

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 5, 1947

To Chairman Eccles

Subject: _____

From Mr. Knapp



Attached is a memorandum concerning the International Bank loan to the Netherlands which is the only subject on the National Advisory Council agenda this afternoon. You may also desire to request an Executive Session following this meeting to discuss the matters covered in my memorandum to you of yesterday's date (policy matters which might arise at the London Fund and Bank Conference).

Attachment

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Office Correspondence

Date August 5, 1947.

To Chairman Eccles

Subject: Subject for consideration at
National Advisory Council meeting this
afternoon.

From Mr. Knapp



The subject for consideration at this afternoon's National Advisory Council meeting is the proposed International Bank loan to the Netherlands. This matter only came to a head late last week, and there has been no opportunity to prepare a Staff Committee paper on the subject.

You will recall that last December the National Advisory Council approved limits for International Bank loans to several countries, including 150 million dollars for the Netherlands. The Netherlands had applied for a loan of 535 million dollars to be distributed over a period of three years. The International Bank has now decided to make its first loan to the Netherlands in the sum of 200 million dollars and the N.A.C. is therefore requested to raise the limit from 150 million to 200 million dollars.

This seems to be a thoroughly justifiable loan both in the sense that the Netherlands needs assistance to continue its major reconstruction job, and also in the sense that the prospects for repayment are very good. A major reason for confidence in the prospects of repayment is that the Netherlands holds up to 1 billion dollars in long-term investments in the United States, although some of these investments will have to be liquidated to help in financing the current program and to repay past indebtedness. In fact, the credit of the Netherlands is almost good enough to permit financing by direct public issues. The Netherlands did make a 20 million dollar issue last May on terms which resulted in a net cost to the Netherlands of something over 4 per cent. However, this issue was not well received, and it is apparent that the Netherlands cannot raise additional large amounts in this manner, at least at the present time.

The Netherlands now has outstanding a short-term loan from the Export-Import Bank (with the participation of commercial banks) in the amount of about 180 million dollars (originally 200 million, but 20 million was paid off with the proceeds of the public issue). About 90 million dollars of this credit matures in the first half of 1948, and 90 million in the first half of 1949. The International Bank did not want to be put in the position, however, of having its loan used indirectly to refund the Export-Import Bank loan. Accordingly, it insisted either that the maturity of the Export-Import Bank loan be extended or that the Netherlands undertake to repay that loan out of other resources, specifically out of private Dutch investments in the United States. The result has been the following compromise: the Export-Import Bank proposes to postpone collection of its share in the short-term loan to the Netherlands to 1950-52 although the share held by the participating commercial banks will mature in 1948-49 as scheduled. On the other hand,

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the Dutch have agreed to make all repayments on this loan out of the proceeds from liquidation of private Dutch investments in this country and to requisition such investments for the purpose, if necessary.

This seems to me a reasonable solution since in effect it requires the Dutch to liquidate some of their private investments as a partial contribution to their reconstruction effort.