

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 26, 1947

To Chairman Eccles

Subject: Loan on gold to Greece

From Mr. Knapp

When the Policy Group meets to discuss the question of loans on gold, I think it should review the case of the presently outstanding 10.8 million dollar loan to the Bank of Greece, which raises much the same problem as we encountered in the Polish case. The Greek loan is another one that cannot be terminated during the next year or so without very serious embarrassment, and it seems to me that we should decide now either (a) to be prepared to renew the loan over an extended period, or (b) to suggest that the Greeks obtain a long-term loan on gold from the market.

The Bank of Greece applied for this loan last September, stating that it would be able to repay at the end of three months out of dollar proceeds of tobacco exports. The New York Bank was prepared to make the loan and asked the approval of the Board of Governors. We gave this approval as a routine matter, although I called Mr. Knoke at the time to tell him that I did not see how the Greeks could possibly make dollars available for repayment of the loan at the end of three months even if they received dollar proceeds from tobacco exports as anticipated.

In December, when the loan fell due, an urgent plea for renewal arrived from the Bank of Greece which stated that such dollars as had been realized from exports had had to be used to meet vital import requirements and which further pointed out that "the psychological consequences of having to sell gold in order to meet your loan might have serious consequences in Greece". The Bank again presented figures, however, indicating that they might be able to repay the loan after a further three months.

Unwillingly, but inevitably, the New York Bank decided to renew the loan for a further three-month period and this action was approved by the Board. However, the New York Bank insisted on granting this renewal "on the understanding that no favorable consideration would be given to any subsequent request for extension beyond March 24".

It is perfectly apparent that a new pressing plea for renewal of the loan will arrive prior to the present expiration date. In fact, I understand that the Greek authorities have already been pleading their case with the U.S. Economic Mission which is now in Greece under the leadership of Paul Porter, and that that Mission has been cabling the State Department to exercise its influence in obtaining an extension of the loan. In view of the political relations between this country and Greece, it is clearly even less feasible in this case than in the case of Poland for us to take a "tough" line and insist upon selling out the gold collateral.