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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

NATIONAL INVESTMENT BANK

FOR INDUSTRIAL DEVELOPMENT

IN

GREECE

November 17, 1967

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED LOAN TO THE NATIONAL INVESTMENT
BANK FOR INDUSTRIAL DEVELOPMENT IN GREECE

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to U.S. \$12.5 million to the National Investment Bank for Industrial Development (NIBID).

PART I - HISTORICAL

2. The war and the disturbed conditions which followed it left Greece with the whole of her prewar external debt in default. Negotiations for settling these defaults were started in the 'fifties and the sterling debt, which constituted over one-half of the total, was settled in 1964. In view of the progress in this and other settlements and in the expectation that the remaining debts would be settled promptly, I decided that the Bank would be justified in starting an active relationship with Greece.

3. In January 1966 NIBID asked the Bank for a loan of \$20 million, and the Greek Government agreed to guarantee a loan in this amount. An appraisal mission visited Greece in August 1966 and concluded that NIBID could utilize \$20 million within two or three years and that it was a suitable institution to receive a Bank loan. Since the European Investment Bank (EIB) was also prepared to lend to NIBID it was agreed that negotiations should proceed on the basis of \$12.5 million from the Bank and \$7.5 million from EIB. Negotiations for the loan from the EIB were completed earlier in the year. However, the Financial Protocol to the Agreement of Association between Greece and the European Economic Community, which authorized lending by the EIB in Greece, expired on October 31 and signature of the EIB loan will have to await the conclusion of new arrangements.

4. The Bank's negotiations began in January 1967 with a Greek delegation headed by Mr. George Gondicas, General Manager of NIBID. The Government was represented by Mr. Aristotelis Sismanidis, Economic Counselor at the Greek Embassy in Washington. Some items were left outstanding at the end of the first round of negotiations. These were satisfactorily resolved in August 1967 during further discussions with Mr. Gondicas, and Mr. Georgiopoulos, legal advisor to the Minister of Coordination.

5. As over a year had passed since the last economic mission and the appraisal of NIBID, and in view of the political changes in Greece in April 1967, Bank and IFC staff visited Greece in the beginning of September to review recent economic developments and to reappraise NIBID's need for funds. Recent economic developments are summarized in the attached memorandum entitled "Recent Developments in the Economy of Greece" (No. 1).

6. The Bank has made no loans in Greece and no further loan proposals are expected to be presented to the Executive Directors in the near future. Preliminary consideration is, however, being given to a road project and further discussions are expected to be held on the Bank/FAO report on agriculture which was presented to the Government in December 1966. Greece has received no IDA credits.

7. IFC has an investment of \$719,082 in ordinary shares of NIBID, and is represented on NIBID's board. IFC has also three industrial investments in Greece, the amounts outstanding totalling about \$3.6 million. These are in General Cement Co., S.A. (\$2,525,000 loan), Titan Cement Co., S.A. (\$275,000 loan and \$275,084 equity) and Aevol Industrial Company of Organic Fertilizers, S.A. (\$480,000 loan). NIBID participated in the financing of the two cement companies.

PART II - DESCRIPTION OF THE PROPOSED LOAN

Borrower: National Investment Bank for Industrial Development, S.A. (NIBID).

Guarantor: The Hellenic State.

Beneficiaries: Private enterprises in manufacturing, mining, shipping and tourism.

Amount: Various currencies equivalent to \$12.5 million.

Purpose: To assist in financing the foreign exchange cost of investments by beneficiary enterprises.

Amortization: Semi-annual payment dates of February 1 and August 1, beginning August 1, 1969 and ending no later than August 1, 1979. The Bank and NIBID will from time to time change the amortization schedule to conform substantially to the aggregate of the agreed repayment schedules applicable to NIBID's loans and investments financed out of the Loan.

Interest Rate: When part of the Loan is credited to the Loan Account in respect of a sub-project, the rate of interest on that part will be the Bank's current standard rate then in effect.

Commitment Charge: 3/8 of 1% per annum.

PART III - THE PROJECT

8. A report entitled "Appraisal of the National Investment Bank for Industrial Development S.A. (NIBID)" (DB-32a) on the proposed project is attached (No. 2).
9. The main financial institutions in Greece are the Bank of Greece, which is the central bank, a dozen commercial banks, a government-owned development bank and two private industrial investment banks. The National Bank of Greece (NBG) is the largest commercial bank and controls about 63% of all banking assets in Greece; it is also a major source of funds for investments in manufacturing.
10. The other investment banks in addition to NIBID are the Hellenic Industrial Development Bank (HIDB), which is a government organization, and the Investment Bank established in 1963 by the Commercial Bank of Greece. In 1966 industrial loan approvals by HIDB amounted to Dr 345 million, those of the Investment Bank to Dr 150 million and those of NIBID to Dr 291 million.
11. NIBID was established in 1963 by the NBG and ten foreign banks and began operations in 1964. Its present share capital is Dr 300 million (\$10 million). The NBG holds 55% of the share capital, thirteen foreign banks hold 38% and IFC 7%, equivalent to the holding of the largest foreign shareholder. NIBID's objects are the promotion of enterprises engaged in manufacturing, mining, shipping, tourism and related activities by providing finance for the establishment of new productive enterprises in the private sector and the modernization and expansion of existing ones; by the development of the capital market; by facilitating joint ventures of Greek and foreign enterprises; and by advising private enterprises on financial and technical matters.
12. NIBID's business expanded rapidly through 1966 when approvals reached Dr 291 million. In the first half of 1967 business was relatively slow because of a general slackening in investment, and approvals totalled Dr 100 million. Business has, however, been picking up recently and is expected to reach Dr 250 million by the end of the year. In 1966 its investments were equivalent to about 4-1/2% of the total gross investment in industrial enterprises. However, NIBID is still in an early stage of its operations and, given its intention to promote business, its share of industrial financing should increase further. On this basis and on the assumption that the economy will continue to grow at a reasonable rate, NIBID's approvals are expected to recover their 1966 level next year and reach Dr 360 million in 1969.
13. Most of NIBID's operations are in the form of loans; only 6% of investments as of June 1967 were in shares. Loans normally carry a basic rate of 8% to 8-1/2% plus a profit-tied interest increment that brings the expected total yield to 10%; some of the loans have a dollar clause.

Loans are given for periods of 5 to 10 years. Nearly 90% of loan approvals were for manufacturing industry and 10% for tourist facilities.

14. NIBID is a sound organization; its top management and senior staff are capable and cost conscious. Its disbursement and follow-up procedures are satisfactory. Project appraisal is satisfactory when dealing with relatively small and routine types of projects. While financial analysis is competent, engineering appraisal needs to be improved, particularly for complicated projects. In association with an internationally known firm of consultants having experience in European countries, NIBID is participating in a consulting company and expects to use it when needed for engineering services both for its clients and for itself. NIBID's close relations with foreign institutions afford good prospects of stimulating joint ventures and other forms of international cooperation. The management is also aware of the importance of developing a capital market in Greece and sees as one of its roles the creation of securities that might eventually be sold to the public.

15. NIBID's resources total Dr 900 million, a third each from paid-in share capital and loans from NEG and the Bank of Greece. The loans will not be fully disbursed by the original closing dates and it is a condition of effectiveness of the Bank loan that they be postponed to December 31, 1971. At the beginning of 1968 NIBID will have about Dr 200 million in uncommitted resources. Since its new commitments are estimated to be about Dr 300 million in 1968 and Dr 360 million in 1969, NIBID will need substantial new funds. NIBID's Policy Statement limits its debt to four times its net worth; this is considered satisfactory.

16. NIBID is still in the early stages of building a portfolio. It has had no low-cost money and little leverage. Profitability has been low; in 1966, its third year, earnings before taxes and provisions for losses were 4.5% of net worth. As business develops over the next few years and leverage on share capital improves profitability should increase. Earnings before tax and provisions for losses are estimated to be 6.8% of net worth in 1967 and to increase to 9-10% by 1969.

17. NIBID's loans are being used to finance both imports and local goods and services. Since the drachma is freely convertible, no distinction has been made in the utilization of the loans between foreign and local currency expenditures, but there are indications that about 65% of NIBID's future loans would be utilized for financing imports. On this basis, the proceeds of the Bank loan, which will be available only to finance foreign expenditures, would be committed in two to three years.

18. Under the proposed loan NIBID would have a free limit on investments not exceeding Dr 6 million (\$200,000). For investments exceeding Dr 6 million, for which Bank funds are to be used, Bank approval will be required, even if the Bank's share of the project is less than the total of Dr 6 million.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

19. The Draft Loan Agreement between the Bank and NIBID, the Draft Guarantee Agreement between the Hellenic State and the Bank and the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement are being distributed to the Executive Directors separately.

20. The proposed Loan and Guarantee Agreements conform in general to the pattern of loans of this type. As mentioned in paragraph 15 above, the postponement of the closing dates of the loans NIBID has received from NBG and from the Bank of Greece to December 31, 1971 is a condition of effectiveness (Section 7.01(c)).

21. In accordance with statutory requirements of the Bank of Greece, NIBID has pledged bonds in favor of the Bank of Greece as security for the credit it is receiving. An agreement has accordingly been made under which the Bank of Greece undertakes to share equally and ratably with the Bank in the proceeds of any sale, realization or disposal of the NIBID security held in pledge by the Bank of Greece. The loan from NBG is unsecured.

PART V - THE ECONOMY

22. An economic memorandum entitled "Recent Developments in the Economy of Greece" dated October 27, 1967 is attached (No. 1). It updates the economic report entitled "Current Economic Position and Prospects of Greece" (EA-166b) dated February 9, 1967, which was circulated to the Executive Directors on February 13, 1967.

23. After a fast rate of growth which averaged about 8% during 1963-1965, expansion slowed down towards the end of 1966 as a result of a fall in investments, particularly in residential construction. This trend was reinforced by the political changes in April. In recent months, however, investments have picked up again and although total capital formation in 1967 might fall short of that in 1966, industrial expansion is expected to resume thereafter. The growth in GNP, although slower this year than in 1963-1966, is expected to be about 5%.

24. The balance of payments situation improved in 1966; the deficit on current account (including private transfers) was \$240 million compared with \$285 million in 1965. The deficit in 1967 is expected to be about the same as last year. External public debt is about \$475 million; debt service this year is \$35 million, about 4% of foreign exchange earnings. Foreign

exchange reserves at the end of September 1967 were \$270 million, equivalent to about 20% of imports of goods and services in 1966.

25. Despite some difficulties in the first half of 1967, the general economic performance has been adequate. Political uncertainties persist, but assuming reasonable stability, prospects for growth are good. At the same time there will be a need for foreign capital. In view of its economic performance and its relatively small external debt, Greece can be considered creditworthy for the proposed loan. A statement by the Greek authorities on the prewar debt is attached (No. 3).

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

26. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RESOLUTION

27. I recommend that the Executive Directors adopt the following resolution:

RESOLUTION NO.

Approval of Loan to National Investment Bank for Industrial Development S.A. in an amount equivalent to U.S. \$12,500,000 to be guaranteed by the Hellenic State.

RESOLVED:

THAT the Bank shall grant a loan to National Investment Bank for Industrial Development S.A. to be guaranteed by the Hellenic State, in an amount in various currencies equivalent to twelve million five hundred thousand United States dollars (U.S. \$12,500,000), to mature on and prior to the date or dates to be determined as set forth in the form of Loan Agreement (Development Finance Corporation Project) between the Bank and National Investment Bank for Industrial Development S.A., which has been presented to this meeting, to bear interest at the rate or rates of interest to be determined as set forth therein, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in said form of Loan Agreement and in the form of Guarantee Agreement (Development Finance Corporation Project) between the Hellenic State and the Bank, which have been presented to this meeting.

George D. Woods
President

Attachments (3)

November 17, 1967