

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 2, 1947

To Chairman Eccles

Subject: Netherlands Financing

From Mr. Knapp

You will recall that the Netherlands has been engaging in two forms of short-term dollar financing with the intention of (a) refunding these obligations subsequently through long-term borrowing from the International Bank or the private market, or (b) repaying them from the proceeds of liquidation of American securities which are privately held in the Netherlands.

One of the forms of short-term borrowing was a loan on gold (originally from a commercial banking syndicate headed by the Chase Bank, subsequently taken over by the Federal Reserve Bank of New York). On April 15 this loan, amounting to 130 million dollars, reached maturity and was repaid through sale of the gold collateral (the Netherlands Bank had already deducted the gold from its published gold reserve).

The second short-term credit arrangement was with the Export-Import Bank (and a group of participating commercial banks) for an amount of 200 million dollars. So far 160 million dollars has been drawn under this credit by the Netherlands Government, and the remaining 40 million will probably be drawn shortly. About 100 million dollars will have to be repaid in the first half of 1948, and a further 100 million dollars in the first half of 1949.

Dutch gold and foreign exchange reserves are still declining and they continue to anticipate a large deficit in their balance of trade. Therefore, these amounts can be repaid only from the sources listed above. The Dutch have recently applied to the International Bank for a major long-term credit (535 million dollars), and they may also try a 50 million dollar public issue in the New York market in the near future (possibly with a standby commitment by the International Bank). Altogether, however, it seems very unlikely that they will be able to get through the next two or three years without undertaking the liquidation of at least part of their privately-held dollar assets.

Up to now, very little liquidation of this kind has taken place. Net Dutch sales of domestic U.S. securities have amounted to only some 40 million dollars during the past year out of total holdings estimated at perhaps half a billion dollars (aside from another half billion dollars in direct investments, trusts, etc., in the United States). The Dutch Government has been very reluctant to requisition privately-held securities or to compel their liquidation. It has, however, made a novel proposal which may result in the mobilization of some of these resources. It has invited private Dutch holders of U.S. securities to sell these securities and invest the proceeds in a 3 per cent 40-year Netherlands Government bond issue on which interest and principal would be paid in guilders at the official dollar rate applicable

on the date of payment. Holders of American securities are thus offered what is, in effect, a dollar asset and would be protected against the effects of future depreciation in the guilder. We have not yet heard the results of this offer; if it is successful, it would seem to be a good compromise between our view that the Dutch should make use of their own resources before resorting to dollar loans, and the Dutch view that the outright requisitioning of privately-held Dutch securities would constitute an undue infringement of private property rights.