank's appraisal of a project and its willingness to lend often encourage other investors to come in. As we come closer to financing another project in Portugal, I should like to take up this matter with you in the light of the then prevailing conditions.

At present, we are lending to Portugal at the Bank's standard rate of interest, which is now 6%. For some time, however, we have been making loans to our economically stronger member countries at a somewhat higher rate, closer to what they would have to pay for an international issue. From time to time, we review the nature of the countries included in this group of more creditworthy borrowers. In view of the strength of its economy, there is the possibility that in the not too distant future Portugal might be classified with the group of countries which pays higher rates. No decision has been made on this matter and there is no need to make one now. I thought, however, that I should let you know the trend.

Consideration of further lending by the Bank would also entail a visit by a mission to review economic developments since Mr. Vloebergh's visit in conjunction with the Fund Mission of April, 1965. While the timing of such a mission would be related to any proposed operations, October/November of this year might be a suitable time. To provide a strong justification for further Bank lending to Portugal, we should like to see an improved performance in the public sector, including in particular more progress towards re-establishing substantial public savings and towards improving the structure of the capital market, as suggested by the 1964 Technical Assistance Mission of the Bank and Fund. Such considerations would clearly be an important aspect of the work of any economic mission.

The delegation informed us that the Government would like the Bank to consider financing the third stage of Carregado and the Atães hydroelectric project on the lower Douro River. While the Bank is prepared to consider further lending for electric power, this would depend above all on continued progress with the studies on the organization of the primary power

system. The Bank's position with respect to the studies is incorporated in the Minutes agreed with the delegation, a copy of which is attached. Specifically, before completing any further appraisals, we would need to review the Electricite de France study and that of the Superior Council of Public Works and to reach agreement with the Government on appropriate follow-up action. We understand that both studies should be completed before the end of the year. In discussing the proposed EdF study, on the basis of a preliminary outline, we urged that EdF be asked to give an early statement of the composition and duration of the mission and that firm arrangements be made for its early arrival in Portugal. Prompt action on these matters is important for the industry and for any early consideration by the Bank of further projects. We have also indicated the Bank's desire to have direct contact in the near future with EdF concerning the proposed study. In the second place, we would need to have a much clearer understanding of the factors leading to the choice of Ataas as the next hydro project, including the economic justification for the decision. As a first step, the delegation is arranging for the Bank to receive the study on Ataas which is due to be completed in the near future.

In discussing Bank lending for other sectors of the economy, Mr. Sapateiro referred especially to transportation. After a review of the Bank's requirements for appraising and financing a highway project, Mr. Sapateiro was given a set of documents on the preparation of road projects. We understand that Portugal may submit a highway proposal later this year and we would be prepared to examine any such request with a view to determining an appropriate project for Bank financing. Mr. Main discussed the transportation program during his 1965 visit and, as he then indicated, we would want to consider any road project in the light of a general highway program and on the basis of an adequate system of coordination between the various means of transport in Portugal.

With best wishes, Mr. Minister,

Yours sincerely,

Douglas J. Fontein
Deputy Director
Europe and Middle East

Attachment

Cleared with & cc: Messrs. Arnold, Povey, Rovani, Sella, Vacchelli
cc: Messrs. Gutierrez Cano, Pessoa, Minister of Economy
Thompson, Piccagli, Main

BMCheck:by
I.B.R.D.

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WBG ARCHIVES
September 15, 1966

BRIEFING PAPER - 1966

SAUDI ARABIA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Ahmed Zaki Saad
Governor (Bank-Fund)
Executive Director (Fund)

Counselor to His Majesty
the King of Saudi Arabia

Abid M. S. Sheikh
Alternate Governor (Fund)

Minister of Commerce and
Industry

III. BANK/IDA PROSPECTIVE OPERATIONS

No lending contemplated. Bank relations with Saudi Arabia are remote. The Government has not pursued the suggestion made in 1964 by the Governor of the Monetary Agency, Anwar Ali, that a Bank mission be sent to update the report of 1960 on economic development.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

Though the Government declined early in 1965 to release the Bank 9% (\$6.6 million) we should ask again for a release over three years. Attempts to obtain release of the 9% on the recent \$22.7 million increase in subscription and of the 90% IDA subscription should be deferred for the time being.

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

None.

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

None.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None since Harold Folk's secondment as Economic Adviser to the Government on October 1, 1961.

(d) Access to Private Capital Markets

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

(e) Bank 9% Capital Subscription

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

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$20 million. Subscription to the new bond issue \$10 million.

(h) I. F. C.

No investment made and no applications.

(i) S. I. D.

No reaction to the Bank's proposals.

VI. POLITICAL SITUATION

King Faisal's hold on the royal family and on the country remains apparently unchallenged. His efforts to strengthen the administration and spur development are slowly finding a response. Over the past year his main problems have been external. The 1965 agreement with the UAR for a settlement of the Yemen war has not been implemented and has given way to renewed tension between both countries. Faisal's attempts to oppose Nasser and his socialism by closer Islamic ties have been unsuccessful. While Saudi Arabia does not carry the weight to balance Nasser's influence in the Arab world, it is making progress in the Arabian peninsula. Most Sheikdoms of the Gulf and of the Trucial Coast have adopted the Saudi Riyal as currency following the Indian devaluation. Saudi influence in the peninsula will not be truly tested, however, until Aden, where the Yemeni confrontation is likely to be repeated, becomes independent.

VII. ECONOMIC SITUATION

Population, 1964: various estimates ranging from 3.2 to 6.6 million;

Per capita GNP, 1965 (rough estimate): \$150-300 depending on population estimates;

Foreign assets (end 1965): \$756 million (net).

Oil production is developing very satisfactorily and in 1965 output was 11.1% higher than in 1964 (average since 1958 10.4% per annum). Revenues from the oil sector (\$580 million in 1965) may be expected to continue to rise.

The Government is still in the process of converting the country's feudal structure into a modern framework in order to use the oil revenues more effectively, especially to promote the large areas where nomadic life and subsistence economy are still predominant. In that connection the planning institution was reorganized and extended early last year but its first task, a report on Saudi Arabia's resources and needs, due late 1965, has not yet been completed. Data on population and income are almost nonexistent.

Central Government development expenditures roughly amount to 20% of revenues or to well over \$100 million per year. In addition sizeable investments are made by the state-owned General Petroleum and Mineral Organization (Petromin) which recently awarded a \$7 million contract for the construction of its refinery in Jeddah. The development of agriculture has a high priority and development expenditures in this sector increased from \$8 million in 1963 to an expected outlay of over \$35 million this year. Good communications are essential to the country and require substantial investments. The construction of a midget steel mill is contemplated. No data on private savings and investment are available.

Repayment of outstanding public debt was completed in 1962. Saudi Arabia is undoubtedly creditworthy for Bank loans, but domestic resources are more than adequate. Recently it started on a modest scale to give assistance to friendly Arab states, notably to Jordan, with whom a \$14 million agreement was recently concluded in addition to substantial aid given previously. Although Saudi Arabia does not need financial aid, it is short of almost all kinds of skill. Various technical assistance projects are being executed or studied.

South Africa

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BRIEFING PAPER - 1966

SOUTH AFRICA

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

G. Rissik
Alternate Governor of Bank

Governor, South African
Reserve Bank

G. W. G. Browne
Alternate Governor of Fund

Secretary for Finance

Advisers:

A. M. de Villiers

Alternate Executive Director
of Fund

III. BANK/IDA PROSPECTIVE OPERATIONS

A loan of \$20 million to the Electricity Supply Commission was approved by the Executive Directors on July 28 and signed on September , 1966. No further operations are being considered by the Bank at this time.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

On September 2, 1966, we wrote to Mr. O'Donnell about the release of the 9% portion (\$1,197,000) of the recent increase in South Africa's capital subscription to the Bank and indicated that we would raise this matter at the Annual Meeting.

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

None.

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

Release of 9% portion of recent increase in Bank capital subscription (see IV (a) above).

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966 ^{1/}

	(US \$ Millions)	
	Amount less Cancellations	Undisbursed Balance
Loans fully disbursed	221.8	--
of which has been repaid	<u>174.7</u>	
Total outstanding	47.1	
Amount sold	138.9	
of which has been repaid	<u>119.1</u>	<u>19.8</u>
Net amount held by Bank	<u>27.3</u>	

^{1/} Not included: Loan of \$20 million to Electricity Supply Commission (signed September 8 but not yet effective)

(b) IDA Credits as of August 31, 1966

None

(c) Technical Assistance Activities

None

(d) Access to Private Capital Markets

After the decline in previous years, there has been an increasing inflow of private capital in 1965 and the first half of 1966. In October 1965, the Electricity Supply Commission, an autonomous statutory corporation, made an issue of DM 50 million 6-1/2% 15-year bonds in Germany. South Africa is subject to the U.S. Interest Equalization Tax.

(e) Bank 9% Capital Subscription

Amount: \$19.20 million of which \$18 million released, convertible into dollars and sterling. For release of the balance see IV (a) above.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$ 4.00 million

(h) I.F.C.

I.F.C. has no investments in South Africa and there are no applications.

(i) S.I.D.

No interest shown so far.

VI. POLITICAL SITUATION

At the General Election held on March 30, the ruling National Party was returned to power with the largest majority in South Africa's history and now holds 126 out of a total of 166 seats in Parliament. Opposition political movements among non-whites continue to be firmly suppressed, but the Government is gradually implementing its plan to give increasing autonomy to African authorities in the African "homelands." It is also providing improved services and economic opportunities for other racial groups, though as far as possible on a segregated basis.

On July 18, 1966 the International Court dismissed the case brought by Liberia and Ethiopia against South Africa on the grounds that the plaintiffs had no legal standing in the case. Although this decision has perhaps reduced the chances of sanctions being taken against South Africa by the major powers, this must still be regarded as a possibility in the longer term.

VII. ECONOMIC SITUATION

Population:	18 million - of which:	Whites	3.5 million
GNP per capita:	\$600	African	12.2 million
		Other	2.3 million

GNP per capita: \$600

Gold and Foreign Exchange Reserves (June 1966): \$763 million

The growth of the economy slowed in 1965. Real output grew by 5%, compared with over 7% in each of the three preceding years. Despite restrictive credit measures and a tightening of import control, imports rose by 14% while exports were hard hit by drought, the most severe in living memory. The adverse balance on current account at \$380 million was more than five times greater than in 1964. However, a substantial inflow of foreign capital, about half of it short-term, moderated the decline in foreign exchange reserves which fell by 17% to \$578 million during 1965. The inflow of capital continued, though at a slower pace, in the first half of 1966, and as the impact of the credit restrictions spread and investment expenditures declined, imports fell and a small surplus on the current account of the balance of payments emerged. Foreign exchange reserves rose by 32% during this period and with \$763 million at the end of June were practically restored to the level before the decline in 1964 and 1965.

The restrictive measures so far taken have not yet moderated the rise in prices and costs, particularly serious for the gold-mining industry. To reinforce the previous measures, Bank rate was raised from 5% to 6% in July, 1966 and other interest rates were also increased. To reduce the pressure of demand on local resources, some import controls are also being relaxed. The Budget, presented in August for the year 1966/67, imposed a wide range of new taxes, and envisages a surplus, albeit small, on current account. The capital budget envisages a substantial rise in domestic borrowing to finance higher spending. Interest rates on government bonds have been increased.

Given the serious efforts of the authorities to re-establish a better balance between overall supply and demand, the prospects for the continued growth of the economy are good. Gold production will continue to rise, though more slowly than in the past, and prospects for merchandise exports are favorable. Investment is expected to continue at a level in excess of 20% of GDP. Domestic savings are such that South Africa will need to rely on foreign capital only to a very limited extent. The ratio of service payments on South Africa's external public debt to 1965 foreign exchange earnings is less than 5% in 1966 and less than 2% in 1970.

Spain

BRIEFING PAPER - 1966

SPAIN

I. MEETING WITH DELEGATION

No meeting scheduled with Management. (Meeting with Bank staff to be arranged.)

II. MEMBERS OF DELEGATION

Mariano Navarro Rubio
Alternate Governor of Bank

Governor, Banco de Espana

Manuel Varela
Alternate Governor of Fund

General Technical Secretary,
Ministry of Commerce

Advisers

Joaquin Gutierrez Cano
Jose Ramon Herrero Fontana

Executive Director
Under Secretary of Treasury,
Ministry of Finance

Manuel Aguilar

Director General of the Treasury,
Ministry of Finance

Francisco Gimenez Torres
Manuel Ortinez

Vice Governor, Banco de Espana
Director General, Instituto
Espanol de Moneda Extranjera

Gabriel Fernandez de
Valderrama

Head, Office of External Financing,
Ministry of Finance

Enrique Manzanares

Head, Technical Cabinet, Ministry
of Commerce

Angel Madronero

Head, Research Department, Banco
de Espana

Juan Sarda Dexeus

Economic Adviser of the Governor,
Banco de Espana

Agustin Alcocer

Head, Technical Cabinet, Banco de
Espana

Luis Maranon

Secretary to the Minister of Commerce

III. BANK/IDA PROSPECTIVE OPERATIONS

Cooperation under the three existing loan agreements is good, and disbursements have increased satisfactorily. The report of the joint Bank/FAO agricultural study mission was discussed in Madrid earlier in September. Lending for agriculture is not likely before 1968 (see IV).

Mr. Woods' letter of July 28, 1966 (attached) in response to the letter from the Minister of Finance of July 12, 1966, promised a discussion at the Annual Meeting of lending to RENFE and of the general scope and direction of Bank lending in Spain. However, owing to an important cabinet meeting on economic problems to be held on September 27, the Minister of Finance will not attend the Annual Meeting.

Problems relate to two loan operations scheduled for 1966: the second RENFE project which will carry over into 1967 and the East Coast Autopista which we plan to drop (IV (b) 4).

The Bank has been approached by several international mining groups concerning participation in a \$200 million phosphate project in the Spanish Sahara. We have said that Bank financing is unlikely because: we are already heavily committed in Spain; no government guarantee is planned; as the Sahara is a Spanish province, we would not be bearing political risks on behalf of private investors, a service which we have performed in independent African countries.

The Barcelona Traction case drags on before the International Court. November 30, 1966 is the date by which Belgium must present its argument and April 30, 1967 is the deadline for Spain's response. In July 1964, after rejecting Spain's preliminary argument that it lacked jurisdiction, the Court established a schedule for the two statements which was subsequently extended to 1967 at Spain's request.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff

None.

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

The framework of Bank operations in Spain has changed drastically since 1965 when we envisaged lending Spain \$300 million over the four years 1966-69. We are making no loans in 1966. The Spaniards need to be assured that we hope to continue lending

to them, but they must see that, given the claims on our resources and the conditions of world capital markets, countries as developed as Spain cannot expect as ready access to Bank funds as in the past. We wish to confine our lending to the railway program (with loans in 1967 and perhaps 1969), with the possibility of agricultural lending in 1968/69.

At the last Annual Meeting, we pressed Spain to go on the international market before the 1966 Meeting. We should not continue to insist on this for the same reason as we have to reduce our own lending to Spain - the situation of the world capital markets.

1. Release of 9% Bank and 90% IDA Subscriptions

In his letter to Mr. Woods of February 18th (confirming release of the 9% additional subscription to Bank capital in five annual instalments), the Minister of Finance said he was considering the release of the 90% IDA contribution proposed by Mr. Woods in January. We have had no further news and should suggest a release of the \$9.1 million over five years, as is being done by Ireland, Israel, Jordan, etc.

The last release of \$3.6 million of the initial Bank 9% subscription (\$18 million) is being made on October 1, 1966. The Minister has still to fix a date for the first of the five annual instalments in which the additional 9% Bank subscription of \$6 million is to be released. Combined release of this subscription and of the 90% IDA capital would entail a slightly smaller payment each year than the initial Bank 9% release.

2. Market Eligibility

During the June 1966 appraisal mission, Spain was told that a second RENFE loan would be at the Bank's standard rate of interest. Further lending is not envisaged before 1968 and the Spaniards should be told that given the stage of development Spain has now reached, future lending is likely to be at market eligible rates.

3. Fiscal Policy

The report of the Spring 1966 economic mission will not be ready until October, but the mission is critical of Spain's fiscal performance. The tax burden is only 11-12% of GNP and the budget cannot finance Spain's development on this basis. While increased tax rates would be helpful, the first step is to improve administration of existing laws which would increase revenues appreciably. Moreover, the Government's large issues of investment bonds are being financed in large part by the commercial banks in an inflationary manner.

4. Autopista

We have many misgivings regarding the project and the delegation should be told that we are not prepared to give it further consideration. The project drags on since 1962. Bids from concessionaires to operate the private toll authority and to organize construction are to be submitted to the Government by October 31, 1966. We have doubts regarding the financial structure of the proposed authority (e.g. low equity ratio), the terms of the concession as advertized by the Government, and the role of Government in determination of tolls, maintenance standards, etc.

(c) Topics likely to be raised by Delegation

/ Future Lending - RENFE

As indicated in the July 12th letter from the Minister of Finance, the Delegation will refer to the Bank's position that the second RENFE loan be limited to \$50 million and that the Bank has no commitment to provide \$200 million for the 10-year railway plan. Both RENFE and the Minister are asking a loan of \$80 million toward the \$400 million needed for the next three years of the railway program. Moreover, they regard the second loan as being part of a 3-stage lending to total \$200 million, beginning with the \$65 million loan of July 1964. They regard the Bank as having undertaken a "gentlemen's agreement" to this effect at the time of the first loan. Appraisal of the second stage of RENFE cannot be completed until we have received a revision of the plan and related financial estimates and discussed them with Spain. We hope to have negotiations in December or January. We take the position that: (1) we have no binding commitment to provide \$200 million; (2) given the circumstances of the Bank's current operations, \$50 million is what we can now provide for RENFE; (3) we would be prepared to review the RENFE program again in about two years with a view to making a further loan.

2. Agriculture

The Delegation will probably refer to the September discussions in Madrid on the agricultural report. They may ask about Bank lending for agriculture. The report emphasized the need to change the pattern of production through expanding livestock and dairying activities. There is ample scope for investment in pasture improvement; the mission estimates that a program of \$75 to \$100 million should be carried out over the next few years. We could participate in this, provided adequate changes were made in agricultural policies (irrigation, marketing, government institutions affecting agriculture) and provided the Agricultural Credit Bank were made into a suitable vehicle for lending. We are, however, quite some distance from lending; preliminary discussions and project preparations would take us well into 1967/68 before a loan could be negotiated.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

(U. S. \$ million)				
Year	Borrower	Purpose	Amount	Undisbursed Balance
1963	Spain	Roads	33.0	28.4
1964	RENFE	Railways	65.0	44.1
1965	Spain	Ports	40.0	34.9
			<u>138.0</u>	<u>107.4</u>
Amount sold			<u>2.8</u>	
Net amount held by Bank			<u>135.2</u>	

Disbursements under the three loans have totalled \$26 million since the last Annual Meeting; they should be between \$40-50 million this fiscal year. Performance under 360-SP (roads) has been disappointing: procedures for bid adjudication have been slow. However, adjudications are now virtually complete and project execution has improved notably. The project now appears to be only three months behind its schedule and may still keep to its closing date of June, 1968. Disbursements under 387-SP (RENFE) are well behind our 1964 estimates: implementing the numerous conditions of effectiveness required several months and orders were not placed for Bank-financed equipment until about nine months after signing; some Spanish suppliers have failed to meet delivery schedules, particularly in rolling stock which comprises 60% of the Bank loan. Over 90% of contracts to be financed by the Bank

have now been placed and we estimate that the closing date will have to be extended by about a year from June 30, 1967. The ports loan is proceeding well.

(b) IDA Credits as of July 31, 1966

None.

(c) Technical Assistance Activities

Bank/FAO agricultural report being prepared for final submission to Government, following discussions on draft early in September (see IV (c)).

(d) Access to Private Capital Markets

No issues in recent years (see IV (b)).

(e) 9% Bank Capital Subscription

Original \$18 million fully released, last of five instalments being made on October 1, 1966.

Spain has agreed to similar release of additional 9% capital, but has still to set date for first instalment.

(f) IDA

Part II country. 90% subscription = \$9.08 million. Release of 90% local currency subscription still being considered by Government (see IV (b)).

(g) Holdings of World Bank Bonds

\$23.08 million.

(h) IFC

\$3.4 million. FEMSA (Automotive Electrical Equipment).
\$0.6 million. BANDESCO (Development Bank).

In September 1966, IFC exercised its option (\$150,000) in a capital increase by FEMSA. Otherwise, there have been no investments since 1964. Proposal from Catalan Development Bank has been dropped. Vivaldi iron ore project (\$2.25 million equity) still under consideration.

(i) Settlement of Investment Disputes

No action taken. Implications for competence of domestic courts being studied. Signature expected, but not for several months.

VI. POLITICAL SITUATION

Spain's dictatorship is in its 8th year of liberalizing the economy. Other forms of liberalization have been slower to materialize; however, strikers are no longer jailed if they act from economic motives alone; press censorship has been relaxed; religious freedom is due before the end of 1966. On the other hand, outspoken students and clergy have been subjected to both censorship and violence.

The central question is the form of government which will succeed Franco. There is a variety of contending forces within and outside the regime. Probably all except the extreme left will be represented in a government which has a king as head of state and a prime minister presiding over a cabinet determined by the relative strength of the various factions at the time succession occurs.

Protracted discussions with the EEC are continuing. Spain hopes that the next year will bring a decision allowing association and eventual membership. Acceptance by the EEC is likely, but may take somewhat longer than Spain expects.

VII. ECONOMIC SITUATION

Population: 32 million
GNP per capita: \$690
Foreign Reserves (July 1966): \$1,203 million (including Fund Tranche of \$166 million)

After five consecutive years of rapid economic growth, the Government now faces the urgent need to reduce pressure on prices and on foreign reserves. Despite the cabinet decisions of December 1965 and thereafter, further measures of economic stabilization have still to be taken. A new set of measures will be decided on by the cabinet at its special meeting on September 27. Wage increases are exceeding the 8% limit set by the Government. The intention to stabilize public investment and consumption expenditures has not materialized: public expenditures during January-May 1966 were 16% above the same period of 1965. Imports are up 33%; reserves declined \$260 million between mid-1965 and mid-1966. While the rise in prices is slower than in 1965 (13% for the cost of living for the whole year), the increase in imports and government expenditures must be curtailed.

External public debt is low. At the end of 1965 it amounted to \$415 million: debt service absorbed about 2.5% of current receipts.

July 28, 1966

The Honorable
Sr. D. Juan Jose Espinosa San Martin
Ministro de Hacienda
Ministerio de Hacienda
Alcala 11
Madrid 14
Spain

Dear Mr. Minister:

I appreciate your writing to me on July 12, 1966 concerning the recent visit of the Bank mission in connection with the proposed second loan for RENFE's Modernisation Plan.

The mission is preparing its findings and has already reported the progress made by RENFE during the first three years of its Plan. I believe that RENFE is one of the most important and successful undertakings which the Bank has helped to finance and we wish to continue our association with it to the extent possible. As you know, we cannot gain a full picture until we have studied RENFE's draft proposals on the revised investment plan and financial estimates for 1966-73 and discussed them with officials of your Ministry and of the other government authorities concerned.

I need hardly remind you of the changed conditions in the last year or so in world capital markets. Money is more difficult to raise and is more expensive while the needs of our less developed members are increasing. Accordingly, we are unable to help our more developed member countries as fully as we would wish. In these circumstances it is most important that these countries exert the maximum effort through their economic policies to mobilise domestic savings, and make their fiscal systems more effective. I should like to touch on this subject when next we meet.

I agree fully with your suggestion that we discuss RENFE during your visit to Washington for the Annual Meeting in September. Our meeting would also provide an opportunity to review the economic prospects in Spain and the general scale and direction of our lending.

With best wishes, Mr. Minister, I am,

Yours sincerely,

George D. Woods

cc: Mr. Knapp
Mr. Baum
Mr. Cancio
Mr. Gavin
Mr. Loven
Mr. McCunniff
Mr. Puzar
Mr. Thompson/van der Mel

Sr. Gutierrez Cano

SR: Cope: by
I.B.R.D.

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BRIEFING PAPER - 1966

SWEDEN

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

G. E. Straeng
Governor (Bank)

Minister of Finance

Gunnar Lange
Alternate Governor (Bank)

Minister of Commerce

Per Asbrink
Governor (Fund)

Governor, Sveriges Riksbank

Sven Joge
Alternate Governor (Fund)

Deputy Governor, Sveriges Riksbank

Advisers:

Kurt Eklof

Executive Director (Fund)

Krister Wickman

Under-Secretary of State, Ministry
of Finance

Hans O. Lundstroem

Head of Department, Ministry of
Finance

Lennart Nilsson

Attache, Swedish Embassy

III. BANK/IDA PROSPECTIVE OPERATIONS

None.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None.

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

None.

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

None.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

None.

(c) Technical Assistance Activities

None.

(d) Access to Private Capital Markets

During 1965 the Swedish Government, in contrast to previous years, allowed raising of funds abroad, presumably because of the tightening of the domestic capital market and the strong deterioration of the current account in the balance of payments. The total amount of long term funds raised abroad was \$71.2 million during 1965 (see Annex).

Sweden is subject to the U.S. Interest Equalization Tax.

Bankers: U.S.A.

First Boston Corp.
White, Weld & Co.

Europe

Hambros Bank, Ltd.
Stockholms Enskelda
Kredietbank Luxembourgeoise

(e) Bank 9% Capital Subscription

Amount \$21.60 million. Fully released, convertible into any currency.

(f) IDA Subscription

Part I member.	Original subscription	\$10.09 million
	Supplementary resources	<u>\$38.14 million</u>
	Total	<u>\$48.23 million</u>

(g) Holding of Bank Bonds

\$3.90 million

(h) I. F. C.

Not considered appropriate for IFC financing.

(i) Settlement of Investment Disputes

The convention on the Settlement of Investment Disputes was signed on September 25, 1965, and ratification procedures have been initiated.

VI. POLITICAL SITUATION

The last general elections were held in September 1964 and showed a slight reduction in the popular vote for the ruling Social Democrats who have now been in power for over 30 years. The Social Democratic Government under Tage Erlander, who has been in office since 1946, continued to be able to count on sufficient support from other parties to maintain itself in power.

VII. ECONOMIC SITUATION

Population (1965): 7.73 million;

GNP per capita (1965): \$2,507;

Gold and Foreign Exchange Assets of Sveriges Riksbank
June 1966: \$1,043 million;

Imports (c.i.f.) (1965): \$4,381 million.

In 1965 real GNP rose by only 4% compared to 7% in the previous year. As the increase in production had been lagging behind the rapidly expanding demand, primarily as a result of labor shortage, prices increased and a sizeable current account deficit in the balance of payments emerged (\$650 million compared with a surplus

of \$150 million in 1964). The consumer price index in mid November 1965 was 5 $\frac{1}{2}$ % higher than a year ago. Whereas the up-swing in demand since early 1963 was originally led by exports, in 1965 exports rose much more slowly and private plant and equipment outlays began to accelerate after several years of relative stagnation and public expenditures also remained high.

Various monetary and fiscal measures were adopted to curb the inflationary pressures and to improve the balance of payments. In April 1965 the Riksbank raised its discount rate from 5 to 5 $\frac{1}{2}$ % p.a., the highest discount rate in Sweden since 1930. In mid 1965 the general sales tax was raised from 6 to 10%. The effectiveness of these and other measures are threatened, however, by new wage increases. For instance, as a result of an agreement reached in April 1966 between the Swedish Employers' Confederation and the Confederation of Trade Unions, industrial labor cost are estimated to increase by 8.4% in 1966 and about 9% in 1967.

Foreign exchange reserves at the end of 1965 were about the same as a year earlier because the large current account deficit registered during 1965 in the balance of payments was largely offset by an inflow of capital (mainly short term).

ANNEXSWEDENCapital MarketSwedish Bond Issues Abroad

	<u>Month</u>	<u>Amount</u>	<u>Interest</u>	<u>Price of Issue</u>	<u>Maturity</u>
				<u>January - December 1965</u>	
Swedish-Lamce Syndicate	May	£4.0 million	5 3/4%	96 ³ / ₄	1965-1988
Allmanna Svenska Elektriska Aktiebolaget	June	\$15 million	6%	97	1965-1980
Kockums Mekaniska Verkstads Aktiebolaget	Sept.	\$15 million	6%	99 ¹ / ₄	1965-1980
Eriksberg Mekaniska Verkstads Aktiebolaget	Oct.	\$15 million	6%	99 ¹ / ₄	1965-1980
Aktiebolaget Göta-verken	Nov.	\$15 million	6%	99	1965-1980
<hr/>					
Total \$71.2 million					
				<u>January - March 1966</u>	
Telefonaktiebolaget L. M. Ericsson	March	\$ 20 million	6 ¹ / ₂ %	97 ¹ / ₄	1966-1986

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BRIEFING PAPER - 1966

SYRIAN ARAB REPUBLIC

I. MEETING WITH DELEGATION

Meeting with staff to be arranged if the Delegation asks for one.

II. MEMBERS OF DELEGATION

Mouaffaq Shourbagi
Governor (Bank)

Minister of Finance

Abdul Hadi Nehlawi
Alternate Governor (Bank)

Secretary General
Ministry of Finance

Ahmad Mourad
Governor (Fund)

Minister of Economy

Adnan Farra
Alternate Governor (Fund)

Governor, Banque
Centrale de Syrie

III. BANK/IDA PROSPECTIVE OPERATIONS

During the last two annual meetings the delegation discussed possible Bank and IDA financing for additional projects. We said that we would need first to send an economic mission and asked that a copy of the Plan be sent to us, or if it was not finally adopted, that we be so informed in order to organize the mission accordingly. The Minister of Planning wrote Mr. Woods last June to indicate that the Plan "is now ready and awaiting final approval" and to invite the Bank to send a mission to study the possibilities of financing some of the main projects contained in the Second Five-Year Plan. Mr. Woods replied on July 6, 1966, that we welcomed this invitation and that we would be ready, as a first step, to send a mission to review the economic developments which have taken place since the 1963 economic report. In order to plan the composition and terms of reference of such a mission he requested that a copy of the Plan with a translation or summary be sent to the Bank. We have not received these documents so far.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

- (i) Disbursements under the road project are negligible three years after the credit was signed. It is expected that the corrective steps taken since last year will result before next spring in the award of construction contracts permitting the disbursement of a large part of the credit before the closing date of December 31, 1968. We should ask the delegation to urge the Minister of Communications to prevent further delays.
- (ii) We should ask for release of the \$3 million of the initial Bank 9%.
- (iii) We should repeat our request of May 17, 1966 to Dr. Adnan Farra, Governor of the Central Bank, for external debt data.

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

See (a) above.

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

- (i) Further lending. The delegation may want to discuss prospects for further Bank/IDA lending (see III above). We should reiterate our willingness to review the new five-year plan as soon as the documentation we have requested is received and, subject to our findings, to consider thereafter projects for financing by the Bank group.
- (ii) Road project. The financing of the expected overruns for the road project may also be raised. We have taken the line so far that this problem cannot be usefully discussed until the cost estimates have been firmed up and the priority of the road sections to be constructed has been determined. The IDA project included the rehabilitation of a road section which is now to be flooded by the proposed Tabqa dam; we intend to discuss whether that section should be retained in the IDA project.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

None.

(b) IDA Credits as of August 31, 1966

Date	Purpose	(US \$ Millions)	
		Amount less Cancellations	Undisbursed Balance
12/24/1963	Highway improvement	8.5	8.2

(c) Technical Assistance Activities

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

(d) Access to Private Capital Markets

Very limited owing to political instability and marginal creditworthiness.

(e) Bank 9% Capital Subscription

9% initial subscription (\$3 million) and recent increase (\$0.6 million) have not been released. Se IV (a) (ii).

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

Nil. No subscription to the new bond issue

(h) I. F. C.

I. F. C. has no existing investments, no active applications, and prospects for future activity appear limited.

(i) S. I. D.

No reaction to the Bank's proposal.

VI. POLITICAL SITUATION

On February 23 of this year Syria went through the tenth successful coup d'etat since independence. The Government of General Hafez was overthrown as a result of dissensions between the pan-Arab command of the Baath party, which he headed, and the Syrian command of the party. The latter disagreed with many of the stands taken by the predominantly civilian cabinet put in office by Hafez two months before. The Army, where the numerous officers belonging to religious minorities had ensured the Baath's control since 1963, split again in warring factions.

The endless divisive process of Syrian politics is not likely to end with a government as narrow-based as the present one. The prestige gained from the agreement with the USSR for the financing of the Euphrates dam as well as improved relations with the UAR may, however, extend its life. In any event, Syria has learnt to live with political instability and to offset it in part by continuity in development policies under changing facades.

VII. ECONOMIC SITUATION

Population, 1966 (est.): 5.7 million;

Per capita GNP, 1964: \$175;

Foreign assets of the Central Bank (end 1965): \$38 million;

Foreign liabilities of the Central Bank (end 1965): \$51 million.

Two major projects presently dominate the development effort in Syria. The first is the construction of the Tabqa dam on the Euphrates for irrigation and power generation. The government obtained earlier this year from the USSR a loan of Rubles 120 million (\$132 million) for the financing of the project. The severance of diplomatic relations with West Germany in 1965 resulted in a de facto cancellation of the previous DM 350 million (\$88 million) loan. Secondly, Syria is engaged in the development of its recently discovered oil resources, which requires substantial additional drilling, the building of a 400-mile pipeline and the extension of the existing refinery. By 1970 Syria may be self-supporting in petroleum products but - barring new discoveries - is unlikely to export on a significant scale. In addition to the above-mentioned projects the ambitious 1966-70 Plan, involving outlays in the order of \$1250 million, puts the emphasis on agriculture, transportation and, to an extent which has more political than economic justification, "social development".

For its trade and development Syria maintains close ties with socialist countries. Most recent major development projects are being constructed with the help of socialist countries. Assistance such as that from the U.K. (lately replaced by Italy) for the construction of the oil pipeline and from France for the Damascus Airport and for the interconnection of the power grid, have nevertheless kept the door open for Western countries.

The economy has grown over the past decade at a rate of 5% despite political instability and socialist measures. In contrast to Iraq, agrarian reform has not slowed down agricultural expansion, especially as regards cotton which accounts for 60% of total exports. On the other hand, industrial progress has been checked by nationalization.

Syria has a fluctuating but not increasing deficit in the current account of its balance of payments. Though the 1964 nationalizations have entailed a substantial private capital outflow, the successive Governments have so far succeeded in maintaining a relatively stable currency.

Data on external debt are scarce. We have not received any external debt reports so far in spite of repeated reminders. The 1963 Bank economic mission put the amount outstanding at \$365 million but recent borrowings have probably increased substantially this amount. Syria's eligibility for further IDA assistance will require a new assessment of performance and creditworthiness.

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BRIEFING PAPER - 1966

T U R K E Y

I. MEETING WITH DELEGATION

Meeting scheduled: 12:30-1:00 p.m., Saturday, September 24, 1966

Attended by: Mr. Woods
Mr. Knapp

II. MEMBERS OF DELEGATION

Ihsan GURSAN
Governor of Bank and Fund

Minister of Finance

Zeyyat BAYKARA
Alternate Governor of Bank

Undersecretary, Ministry of
Finance

Kemal CANTURK
Alternate Governor of Fund

Director General of the Treasury
and General Secretary of the OIEC

Zeki TOKER

Deputy Chairman, Board of Counsellors
for Economic Affairs
Turkish Embassy

Naim TALU

Acting General Director, Central
Bank of Turkey

Advisers:

Nezih TUNCSIPER

Director of International Invest-
ment Banks Division
Ministry of Finance

Mehmet AKMANSU

Financial Counselor
Turkish Embassy

III. BANK/IDA PROSPECTIVE OPERATIONS

A loan of \$10 million and a credit of \$15 million for the Industrial Development Bank were signed on August 10, 1966. These funds are expected to cover the foreign exchange requirements of TSKB for about one year and a half. No new lending to TSKB in 1966/67 is contemplated.

The IDA agreed in August, 1966, to new administrative arrangements for speeding the execution of the Seyhan Irrigation Project, Stage I, in particular the on-farm development work which has lagged behind schedule. A supervision mission is planned for October, 1966, and, if satisfactory progress has been made with on-farm development, an appraisal of Stage II would be undertaken at that time as a basis for a loan or credit of about \$14 million in the first half of 1967.

The Keban project has been dormant for us while the other lenders have been completing their loan negotiations. An agreement has been reached between the lenders and the Turkish Government on the rate of filling. If all goes well, arrangements will have to be made, probably late in 1967, for financing the remainder of the project, including transmission lines, for which the Bank group has earmarked \$25 million.

The Government asked us last May to consider financing the civil works portion of the Gokcekaya Dam Project. We would have been interested if international competitive bidding were planned to the maximum practical extent for the entire project, including the permanent equipment. As that was not the case, we have heard nothing more.

In transport, we reached agreement in principle with the Government last spring on the scope of measures, including new legislation, for the coordination of various modes of transport and for the reorganization of the railways. We have been awaiting confirmation of this agreement, the text of proposed implementing legislation, and a decision by the Government on its plans for these studies, which we suggested be financed by UNDP (Special Fund). If all goes well, this could lead to a loan or credit to the Railways in 1967 or 1968.

In industrial manufacturing, we are prepared to explore possibilities for Bank or IFC financing of a state economic enterprise, in conjunction with private participation. An IFC mission may visit Turkey later in 1966 to identify a suitable enterprise, possibly in conjunction with a small mission to up-date last year's economic report.

IV. Topics for Discussion

(a) Topics to be raised by staff

Legislation for establishing the Turkish Electric Authority. We had discussions in Washington last June with Turkish authorities on the text of draft legislation and we later sent the Government our written comments and suggested revisions. We have now received the text of the revised legislation and are reviewing it. Final agreement on the draft and approval of the bill by the Parliament would enable our proposed technical assistance to the electric power industry, approved late in 1964, to get under way.

Transport studies. We should like to know the Government's intentions regarding necessary legislation and studies for the coordination of various modes of transport and for the reorganization of the railways (see Section III above).

Bank 9% Capital Subscription. We should also explore the possibility of the Government releasing the Bank 9% capital subscription (\$10.35 million) over five years, in \$2 million annual instalments.

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

None

(c) Topics likely to be raised by the Delegation

Some Government officials may still believe that we have committed ourselves to lend \$50 million in 1966. Since we have lent this year only \$25 million for TSKB (a Bank loan of \$10 million and an IDA credit of \$15 million), they are likely to inquire whether and where we intend to lend the balance of \$25 million. Even if we are able to lend \$14 million for Stage II of the Seyhan Irrigation scheme in the first half of 1967, there would still be a balance of \$11 million.

We have repeatedly stressed that the \$50 million is for "the next year or so" and may run into 1967, and we should discourage any impressions they may have that the Bank is committed to an annual lending rate of \$50 million, with uncommitted balances carried over from one year to another.

Lending possibilities for Bank and IDA for the calendar years 1967 and 1968 include:

Keban Transmission Lines	\$ 25 million
Seyhan Irrigation II	14 "
Railways	20 "
Industry	5 "

We do not need to have further projects ready until 1968.

V. BACKGROUND INFORMATION

(a) Bank loans as of August 31, 1966: (US \$ million)

Year	Borrower	Purpose	Amount less Cancellations	Undisbursed balance
1950	Republic of Turkey	Grain silos	3.9	--
1950	Republic of Turkey	Ports	12.5	--
1950	Industrial Development Bank of Turkey	Industry	8.7	--
1952	Republic of Turkey	Irrigation	22.8	--
1953	Industrial Development Bank of Turkey	Industry	9.0	--
1954 ^{1/}	Republic of Turkey	Ports	3.8	--
1966 ^{1/}	Industrial Development Bank of Turkey	Industry	10.0 ^{1/}	10.0
T o t a l			70.7	10.0
of which has been repaid				31.9
total outstanding				38.8
Amount sold			0.3	
of which has been repaid			0.2	0.1
				38.7
Net amount held by Bank				

^{1/} Loan signed in August, and not yet effective

(b) IDA Credits as of August 31, 1966: (US \$ million)

Year	Borrower	Amount less Cancellations	Undisbursed Balance
1962	Industrial Development Bank of Turkey	5.0	0.1
1963	Cukurova Power Project	1.7	--
1963	Seyhan Irrigation Project	20.0	12.2
1964 <u>1/</u>	Second Cukurova Power Project	24.0 <u>1/</u>	17.0
1965	Industrial Development Bank of Turkey	5.0	0.4
1965	-ditto-	10.0	6.2
1966 <u>2/</u>	-ditto-	<u>15.0</u>	<u>15.0</u>
	Total	80.7	50.9

1/ Arrangements being made to reduce the loan to \$20 million and consequently balance will be reduced accordingly.

2/ Loan signed in August, not yet effective

(c) Technical Assistance Activities

The Executive Directors approved late in 1964 a technical assistance project under which the Bank would pay the foreign exchange costs, estimated to be \$1.95 million over a three-year period, of providing advice and assistance for the reorganization of the power industry in Turkey (See Section IV (a)).

In transport we are discussing with the Government measures and studies required for the coordination of various modes of transport and for the reorganization of the railways to improve their financial position (see Sections III and IV above).

We have suggested that the Government first request UNDP financing for both studies, but if not available the Bank may be requested to help in their financing.

(d) Access to Private Capital Markets

No access at present

(e) Bank 9% Capital Subscription

Amount: \$10.35 million. \$7.74 million released for purchases in Turkey. Nothing has been used.

(f) IDA Subscription

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

(g) Holding of Bank Bonds

None

(h) I.F.C.

In 1963 I.F.C. invested the equivalent of \$917,000 in the share capital of the Industrial Development Bank of Turkey. In July 1966 I.F.C. invested nearly \$1.4 million in loan and share capital for the expansion of a synthetic yarn factory (Sentetik Iplik Fabrikalari A.Ş.). Other investment possibilities are actively explored and, (see Section III above), an IFC mission may visit Turkey later in 1966, probably in conjunction with a Bank mission, in order to explore with the Turkish Government the industrial areas in which likely projects for Bank or I.F.C. financing will be found.

(i) SID

Convention on Settling Investment Disputes has not been signed nor ratified. It does not seem likely that Turkey will sign it in the near future.

VI. POLITICAL SITUATION

The Justice Party, which is the successor of the former Democratic Party of Adnan Menderes, won an absolute majority in the 1965 elections. It has formed a single party government, providing greater stability than the coalitions in previous years. Popular support of the Justice Party was confirmed again in recent elections for the Senate. Parliament has, however, performed less well than hoped for. Controversial legislation on the election system and amnesty for Democrats jailed by the Revolutionary Government in 1960, and other matters have preoccupied the Government to the detriment of essential economic reforms and development policies. Moreover, the military are still a powerful

political force in the background which must be accommodated.

Since the Cyprus crisis, a strong nationalist spirit, often with anti-American overtones, and sensitivity to any real and imaginary interference by foreigners and international organizations is spreading. In foreign relations, this has been accompanied by a turn to neutralism and rapprochement with the Soviet bloc, which has offered some \$200 million in assistance for industrial projects. Turkey is nevertheless still firmly committed to NATO.

VII. ECONOMIC SITUATION

Population (1965)	31.4 million
GNP rate of growth (1965)	5.0%
GNP per capita (1965)	\$250
Gold and foreign exchange reserves (July 1966) (includes inconvertible currencies)	\$127 million
Imports (C.I.F.) 1965	\$577 million

1966 promises to be a record year, with total production expected to increase more than 8% as a result of an excellent harvest and a big spurt in investment, especially in the private sector. These gains are partly attributable to favorable weather, but they also reflect a political climate more favorable to the farmer and the private business sector alike. They may also indicate that the stepped-up development effort during the past three years is beginning to pay off.

After two years of stability, prices started rising in the second half of 1965. Meanwhile, measures have been taken to curb the expansion of bank credit, but it is too early to determine whether price stability has been fully restored. Moreover, the big increase in farm production and income this summer carries with it a real risk of over-spending and further price increases later in the year.

The balance of payments closed in 1965 with a modest deficit in current account: \$75 million. However, imports during the first five months of this year were 28% higher than in the same period last year, mainly as a result of larger imports of investment goods. Although exports show an increase of 14.4%, the trade deficit was about \$87 million, in comparison with \$49 million last year. Despite considerable assistance from the Consortium, the increase in the deficit caused a decline in the net reserves in convertible currencies, from \$90 million last February to \$43 million in July ^{1/}. The prospects are, however, that this fall is temporary and that a larger inflow of

^{1/} The main difference between the \$43 million net reserves in convertible currencies and the \$127 million gold and foreign exchange reserves in the table above is represented by foreign inconvertible currencies which are included in the latter and excluded in the former.

Consortium aid, together with rising exports and remittances from Turkish workers abroad will allow an increase in reserves during the second half of the year, perhaps to their level a year ago.

The present debt service is still high, corresponding to about 20% of the gross foreign exchange earnings. Turkey's creditworthiness for Bank loans is still limited, though probably improving. Much will depend, however, on continued assistance from the Consortium at concessionary terms and on the shape of the Second Five Year Plan (1968-1972), now under preparation. The Government intends to hold a colloquium on the outline of the Second Plan for the members of the Consortium in the fall, which we plan to attend. We are also planning to send a small economic mission in October, to up-date last year's report of the mission headed by Mr. Demuth.

The earthquake in the eastern part of Turkey on August 21, caused considerable destruction and the loss of over 2,000 lives. The Government may ask us to speed up our lending but it is unlikely that we shall be able to do more than outlined in Section IV (c) because of the lack of ready projects.

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Arab Republic

United Kingdom

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BRIEFING PAPER - 1966

UNITED KINGDOM

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

L.K. O'Brien Governor of Bank	Governor, Bank of England
Sir Denis Rickett, K.C.M.G., C.B. Alternate Governor of Bank	Second Secretary of the Treasury
J. M. Stevens, D.S.O., O.B.E., T.D. Alternate Governor of Bank	Executive Director of Bank and Fund

The Rt. Hon. James Callaghan, M.P. Governor of Fund	Chancellor of the Exchequer
C. J. Morse Alternate Governor of Fund	Executive Director, Bank of England

Advisers:

R.E. Radford	Alternate Executive Director of Bank
P.R. Baldwin	Principal Private Secretary to the Chancellor, H. M. Treasury
R.R. Neild	Economic Adviser to H. M. Treasury
L.P. Thompson-McCausland	H. M. Treasury
D.F. Hubback	H. M. Treasury
C. Raphael, C.B.E.	Head of Information Division, H. M. Treasury
P. Jay	H. M. Treasury
Sir Alan Dudley, K.B.E., C.M.G.	Deputy Secretary of the Ministry, Ministry of Overseas Development
F. L. Hall	Private Secretary to Governor, Bank of England
J. A. Kirbyshire	Bank of England

III. BANK/IDA PROSPECTIVE OPERATIONS

An IDA credit of \$4.1 million was made to Basutoland in February. The Government of Basutoland, with the support of the U.K. Government, has asked for a mission to review the proposals for a development program made by a recent U.K. mission. A second loan of about \$2.5 million to the Swaziland Electricity Board will probably be made towards the end of 1966. Bechuanaland has indicated that it would like IDA to consider an irrigation project and a scheme for tubewell drilling for cattle raising but has so far sent no information. Mauritius has submitted a report on an irrigation project for preliminary review. We have asked the U.K. Government for its views on the scheme. FAO/Bank project identification missions to Fiji earlier this year recommended assistance for a land settlement and farm development project. A detailed application by Fiji is expected shortly.

IV. TOPICS FOR DISCUSSION

(a) Topics to be raised by Staff:

None

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

None.

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

No indication.

V. BACKGROUND INFORMATION

(a) Bank Loans as of August 31, 1966

(US \$ Million)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
	Loans fully disbursed		224.7	--
1961	Kenya	Land Settlement	8.4	7.3
1961	Trinidad	Electric Power	23.5	5.4
1963	Singapore	Electric Power	15.0	3.1
1963	Malta	Electric Power	7.5	2.5
1964	Central Africa Power Corp.	Electric Power	<u>7.7</u>	<u>0.8</u>
		Total	286.8	19.1
	of which has been repaid		<u>58.6</u>	
	Total outstanding		228.2	
	Amount sold		161.8	
	of which has been repaid		<u>55.5</u>	<u>106.3</u>
	Net amount held by Bank		<u>121.9</u>	

(b) IDA Credits as of August 31, 1966

(US \$ Million)				
Year	Borrower	Purpose	Amount less Cancellations	Undisbursed Balance
1962	Swaziland	Roads	2.8	--
1964	Bechuanaland	Roads	3.6	1.6
1966	Basutoland	Roads	<u>4.1</u>	<u>4.1</u>
	Total		<u>10.5</u>	<u>5.7</u>

(c) Technical Assistance Activities

We have been asked to send a mission to Basutoland to review a development program proposed by a recent U.K. mission. (See part III)

(d) Access to Private Capital Markets

Not applicable. Subject to U.S. Interest Equalization Tax.

(e) Bank 9% Capital Subscription

Amount: \$234 million. Entire amount released and fully convertible.

(f) IDA Subscription

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

(g) Holdings of Bank Bonds

\$53.59 million.

(h) I.F.C.

There are no I.F.C. investments in British dependencies.

(i) S.I.D.

Date of Signature: May 26, 1965
Date of Ratification: ---

VI. POLITICAL SITUATION

Not applicable.

VII. ECONOMIC SITUATION

Population: 54.6 million
GNP per capita: \$1,800
Gold and Foreign Exchange Reserves (May 1966): \$2.4 billion

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September 1, 1966

WBG ARCHIVES

BRIEFING PAPER - 1966

BASUTOLAND
(Lesotho)

I. BANK/IDA PROSPECTIVE OPERATIONS

An IDA credit of \$4.1 million for a road project was made to Basutoland in February. The Government of Basutoland, with the support of the U.K. Government, has asked for a mission to review the proposals for a development program made by a recent U.K. mission. We are planning to send an economic mission in October which in the course of its work would review development proposals.

To qualify for further financial assistance from Bank or IDA, Basutoland would have to become a member after obtaining independence in October 1966.

II. IDA CREDITS AS OF AUGUST 31, 1966

				(US \$ Millions)
Year	Borrower	Purpose	Amount	Undisbursed Balance
1966	Basutoland	Roads	4.1	4.1

III. POLITICAL SITUATION

Basutoland, whose status as a British High Commission Territory was abolished in 1964 in favor of a substantial measure of internal self-government, will become independent as the Republic of Lesotho in October 1966. The National Party, which favors a policy of co-operation with South Africa because of the close economic ties, has only a slim majority over the opposition parties which are more radical in their attitude to South Africa.

IV. ECONOMIC SITUATION

Population: 945,000

GNP per capita: \$60 (tentative)

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

Basutoland, a landlocked country within the Republic of South Africa, is among the poorest countries in Africa. The main economic activities are animal husbandry and agriculture. A large proportion of its cash income is derived from remittances of migrant workers in South Africa; paid employment is mostly limited to Government jobs and a few trading stores in townships. There is no prospect of Basutoland achieving economic viability in the foreseeable future.

Basutoland depends heavily on U.K. grants to finance its current and capital expenditures. In 1965/1966, more than 50 percent of the current budget was financed by the U.K., and this dependence cannot quickly be reduced.

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BRIEFING PAPER - 1966

BECHUANALAND
(Botswana)

I. BANK/IDA PROSPECTIVE OPERATIONS

In a meeting with Mr. Woods last November, Prime Minister Seretse Khama mentioned that Bechuanaland would like IDA to consider an irrigation project on the Shashi river and a project for drilling tubewells for cattle-raising. Mr. Woods pointed out that on a per capita basis Bechuanaland had already received substantial IDA assistance but said that we would examine the reports on the two projects when they were ready. Nothing has been received so far.

II. IDA CREDITS AS OF AUGUST 31, 1966

(US \$ Millions)				
Year	Borrower	Purpose	Amount	Undisbursed Balance
1964	Bechuanaland	Roads	3.6	1.6

III. POLITICAL SITUATION

Bechuanaland, whose status as British High Commission Territory was abolished in 1964 in favor of a substantial measure of internal self-government, will become independent as the Republic of Botswana at the end of September 1966. Because of their close economic ties, the realistic and moderate political leadership of Bechuanaland is fully aware of the need to adopt a policy of cooperation with South Africa.

IV. ECONOMIC SITUATION

Population: 559,000

GNP per capita: \$60 (tentative Government estimate)

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

Bechuanaland covers a large but sparsely populated, semi-desert area. The main economic activities are agriculture and cattle-raising for export, chiefly to South Africa. There is some mining of asbestos

and manganese ore; mineral resources are being surveyed and there are prospects of copper and salt mining. The economy is still at a subsistence level; only about 13,650 people have some form of paid employment, half of them in the government service. There is considerable movement to South Africa (25,000 in 1964) for temporary employment. Following several years of drought, country-wide near-famine conditions have existed since early in 1965.

Bechuanaland will continue to depend on grants from the U.K. to cover a large part of the Government's current expenditures. There is no prospect that this dependence can be quickly reduced.

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September 1, 1966

BRIEFING PAPER - 1966

BRITISH WEST INDIES
(Barbados, Windward and Leeward Islands)

I. BANK/IDA PROSPECTIVE OPERATIONS

In August 1965, officials from Antigua visited the Bank to explore the possibility of lending for a deep-water port at St. Johns. After examination of the feasibility study, we informed Antigua that the project did not justify financing since the direct economic benefits would be limited, resulting in a low rate of return.

A Tripartite Economic Mission appointed by the Canadian, U. K. and U. S. Governments completed recently a survey on the islands, which may form a basis for working out financing requests. It appears that only a project serving all or a number of the islands could provide a suitable basis for lending.

II. POLITICAL SITUATION

Progress towards establishing a federation has been slow and the results are uncertain due to the economic differences among the islands and to conflicting attitudes on the form of federation which have their roots in the narrow outlook of each island's politicians. In the meantime, a proposal of "associated statehood" was made by the U. K. and agreed upon for all islands except Barbados and Montserrat. Under this arrangement, expected to come into force in February, 1967, the U. K. will retain responsibility for defense and external affairs, but the islands as a group or individually will have the right to full independence by holding a referendum without further reference to the U. K. Montserrat is too small for its status to be changed and Barbados, the largest and richest island, is to become independent on November 30, 1966.

III. ECONOMIC SITUATION

Population: 712,000

GNP per capita: \$150-\$340

Foreign Exchange Reserves: n.a.

Physical distances, their small size, widely varying stages of development, and unequal distribution of resources among the islands are severe obstacles to their development. The islands are predominantly agricultural, with sugar and bananas as their main

crops and exports. The heavy dependence on sugar gives the islands an uncertain basis for economic growth. In 1965 the drop in world prices of sugar affected the export earnings of the islands. Earnings from tourism, however, are rapidly growing.

The islands depend on U. K. assistance for their current and capital expenditures and in view of the uncertain prospects for viability, the U. K. has made a general commitment to continue assistance possibly up to 1970. Barbados is the only island which has made several small public issues in London. To improve the administration of assistance, the U. K. established early in 1966 a development division in the Caribbean. The recently completed survey of the Tripartite Economic Mission stresses the importance of tourism for the development of the islands, but emphasizes that sustained growth cannot be achieved without extensive inflow of external private and public capital. It recommends the establishment of a development bank to channel such funds and of other joint administrative and economic institutions.

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September 1, 1966

BRIEFING PAPER - 1966

FIJI

I. BANK/IDA PROSPECTIVE OPERATIONS

A FAO/Bank project identification mission visited Fiji in June 1965 and was followed by a visit of FAO staff in March 1966. Both missions recommended Bank/IDA assistance for a land settlement and farm development project for which the Government is now preparing an application.

II. POLITICAL SITUATION

At the constitutional conference held in July/August 1965, it was agreed that Fiji should move towards a greater measure of internal self-government, on the basis of universal adult suffrage, a majority of elected members in the Legislative Council and the introduction of a ministerial system. Elections are scheduled for September, 1966, and a ministerial system will probably be introduced in 1967. The Governor will retain substantial powers; although he will in general act in accordance with the advice of his ministers, he need not do so. He will retain responsibility for defense, external affairs, internal security and the public service.

III. ECONOMIC SITUATION

Population 470,000
GNP per capita: \$250
Foreign exchange reserves: Currency Board system

Fiji is an archipelago of more than 500 islands with a land area of 7055 square miles. Much of the population, which is concentrated on the two largest islands, still live in a non-monetary, subsistence economy. Per capita income has risen slowly, partly because of the rapid population growth (over 3% per annum). Agriculture is the main source of income, but less than 10% of the cultivable land is under crops. There is some mineral production (gold and manganese ore), but known deposits are mostly small and almost exhausted. Fiji's main exports are sugar, which accounts for more than 60% of exports, coconut products and gold.

Substantial contributions from current revenues have been spent on development. The islands have considerable potential for development, especially in agriculture, forestry and tourism. The development plan for 1964-1968 provided for \$37 million in

capital expenditures, with some 40 percent to be financed with U.K. assistance. A new development plan for 1966-1970 is being prepared with the aim of coordinating and consolidating all sectoral programs.

The external debt of Fiji is small. In 1965 the debt-service ratio was 3.9%. The new 1966-1970 plan envisages a substantially higher level of expenditures than the previous one and Fiji may well look for foreign financing from sources other than the U.K.. Although there seems some scope for Fiji to borrow on conventional terms, this is limited by the heavy dependence on one main export crop.

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WBG ARCHIVES
September 1, 1966BRIEFING PAPER - 1966MAURITIUSI. BANK/IDA PROSPECTIVE OPERATIONS

The Government of Mauritius sent in June a report on the Chamarel Irrigation Scheme and indicated that it intends to apply for IDA assistance in financing the scheme. A visit of an IDA representative was requested to assist in preparing a formal application. Prior to acting on the request, we have asked the U.K. Government for its views on the proposed application. No reply has been received so far.

II. BANK LOANS AS OF AUGUST 31, 1966

(US \$ Millions)				
Year	Borrower	Purpose	Amount	Undisbursed Balance
1963	Mauritius	Electric Power	7.0	--
		of which has been repaid	<u>0.1</u>	
		Total outstanding	6.9	
		Amount sold	5.0	
		of which has been repaid	<u>0.1</u>	<u>4.9</u>
		Net Amount now held by Bank	<u>2.0</u>	

III. POLITICAL SITUATION

Since February 1964, Mauritius has had a limited form of internal self-government. Executive power is in the hands of a Cabinet under a Premier, but the British Governor still retains full powers in respect of the civil service, police and judiciary, external affairs and defense. At a constitutional conference held in September 1965, it was agreed that Mauritius should proceed to the next stage of full internal self-government, and that, after new elections, independence would be granted if requested by a simple majority of the new legislature. A new electoral system was agreed upon in July 1966, and it is expected that elections will be held in March or April 1967. The Labor Party, headed by

the Premier, Dr. Ramgoolam which favors independence, seems likely to win the election. It is therefore probable that Mauritius will become independent before the end of 1967.

IV. ECONOMIC SITUATION

Population: 765,000

GNP per capita: \$200-220

Foreign Exchange Reserves: Currency Board system.

Sugar contributes over 90 percent of Mauritius' exports and nearly one fourth of gross domestic product. With one of the highest population densities in the world, a one-crop economy, and very little unused land, Mauritius faces difficult economic problems, which are compounded by a population growth rate of 3% per annum. Manufacturing is regarded as the principal source of new employment but offers only limited scope since the island lacks industrial raw materials and its geographical position does not favor manufacturing for export. Some employment will result from expanding tea production for export, but the potential is small.

The Government has begun to take measures to diversify the economy to the extent possible through industrialization and better and more varied use of land. Industry is being encouraged by tax concessions and by providing credit through a new government-owned development bank. The development program for 1960-65, emphasizing infrastructure, was extended into 1966 and expenditures will total Rs. 400 million. An economic planning unit is being established to prepare a five-year development plan for 1967-1971. The tourist industry shows encouraging signs of development.

The budgetary position of the government remains satisfactory, with a surplus on current account which is applied to development expenditures.

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September 1, 1966BRIEFING PAPER - 1966SWAZILANDI. BANK/IDA PROSPECTIVE OPERATIONS

A second loan of about \$2.5 million for the expansion program of the Swaziland Electricity Board will probably be presented to the Executive Directors towards the end of 1966.

II. BANK LOANS AS OF AUGUST 31, 1966

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

III. IDA CREDITS AS OF AUGUST 31, 1966

(US \$ Millions)			
Year	Purpose	Amount	Undisbursed Balance
1962	Roads	2.8	--

IV. I.F.C.

In June, a request for assistance in the establishment and financing of a development finance company was forwarded through the U.K. Government. Because of the limited volume of investment opportunities and the type of the prospective operations - mainly a few fairly large projects, - the proposed institution appears not to be the kind which we normally support.

V. POLITICAL SITUATION

Of the three former British High Commission Territories, Swaziland is politically the least advanced. Nevertheless, a major step towards independence will be taken early in 1967,

when on the basis of universal adult suffrage, a Swazi parliament will be elected and a Swazi government formed, under the Paramount Chief who will be recognized by the United Kingdom as King of Swaziland. At the same time, Swaziland will enter into a Protectorate Agreement with the U.K. under which the latter will remain responsible for defense, external affairs, internal security, civil service, and justice. The U.K. is committed to grant independence to Swaziland before the end of 1969.

VI. ECONOMIC SITUATION

Population: 390,000

GNP per capita: less than \$100

Foreign exchange reserves: n.a. (part of the South African monetary area).

Swaziland is the smallest of the three former High Commission Territories, but economically the most advanced. Although the economy is still largely at the stage of subsistence agriculture, there has recently taken place a substantial growth of industry, and mining. Main exports are asbestos, iron ore, citrus fruit, sugar, and forest products. With relatively large foreign investments in mining, forestry and agriculture, exports should continue to grow. As the economy has expanded in recent years, the emigration of labor to South Africa has declined.

The Government, which receives financial assistance from the U.K. for both current and capital expenditures, is investing substantially in roads and power and is expanding services for agricultural development. A development plan emphasizing infrastructure, agriculture and education has been drawn up for 1966-1968. It is expected that current expenditure will be met from local revenues by 1970/71.

Yugoslavia

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September 16, 1966

BRIEFING PAPER - 1966

EUROPEAN INVESTMENT BANK

I. MEETING WITH DELEGATION

No meeting scheduled.

II. MEMBERS OF DELEGATION

Yves Le Portz
Vice President

Giandomenico Sertoli
Manager of the Finance and
Treasury Department

III. BAN/IDA AND IFC PROSPECTIVE OPERATIONS

In the past the EIB and the IBRD have been in only one joint operation, in 1959, with the Cassa per il Mezzogiorno. In the case of Keban, the Bank turned down the proposal for joint administration. However, opportunities for joint ventures are emerging in the Associated African States. A project in Cameroon, consisting in an 8-year tree crops program, is presently being considered by the Bank. The Bank is also considering joining the EIB in the financing of a potash project in Congo (Brazzaville).

The technical aspects of these operations are summarized as follows:

Cameroon (total capital requirement of the project (1966-73):
\$31 million)

IBRD loan: \$7 million
IDA credit: \$11 million
EIB intervention*: \$6.4 million, 22 years (including 10 of
grace), 1% interest rate

* Administering of loan from the Overseas Development Fund (FED)
of the EEC.

Congo (Brazzaville) (total cost of the project: \$70 million)

IBRD loan: \$30 million, 17½ years (including 4 of grace),
6% interest rate
EIB loan: amount to be defined, same terms, but 6.75%
interest rate

In Turkey and Greece there are no immediate prospects for joint operations.

IFC has recently joined EIB in financing a Turkish company producing nylon yarn. IFC will invest nearly \$1,370,000 in loan and share capital, supplementing a long-term loan from EIB made to the government for further relending, through TSKB, to the company. IFC is also joining EIB in providing part of the financing for a fertilizer plant in Senegal, which will satisfy the internal demand for fertilizers and provide a surplus for exports. IFC financing, in loan and equity subscription, will total \$3.4 million.

EIB participation in these ventures is summarized as follows:

Turkey (nylon yarn): \$1.3 million, 30 years (including 7 of
grace), 4½% interest rate

Senegal (fertilizer): \$2.4 million, 11 years (including 2 of grace), 6¹/₂% interest rate

IV. TOPICS FOR DISCUSSION

Joint Operations - Exchange of Information

Opportunities for working together in the Associated African States, in Greece and in Turkey could be further explored (see VI (c) below for EIB operations in these countries). In order to improve the exchange of information, the Bank would like to receive, on a confidential basis, a quarterly statement of operations for Greece and Turkey, as already provided for the African States.

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

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(c) Topics likely to be raised by the Delegation

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V. BACKGROUND INFORMATION

(a) Access to Private Capital Markets

Since the end of 1962, when the whole paid-up capital of EIB (\$250 million) had been committed, EIB has increasingly resorted to the capital markets; since December 1965 there have also been three bond issues in New York, which are subject to the U.S. interest equalization tax. In 1963 three issues, for an equivalent of \$35.2 million, were made in France, Belgium and Germany; in 1964, five issues, for an equivalent of \$66.8 million, were made in Germany, the Netherlands, Luxembourg and U.S.A. The more recent issues carry the following conditions:

Country	Amount	Terms	Interest	Issue price	Yield	Recent Quotations		
<u>1965</u>	\$ million equivalent	Years	%	%	%	Date	Price	Yield
							%	%
The Netherlands	11	25	5.3/4	100	5.75	July 29	86.87	6.88
USA*	20	20	6	99 ¹ / ₂	6.05	Aug. 4	93	6.65
Italy	24	20	6	96	6.36	July 29	97.35	6.24
Belgium	10	12	6 ¹ / ₂	99	6.62	July 29	98	6.76
1966								
USA*	25	10	6 ¹ / ₂	98	6.78	Aug. 4	98.87	6.64
Italy	24	20	6	96	6.36	--	--	--
France	41	15	6 ¹ / ₄	99.3/4	**	--	--	--

* The U.S. issues were sold outside the U.S.

** Redemption will take place above par, in 5 series, every three years; prices will range from 103% in 1969 to 111% in 1981.

Outstanding bonds of EIB, as of July 1966, totaled the equivalent of about \$305 million.

(b) Holdings of Bank Bonds

None

VI. STRUCTURE AND OPERATIONS OF EIB

(a) Origin and Purpose

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

(b) Capitalization and Lending Operations

The capital is \$1 billion, of which \$250 million is paid up. Germany and France both have a quota of 30%, Italy's is 24% and that of Benelux 16%. The unpaid capital serves the same function as in the IBRD. The EIB may also borrow on the capital markets of member and non-member countries (for details of borrowing, see V(a) above). Loans are customarily made for individual projects and are tied to expenditure in member countries. The EIB is intended to provide supplementary finance only. It does not buy shares or assume managerial responsibilities. Although there is no information available about EIB lending policy, in 1965 further changes in rates occurred, following the rise from 5-5/8% to 5-7/8% in 1963 and the differentiated rise in 1964 (5-7/8% for loans up to 7 years; 6% for 7-12 years; and 6-1/4% for longer terms). Interest rates are now the following: 6-1/4% for loans up to 7 years; 6-1/2% for 7-12 years; and 6-3/4% for longer terms. EIB may be obliged to raise its rates further.

During 1965, EIB approved 32 loans totaling the equivalent of about \$151 million, as against 18 loans for \$107 million in 1964. Italy received 17 loans for a total of \$81 million; France received 2 loans, and Germany 3. Seven loans were approved to Turkey, for \$48.8 million (see (c) below). EIB also began operations in the Associated African States, with two projects in Cameroon and one in Ivory Coast (see (c) below).

Effective loans at the end of 1965 were 115 (\$614 million), of which 95 (\$519 million) in member countries: Italy benefitted for 63% of the grand total, followed by France with 13%. The Associated Countries received 20 loans, for \$95 million, of which 9 (for \$54 million) went to Turkey and 8 (for \$37 million) to Greece. The breakdown by economic sector was as follows:

S e c t o r	Number of Projects	Amount (million u.a.)	Percentage
Agriculture Improve- ments	6	72.8	12
Transportation	12	156.2	25
Power	14	129.6	21
Telecommunications	1	16.0	3
Industry	82	239.2	39
Total	115	613.8	100

Loans to the industrial sector were mainly for chemicals (36%), iron and steel (20%), mechanical engineering (12%) and food processing (8%).

Normally, amortization of industrial project loans extends over 11 to 15 years; for infrastructure and agriculture, repayment is required over 16 to 20 years. However, as described in (c) below, the term of loans to associated states may in certain circumstances be as long as 40 years.

(c) Lending to Associated States

The Yaounde Convention of Association between the EEC and the Associated African States has been in effect since June, 1964. It provides for \$800 million of financial assistance during 1963-67, mostly through FEDOM, the EEC's development fund for these countries. Amortization may extend over as long as 25 years and the EIB's normal interest rates (6-1/4 to 6-3/4%) may be subsidized by the Six to the extent of 3%. EIB also administers special term loans from \$50 million of funds made available by FEDOM: loans may extend over 40 years with grace periods of up to 12 years. Since May 1965, when the first loan was made to Ivory Coast, EIB has made three other loans in Africa, all of them in Cameroon for industrial projects, totalling \$4.3 million. At the end of June 1966 several other projects were under consideration; they are mainly industrial projects, but a power plant and a \$140-180 million railway (Gabon) are also envisaged. Other projects are under consideration on behalf of FED; these projects are usually of smaller size and benefit of special conditions.

The Agreements of Association between EEC and Greece (July 1961) and Turkey (September 1963) provide for \$300 million of EIB lending during the first five years of association. Loans made up to 1965 totalled \$91 million.

Greece. The EEC is to provide \$125 million of aid through the EIB during 1961-66, of which 2/3 was allocated for infrastructure and agriculture and 1/3 for industry. So far, eight loans totalling \$37 million have been made; they are for highways, power, irrigation and cement and fertilizer plants. EIB is presently interested in further investments for road and irrigation projects.

Turkey. During 1963-68, the EEC is granting, through the EIB, \$175 million of long-term low interest loans for projects in the Turkish Development Plan. Lending will be managed by a Special Section of EIB which was set up in 1963 to provide loans on special terms from separate funds provided by member countries. In 1965 the Bank intervened in Turkey through its Special Section, with 7 loans totalling \$49 million. The most important project approved was the Keban, for which EIB lent \$30 million; the loan was signed at the end of July. An irrigation and land amelioration project, involving some 90,000 hectares, was financed with a \$15 million loan. Five other loans financed the industrial sector. So far in 1966, EIB has concluded loan agreements for 9 industrial projects, totalling \$17.6 million. The most important, for a paper plant, was of \$10 million. These loans, as customary for EIB industrial lending in Turkey, will be repayable over thirty years with a seven year grace period and bear interest at 4.5% per annum. The Turkish State in turn relends the funds to the final beneficiary through the intermediary of the Industrial Development Bank of Turkey (TSKB) which charges market interest rates.