

March 24, 1948

Governor Szymczak

Additional items which may be

Mr. Knapp

discussed at N.A.C. meeting.

It appears probable that two additional items not yet listed on the agenda will come up for discussion at tomorrow's National Advisory Council meeting. One relates to certain matters still in doubt in the EEP legislation (Mr. Deabits is preparing a memorandum on this subject). The other relates to the charge to be made by the International Bank on its foreign loans.

With respect to the second question, the Council back in 1946 gave instructions to the U.S. Executive Director approving the Bank's charging on its loans a quarter of 1 per cent more than the cost of money to the Bank, provided that this did not raise the total interest charge to the borrower above 3-1/4 per cent (i.e. total charge of 4-1/4 per cent including the 1 per cent commission which is paid into the Special Reserve). It was felt at that time that if the cost of money to the Bank ever rose substantially above 3 per cent, the need for the 1/4 per cent margin should be reconsidered in the hope that it might be eliminated and the charge to borrowers held down to a reasonable level.

The cost of long-term money to the Bank on the basis of the recent range of market prices for its outstanding debentures has moved above 3 per cent, and as a result the staff of the Bank in negotiating with the Government of Chile has apparently proposed that the charge on the long-term loans included in the Chilean program should be 4-1/2 per cent (including commission) instead of the 4-1/4 per cent charged on previous loans. While time does not permit analysis of the need for the quarter per cent margin prior to conclusion of the Chilean negotiations, the Staff Committee feels that a strong case can probably be made for abandoning this margin, and that in any case it would be very unfortunate for the matter to be prejudiced by the adoption of a new rate in the Chilean case. We will therefore strongly urge at tomorrow's meeting that the U.S. Executive Director be asked to see that the rate is held down to 4-1/4 per cent on the Chilean long-term loan (amounting to around 10 million dollars) pending further study of the general rate problem.

JHK:mla

