INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

OFFICE OF THE
UNITED STATES
EXECUTIVE DIRECTOR

November 29, 1946.

Dear Marriner:

I am enclosing a letter and memoranda addressed to the Chairman which attempt to point up the issues regarding the International Bank for discussion at the next meeting of the NAC.

Sincerely yours,

Pete

Emilio G. Collado
U. S. Executive Director

Enclosure.

Mr. Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington 25, D. C.

November 29, 1946.

SECRET

My dear Mr. Chairman:

As I indicated after the last NAC meeting, I felt that the consideration at that meeting of International Bank matters, while useful with regard to the Polish and related issues, departed entirely from the basic problems of Bank operations which I sought to present in my Report No. 20 and which directly concern current discussions in the Bank.

I am accordingly transmitting directly to the members of the Council the attached memoranda in which I attempt to outline succinctly all of the operational issues on which I should like to receive the advice of the Council:

1. Program of Operations of the International Bank.

2. Special Considerations Relating to Loans in Eastern Europe and Elsewhere.

I should like at the next or an early meeting of the Council to report on the status of the eligibility of the Bank's obligations for investment by financial institutions. I should like also to point out that Mr. White and I have requested advice about the possible applications of Austria and Hungary in the Fund and Bank, and that I have in Report No. 19 requested further advice regarding the matter of an agreement between the Bank and the United Nations.

Sincerely yours,

Emilio G. Collado
U. S. Executive Director

Attachment.

The Honorable
John W. Snyder,
Chairman, National Advisory Council
on International Monetary and Financial Problems,
Washington, D. C.

SECRET

PROGRAM OF OPERATIONS OF THE INTERNATIONAL BANK

1. Working Balances - The Bank will have available for operations working balances of U. S. dollars, Canadian dollars, and certain other small amounts of usable funds totaling about $800 million.

2. Initial Loans - The Executive Directors have decided that these working balances warrant the granting of firm loans totaling $500 to $600 million before any recourse is had to the market for additional funds.

3. Marketing Securities - Sufficient classes of institutional investors are now permitted to acquire obligations of the Bank so that it would be possible readily to market at least a first $250 million whenever it is desirable. By March or April enough major states may be expected to amend savings bank and insurance company investment laws to enable the Bank satisfactorily to market during 1947 all of the bonds necessary to carry out the program of loans presented below. This amount will probably be $500 or $750 million unless the loan program is very greatly speeded up.

4. Scale of Loan Operations - With the Bank playing the principal role in long-term reconstruction and development lending, and in view of world needs as well as the Bank's resources, the following scale of loan operations seems to be a minimum:

	Next Two Months	By July 1, 1947	By Jan. 1, 1948
		(millions of dollars)	
Loan Commitments	350	1,000	2,000
Probable Expenditures	—	100	750 or less

These expenditures will be largely in the U. S. and Canada, and will be in addition to expenditures out of existing Export-Import Bank and Canadian loans and the loan to Britain.

5. Initial Loan Program - Consideration of loan applications of France, Denmark, and Chile is progressing rapidly in the Bank; the Polish request is progressing much more slowly; discussions with Luxembourg, the Netherlands, and Belgium are just beginning.

	Formal Loan Application	Initial Program Proposed in Report No. 20. (millions of dollars)	Action Recommended by NAC Staff
France	500	150-250	250
Denmark	50	40-50	25
Chile	40	25-40	30
Poland	600	50	75
Netherlands	500	100-150	
Belgium	(informal discussions)	25-50	
Luxembourg	20	10-20	
Czechoslovakia	350		
Iran	250		

I must disagree with the Danish recommendation of the NAC Staff. While I believe the ultimate figure may be about $40 million, I earnestly request approval to consider a program of up to the full amount applied for--$50 million.

The excellent study on Poland by the NAC Staff leads me to agree that the figure for that country should be $75 million (see separate memorandum). This loan should be tied to Western European allocation of coal as recommended in Report No. 20 and by the Secretary of Commerce.

While detailed presentations for Luxembourg and the Netherlands are only now coming in, I believe we know enough about these countries and Belgium--all countries of excellent credit standing--to authorize my consideration of the upper amounts suggested.

6. Financing the Bank's Operations - The Bank can make no loan commitments unless it has assents to issue debentures in an amount sufficient to produce the funds required. Considerations of treasury flexibility require the maintenance at all time of usable working balances of at least $450-500 million, and the rapid loaning out of the U. S. 18 percent capital ($571.5 million) included above in the calculation of working balances. Thus, it is essential that virtually all dollar loans of the Bank be assented to for use freely in the U. S. and elsewhere against the 18 percent capital, and also that debenture assents by the U. S. always equal or slightly exceed the total of dollar loan commitments.

The Bank faces an interesting and difficult problem arising out of the great lag between loan commitment and loan expenditures. A super-conservative suggestion has been made that the Bank should sign loan commitments only against cash in hand. In the program presented in (4) above, bond issues of $1.2 billion would be required by the end of 1947 and probably at least $2 billion more in 1948. At the same time the Bank would be acquiring a cash position--which for economy's sake it would wish to hold in Treasury certificates--of at least $1,250 million by the end of 1947 and probably $2,500 million by the end of 1948.

A more reasonable program would be to issue some bonds soon in order to test the market, allowing working balances to rise close to $1 billion, gradually reducing them thereafter to the level of $450-500 million, but in the course of additional issues of the order of $250 million each. The Bank would be taking some market risk, but it could protect itself against increased charges by suitable provisions in loan contracts.

7. Loan Terms - By following the latter type of financial program, the Bank should prove not too costly to its borrowers. After the initial period, it should have at least $250 million of its own capital invested net in loans as well as $450-500 million of balances which could be invested in short-term certificates. The income from these items, about $15 million, will cover operating expenses, provide some surplus, and thus contribute to the funds available for meeting possible additional market costs on the Bank's obligations.

Under these circumstances, the Bank should be able to charge uniform rates on long-term loans (20 to 25 year final maturities) totaling about 4 percent including commission for special reserve of 1 percent.

8. Requested NAC Action - I recommend the following NAC action:

a. NAC advice approving in general program of operations outlined above.

b. NAC approval for consideration by the U. S. Executive Director of loans as follows:

France	$ 250 million	
Denmark	50 "	
Chile	30 "	
Poland	75 "	(with coal allocation agreement)

(These constitute an immediate minimum)

Belgium	50 million
Luxembourg	20 "
Netherlands	150 "

(These additional approvals would be very helpful)

c. NAC advice to the U. S. Executive Director that on the formal request of the Bank the U. S. will grant its assent to the freely available use of the full 18 percent capital contribution of the U. S. ($571.5 million).

d. NAC advice to the U. S. Executive Director that on the formal request of the Bank the U. S. will grant its assent to the Bank's raising funds through the sale of its obligations on the U. S. market in the amount of $500 million.

e. NAC advice that the U. S. Executive Director should seek to limit the Bank's total charges to borrowers at 20-25 year final maturities to 4 percent, and should come back to the NAC for further advice if the Bank proposes that they exceed 4-1/4 percent. Charges for shorter maturities should be correspondingly lower.