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INTERNATIONAL BANK FOR
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The International Bank for Reconstruction and Development today granted a loan of \$16 million to the Kingdom of Belgium. The purpose of the loan is to finance imports of equipment for the construction of two steel mills and of a power plant in the industrial district of Liege. Proceeds of the loan will be utilized by two private Belgian steel corporations and a private electric company.

The loan is for a term of 20 years and carries an interest rate of $4\frac{1}{4}\%$, including 1% commission which, in accordance with the Bank's Articles of Agreement, is allocated to its special reserve fund. Amortization payments, calculated to retire the loan by maturity, will start in the fifth year.

Belgium's rate of post-war economic recovery thus far has been very rapid. This has been due partly to the fact that relatively moderate damage was caused to the Belgian economic structure by the war, but also to the hard work of the Belgian population, political stability, and capable handling of the country's external and internal economic problems. Nevertheless, although Belgium's global balance of payments is approaching equilibrium, there is still a considerable deficit in its balance of payments with the Western Hemisphere. This deficit is likely to persist, and Belgium's capacity to meet dollar payments in the future will depend upon its ability to earn convertible currencies through trade with other countries. Belgium must re-equip its industries in order to lower export prices if the country is to maintain its position in world markets.

The loan is in accordance with the Bank's policy of supplementing the

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European Recovery Program by financing projects which involve permanent additions to Europe's productive capacity, and which give reasonable prospects of repayment.

Out of the total amount of the loan, \$4.5 million has been allocated for the purchase abroad of equipment for a cold rolling mill with tinplating facilities by the Compagnie des Fers Blancs et Toles a Froid (Ferblatil), a newly established subsidiary of S.A. John Cockerill, the oldest and largest steel manufacturers in Belgium. The total cost of this project will amount to the equivalent of \$9.8 million, of which approximately 55% will therefore be met by the company in Belgian francs.

An amount of \$5.8 million out of the loan is to be used for the purchase abroad of equipment for a blooming mill by S.A. d'Ougree Marihaye, the second largest Belgian steel corporation. The total cost of this project will also amount to the equivalent of \$9.8 million, of which approximately 40% will therefore be met by the company in Belgian francs.

These projects will contribute to a considerable extent to the modernization of the Belgian steel industry and will provide Belgium with facilities for producing cold rolled thin sheets and tin plate which she does not possess at present. Their primary purpose is not to expand the over-all steel producing capacity of the country, but to bring about a reduction in the production cost of steel and the introduction of new manufacturing processes in order to improve the export prospects of the industry. The tin plate capacity of the Ferblatil mill will be 60,000 tons a year, which will not only enable Belgium to eliminate imports of tin plate, at present payable chiefly in dollars, but will also make available approximately 20,000 tons for export, thus helping to alleviate Western Europe's deficit in tin plate.

An amount of \$5.7 million out of the loan is to be spent on equipment to be imported for a central power station being built by one of the largest

Belgian power transmitting and distributing companies, the Union des Centrales Electriques de Liege-Namur-Luxembourg (Linalux), which is operated on a cooperative basis. The total cost of this project will be the equivalent of \$21 million, of which approximately two-thirds will be in Belgian francs. Both the Ferblatil and the Ougree mills, which the Bank loan will help to finance, will use electric power generated by the new station.

After being approved previously by the Bank's Executive Directors, the loan agreement was signed today by John J. McCloy, President, on behalf of the International Bank for Reconstruction and Development; and by Baron Silvercruys, Ambassador of Belgium, on behalf of the Belgian government.

SUPPLEMENTAL STATEMENT ON THE LOAN TO BELGIUM

February 28, 1949

Belgium's Economic Position

Belgium's economic recovery has been rapid. The distortion of her domestic economic structure and of her external financial relations was not as fundamental as that of other war-ravished countries. The liberal economic policy of the Government, a high degree of social stability based on ample supplies of consumer goods for the working population, and heavy demand abroad for Belgian industrial products, have greatly enhanced the economic revival. Although declines in output and serious unemployment, arising mainly from the difficulty experienced in selling consumer goods abroad, made themselves manifest in some sectors in the second half of 1948, production of steel and generation of electric power have been maintained at record levels. The country's over-all index of industrial production is still about 25 per cent above prewar.

The Belgian recovery was supported by the drastic monetary reform of October 1944. Two-thirds of the currency in circulation and demand deposits accumulated under the occupation were eliminated through withdrawal and blocking measures. The total volume of money had, however, doubled again in 1945, partly under the impact of the cost of maintenance of Allied military forces, and prices had risen by 1948 to about four times their prewar level owing to increases in the cost of imported raw materials, wage increases, and removal of internal subsidies.

The over-all Government deficit, arising from extraordinary postwar expenditures, was progressively reduced from 37 billion Belgian francs in 1946 to 13.5 billion Belgian francs in 1948. Belgium's external indebtedness, now about \$380 million, is relatively small and annual payments in hard currencies on account of interest and amortization are not very heavy. Gold and foreign exchange holdings of the National Bank of Belgium now stand at about \$930 million, and the Congo Colony will continue to provide a source of raw materials, a large part of which are processed in Belgium and exported for foreign currencies.

Belgium, however, is faced with two major problems which must be solved if her economic recovery is to continue: the balance of payments with the dollar area, and the rate of domestic investment.

Before the war, Belgian exports paid for about 90 per cent of the country's import needs. In 1946, this percentage was 50 per cent, but expanded gradually to 85 per cent in 1948. The improvement of the over-all foreign trade position, however, leaves the Belgian dollar problem still unsolved. Before the war, Belgium was able to finance her trade deficit with the dollar area through a considerable trade surplus with Western European countries, whose currencies were convertible. Since the end of the war, the trade surplus with Europe resulted in the accumulation of inconvertible balances, and in transfers of gold from several Western European countries which cannot be expected to continue. Even though aid furnished by the United States Economic Cooperation Administration may be expected to help meet Belgium's deficit with the Western Hemisphere until 1952, the problem of Belgian payments to the dollar area will in the long run again depend on Belgium's ability to earn convertible currencies through trade surpluses with other countries.

There is no doubt that encouragement of domestic consumption has been effected in Belgium at the expense of capital formation. The high standard of living achieved by the Belgian worker made him able to apply his efforts to the

recovery of his country and, through exports of manufactured goods, to the rehabilitation of productive facilities of other countries. But it also meant that Belgium has as a result devoted a relatively smaller share of her national income to the re-equipment of her own industries. Although Belgium is still in a strong position to take advantage of the prevailing sellers' market for many kinds of goods, the emphasis must now be shifted from the provision of consumer goods for the internal market to the modernization of industrial equipment, if Belgium is to retain in the future a competitive position in the world export markets.

Projects to be Financed Under the International Bank Loan

The proceeds of the Bank's loan will go into two Belgian industries which are at present the country's most active and offer the best prospects.

Belgian steel products have had universal acceptance in foreign markets and are respected for high quality and uniformity. As a result of the extensive use of the Thomas process for the production of crude steel, the Belgian blast furnace capacity for the production of pig iron is practically equal to the crude steel producing capacity of the industry, both amounting to about 4,000,000 tons per year. This situation is particularly favorable under present and anticipated future conditions wherein a permanent shortage of scrap iron supplies throughout the world is to be expected. Belgian industry is in a position to utilize either scrap iron or pig iron as availabilities and prices require.

About 70 per cent of the Belgian steel production is concentrated in four private companies. The two largest will benefit from the loan extended by the Bank to the Kingdom of Belgium.

S.A. John Cockerill is one of the lowest cost steel producers in the world. In forming a new subsidiary, the Compagnie des Fers Blancs et Toles a Froid (Ferblatil), for the express purpose of constructing a modern cold rolling mill with tin plating facilities, this corporation is taking a necessary step to shift production in line with postwar requirements. The loan from the International Bank will finance the foreign equipment needed for the new rolling mill.

There is at present a world-wide trend toward the production of cold rolled sheets of uniform thickness with a smooth surface which can be easily plated. Their domestic availability will greatly improve the quality and lower the cost of railway cars, ship fillings and other Belgian engineering products. Belgian steel mills are presently meeting only one-half of domestic demand for tin plate. The Ferblatil mill will not only provide for the increasing home requirements, but also leave a margin of some 20,000 tons a year for export. Considerable dollar savings and hard currency earnings will be derived from the substitution of exports for imports of tin plate.

The second company to have the benefit of the Bank's loan is S.A. d'Ougree Marihay, whose steel works are highly efficient. The installation of a blooming mill and eight new over-head cranes, which the International Bank loan will help to finance, will cause important reductions in manufacturing costs and improved utilization of existing steelmaking and rolling equipment. It will, consequently, strengthen the competitive position of Ougree Marihay in the export markets where prices of Belgian steel products must compare favorably with prices quoted by United States and British steel mills.

The Belgian electric power industry is based on a substantial demand

from a highly industrialized region. In the mining and steel producing areas of Belgium, cooperative companies have been formed by the producers and consumers of power in order to buy and sell electric energy, and thus arrive at a more effective utilization of the existing generating capacity installed in various mines and manufacturing plants.

S.A. Union des Centrales Electriques de Liege-Namur-Luxembourg (Linalux), is one of four cooperatives operating in Eastern and Southern Belgium. It was formed in 1919 and its membership includes leading mining and manufacturing enterprises in the Liege area. Its existing investments are in sub-stations, transmission and distribution lines.

The Bank's loan will finance foreign equipment needed for the construction of a new central power plant, which will be the first power generating installation to be owned by Linalux. It will eliminate a deficit in power generating capacity within the Liege area and replace, at low cost, imports of electric current from Bizone Germany, France and Holland. In addition, it will supersede some obsolete power generating facilities now in use on an emergency basis, thus reducing the cost of energy to important industries in this area.

The link between the three projects to be financed from the proceeds of the Bank's loan can be seen from the fact that S.A. John Cockerill and S.A. d'Ougree Marihay are both members of Linalux, and therefore the Ferblatil cold rolling mill and the Ougree blooming mill will use electric power generated by the new Linalux plant. All three projects will increase Belgium's productivity.