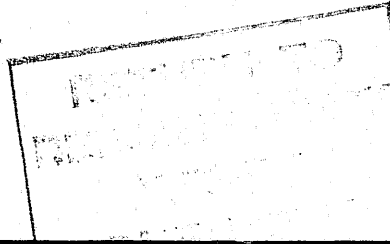


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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SECOND LOAN ADMINISTRATION REPORT

on

THE LOAN TO THE GRAND DUCHY OF LUXEMBOURG

of

August 28, 1953

October 13, 1953

Conversion Rates for Luxembourg Currency

U. S. \$1	= 50 francs
1 franc	= 2 U. S. cents
1,000,000 francs	= U. S. \$20,000

SECOND LOAN ADMINISTRATION REPORT ON THE
LOAN TO THE GRAND DUCHY OF LUXEMBOURG

GENERAL

1. This report follows the first loan administration report on the Bank's loan to Luxembourg (No. Loan 97a dated June 30, 1950), and covers the past three years. Because of its membership in the Belgo-Luxembourg Economic Union, the external financial position of Luxembourg can only be analyzed in conjunction with that of Belgium. A paper analyzing economic developments in the Belgo-Luxembourg Economic Union is being prepared by the International Monetary Fund in connection with its 1953 consultations with the BIEU. As soon as it becomes available, it will be circulated to the Executive Directors to supplement this report.
2. The \$12 million 4-1/4% loan of August 28, 1947 to the Grand Duchy of Luxembourg (later reduced to \$11,761,983) financed imports of steel mill and railway equipment. The domestic currency equivalent of the loan, resulting from the sale of its proceeds to the Arbed steel works and the Luxembourg Railways, covered part of government expenditure on postwar reconstruction.
3. The Bank has sold \$1,877,000 of bonds evidencing the loan to investors in the United States and other countries; of this \$1,678,000 was sold without recourse and \$199,000 with the Bank's guarantee. Some of the bonds were purchased by the Luxembourg Savings Bank.
4. All payments on the loan have been made as due. Amortization began on July 15, 1949 and an amount of \$1,038,983 has been repaid to date to the Bank and the bond holders. The final maturity is July 15, 1972.

RELATIONS WITH LUXEMBOURG

5. The Bank has maintained regular contact with the Luxembourg Ministry of Finance, which has always readily supplied information about the loan.

POLITICAL DEVELOPMENTS

6. The political leadership has remained unchanged during the period under review. Following the Parliamentary election of June 1951, M. Dupong, the outgoing Prime Minister, formed a new Cabinet composed of the Christian Social and Socialist Parties.
7. On May 13, 1952, Luxembourg ratified the European Coal and Steel Community Treaty and on May 27, signed the European Defence Community Treaty. The city of Luxembourg became the provisional seat of the High Authority of the Coal and Steel Community.

INTERNAL ECONOMIC SITUATION

8. The iron and steel industry dominates the economic life of Luxembourg. It accounts for 80% of the value of the country's industrial production and employs about 60% of the industrial workers. Since the steel industry produces mainly for export, the economy of Luxembourg is highly sensitive to foreign demand for steel.

9. Production of steel rose from 2.5 million tons to 3.1 million tons between 1950 and 1951, and declined slightly in 1952. The downward trend continued in the first half of 1953 as keener competition developed in the export markets. Total output of goods and services expanded markedly in 1951 and remained fairly stable in 1952. Full employment continued and the industrial labor force increased from 35,000 to 38,000 during the period under review.

10. In Luxembourg, which has no central bank of its own, the Government relies heavily on savings to finance any excess of budget expenditure over revenue. Time deposits continued to grow between 1950 and early 1953, and the Government experienced no difficulty in its financial operations, despite larger expenditure on defense. An overall budget surplus was achieved in 1951, and in 1952 the deficit in the extraordinary budget was covered without any increase in the national debt. In the light of budget estimates for 1953, however, the deficit in the extraordinary budget might necessitate substantial borrowing by the Government.

11. Because of the particular financial position of the Luxembourg Government, a debt limitation clause, incorporated in the Loan Agreement, restricted annual payments on outstanding indebtedness to 25% of the ordinary budget revenue in the preceding fiscal year. In the years 1948-52, the ratio of debt service to ordinary revenue has remained at the level of 10-12%. Although this ratio has risen to 19% in 1953, owing to large debt repayments, it is still well below the contractual ceiling.

THE PROJECTS

12. By helping to modernize Luxembourg's iron and steel industry, the Bank's loan clearly benefited the country as a whole. Purchases of locomotives and flat cars, made under the loan, increased the railways' capacity to export steel at a time of heavy demand.

13. The hot and cold rolling mills of the Acieries Reunies de Burbach-Eich-Dudelange (Arbed) at Dudelange, for which the Bank has financed \$7.5 million worth of equipment, have been in operation since January 1951 and are at present processing the entire production of the Dudelange steel works. The performance of mechanical and electrical installations gives full satisfaction. The output of the mills is shown in the following table (in thousand tons):

	<u>hot rolled products</u>	<u>cold rolled products</u>
1951	123	84
1952	121	111
1953 1st 4 months - annual rate	117	126

14. The locomotives, autorails, and freight cars, on which about \$4.3 million was spent, have rendered satisfactory service. Their acquisition enabled the Luxembourg Railways to replace a quantity of obsolete

rolling stock, whose repair would have been too expensive, and to return a number of locomotives leased from the French National Railways. Owing to reequipment, to which the Bank's loan has contributed, the financial position of the Luxembourg Railways has greatly improved since 1947.