

SECRET

SPECIAL CONSIDERATIONS RELATIVE TO LOANS
IN EASTERN EUROPE AND ELSEWHERE

The Executive Directors have been carrying on very frank discussions of broad economic circumstances and political programs and policies of loan applicants which might have economic consequences affecting the attainment of the broad objectives of the Bank and possibilities of repayment of the loans. Such discussions have included all of the points discussed in the NAC on Tuesday, November 26, 1946, and in addition questions of debt default histories, treatment of investors, and overall area political situations (all Europe and not merely Eastern Europe). It so happens that the Polish Director has drafted a memorandum outlining all of these considerations.

In a speech next Tuesday before the annual meeting of the Investment Bankers Association I intend to state:

"In the making and implementing of loans the Bank is prohibited by its Articles of Agreement from interfering in the political affairs of any member, nor shall it be influenced by the political character of the member or members concerned. Only economic considerations shall be relevant to its decisions, and these considerations shall be weighed impartially in order to achieve the purposes of the Bank which I have mentioned earlier. I am certain that all of the member governments will direct their representatives to act on loan projects on the basis of such economic considerations alone.

"Among the principal purposes of the Bank is the promotion of the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments, conditions important if the borrower is to be in a position to meet its obligations to the Bank. I believe that the Executive Directors of the Bank must, therefore, in passing on an individual loan application, give careful attention not only to the details of the particular project but their relation to the broad trade, financial, and investment policies of the borrower as the latter might affect the useful carrying out of the project and the prospects of repayment of the loan. We intend that the loans of the Bank shall be sound and shall be repaid. The Bank must avoid any political activity. But where policies of a borrower have important economic consequences bearing on the satisfactory attainment of the purposes of the Bank and the repayment of its loans, such policies and such economic consequences thereof, I feel, must be given careful consideration in passing on the application."

The considerations are most relevant at the present time to Poland, Czechoslovakia, Yugoslavia, and perhaps in different degree in certain other areas. The three Eastern European countries are all members in good standing, and Poland and Czechoslovakia in particular have contributed excellent individuals to the Executive Directorates and staffs of the Bank and of the Fund.

Loan applications have been received from Poland and Czechoslovakia. The former is in some detail. The latter is a mere letter of intent and is at the present entirely inactive.

It is my present opinion that general considerations of the type described above would just about rule out the granting under present conditions of a credit to Yugoslavia if one should be requested. With respect to Poland, I agree with the presentation of the NAC Staff regarding a loan for increased coal production and transportation linked as suggested in Report No. 20 to appropriate allocation of the increased coal supply among Western European consumers.

The general case of Czechoslovakia as well as other Polish items present more difficulties of recommendation. The economic policies and the economic consequences of general policies of these countries are not so clearly defined as to make for easy determination of the appropriate action of the International Bank.

Since the Polish situation can easily be held by the special action mentioned above, and the Czech request is now inactive, I recommend that final consideration be postponed as long as is feasible in the hope of clarification of the position of these countries. Meanwhile, the Bank's regular procedures of careful study of proposals should continue.