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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO
THE STATE RAILWAY OF THAILAND
FOR A
THIRD RAILWAY PROJECT

April 19, 1961

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN
TO THE STATE RAILWAY OF THAILAND
FOR A THIRD RAILWAY PROJECT

1. I submit the following report and recommendations on a proposed loan in an amount in various currencies equivalent to \$22 million to the State Railway of Thailand (SRT) for the rehabilitation and modernization of the SRT.

PART I - HISTORICAL

2. In 1950, prior to the establishment of the SRT as an autonomous body, the Bank made a railway loan of \$3 million to the Government mainly for the rehabilitation of the railway workshops which had been destroyed during the war, and for signaling equipment. That loan was fully disbursed in 1954.

3. In 1955 another railway loan of \$12 million was made to the SRT to finance part of a five-year rehabilitation program and was used mainly for rails and accessories, telecommunications equipment, passenger coaches, freight wagons and automatic couplers. The loan was fully disbursed in 1960.

4. In response to a loan request from the Government in August 1960, a mission visited Thailand in November 1960 to appraise the Railway's Six-Year Investment Program 1961-1966. Negotiations for the proposed loan were completed on April 6 with a delegation headed by the Thai Ambassador to the U.S., H.E. Visutr Arthayukti. Representing the SRT was Mr. Yukta na Thalang, Comptroller.

5. If the proposed loan is made, it would be the Bank's seventh loan in Thailand and would increase the total amount lent by the Bank to \$128,659,078 million, net of cancellations. Loans previously made are:

<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount of Loan Net of Cancellations</u>
1950	Thailand	Railway rehabilitation	\$ 3,000,000
1950	Thailand	Port improvement	4,400,000
1950	Thailand	Irrigation	18,000,000
1955	SRT	Railway rehabilitation	12,000,000
1956	Port Authority	Port improvement	3,259,078
1957	Yanhee Electricity Authority	Hydro-electric power	<u>66,000,000</u>
Total net of cancellations			\$106,659,078
of which has been repaid			<u>11,222,078</u>
Total now outstanding			\$ 95,437,000
Amount Sold		\$2,549,000	
of which has been repaid		<u>1,753,000</u>	796,000
Net amount held by Bank			\$ 94,641,000 ^{1/}

^{1/} Includes \$38,594,044 not yet disbursed as of March 31, 1961.

12. The proposed loan would finance the 65 diesel locomotives, about 1,650 freight cars and part of the steel for bridges.

13. The total cost of the project, including contingencies, is Baht 1,147 million (\$54.6 million). Financing would be met from the SRT's current resources (60%) and from the proposed loan (40%).

Justification of the Project

14. The railway is the only all-year-round means of inter-regional transportation in Thailand. Waterways are limited to the central area. The highways, until recently, have been built primarily as feeders to the railway or waterways. A long-term program of highway construction and improvement has been started, but will take several years to complete. The Bank is now reviewing the highway program to ascertain whether a suitable project exists for financing.

15. The railway is faced with increasing traffic demands which, even with improvements in the highway system, are estimated to grow at an annual rate of about 2% for passengers and 4% for freight traffic. The project, by providing for additional capacity and by permitting greater operational efficiency is well designed to meet these demands.

16. The additional diesel locomotives will make it possible to haul longer trains at greater speed, and to increase the capacity of the existing track. The wagons will be able to carry heavier loads and have higher availability than the present rolling stock. The use of the new diesels should result in annual operational savings of about \$1.4 million equivalent by 1966; the use of wagons should result in similar savings of \$0.75 million equivalent.

17. An important benefit to the economy will be the reduced annual firewood requirements as diesel locomotives replace wood burning steam locomotives. The Government has been concerned about the rapid rate of deforestation that has been taking place in the country, especially in the North East where it is a serious problem. At the same time the SRT has been finding it increasingly difficult and expensive to obtain the firewood it needs. As a result of dieselization, the SRT expects its requirements of firewood to be reduced by 400,000 cubic meters or 40%.

Procurement

18. Procurement of all items in the project will be on the basis of international competitive bidding.

Economic Situation

19. A report "Economic Situation and Prospects of Thailand" (No. FE-15a) was circulated to the Board on September 23, 1960 (SecM 50-185). A memorandum on the recent economic situation in Thailand is attached (No. 5).
20. Thailand's economy has been expanding in recent years at an average rate of 4 or 5% a year with a consequent steady rise in per capita income despite annual population growth of about 2.5%. Along with this gain in total output there has been a significant diversification of economic activity. Rice continues to be the most important single product of the economy, but the largest recent increases in agricultural output have been in other crops - especially rubber, corn, tapioca, kenaf and a variety of fruits, vegetables and livestock products. Tin production recovered nearly to peak levels, following removal of the international restrictions of 1958 and 1959. These increases in output have contributed to a rising trend of exports. And there has also been a marked expansion of private light manufacturing for the domestic market.
21. The favorable trends in production have taken place in a context of financial stability. Budget deficits have usually been small and in 1960 the cash accounts of the Government were balanced with no expansionary financing. The increase in bank credit in relation to money supply has been fairly well in line with the growth in real output, price movements have been small and the exchange rate has been steady. Stable finances, rising exports and a considerable inflow of foreign grants and loans have all contributed to a satisfactory balance of foreign accounts. Exchange holdings have increased in five of the last six years and at the end of 1960 official reserves amounted to \$345 million or 75% of the 1960 import level.
22. Prospects are favorable for continued growth of the Thai economy. There is large scope for additional agricultural output, even though rice production may not increase much faster than domestic requirements. And the upward trend of secondary industrial activity is likely to continue. Some of the gains in output may be offset by probable adverse movements in export prices of rubber and possibly of rice. But the opportunities for income expansion are sufficient to keep per capita income on a rising trend. A further expansion of public investment will be necessary to take advantage of these opportunities although this may be difficult to finance entirely from domestic sources. It should be possible, however, for Thailand to meet part of its financial requirements from foreign sources, including additional foreign borrowing. The service on present external debt and the proposed loan will not be a substantial balance of payments burden. It will amount to about 3.5% of 1960 exchange earnings.

Prospects of Fulfillment of Obligations

23. The State Railway of Thailand was established in 1951 as an autonomous body under the general supervision of the Minister of Communications. A Board of Commissioners, appointed by the Council of Ministers, is entrusted with the formulation of railway policy. The management of the railways and its technical staff are competent. Conservative financial policies are followed.
24. The operating results for the past five years have been satisfactory though 1957 and 1958 were bad years due mainly to poor rice harvests and increasing highway competition. Recent action taken by the Government to regulate the

bus companies has resulted in the return of passenger traffic to the railway. The enforcement of safety regulations and maximum loads on truck operators has led to increased demands for railway wagons. These steps, together with the progressive improvement of service, should be reflected in higher future earnings for the railway. The railway should be able to service the proposed loan out of earnings.

25. Thailand should have no difficulty in servicing its external debt including the proposed loan.

PART V - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

26. I am satisfied that the proposed loan complies with the requirements of the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

27. I recommend that the Bank grant a loan to the State Railway of Thailand in various currencies in an amount equivalent to \$22 million for a term of 20 years including a grace period of three and a half years at a rate of interest of 5 3/4% per annum with the guarantee of the Kingdom of Thailand and on such other terms and conditions as are specified in the draft Loan and Guarantee Agreements attached, and that the Executive Directors adopt a resolution to that effect in the form attached (No. 6).

Attachments

W.A.B. Iliff, Vice President
for Eugene R. Black, President

Washington, D.C.
April 19, 1961