

"SECRET"

MEMORANDUM:

Re: Additional Lending Authority for Export-Import Bank

The Export-Import Bank has examined Mr. Collado's memorandum of December 11, 1945 to Mr. Acheson regarding the need for additional lending authority for the Bank to meet the demands which will be made upon it during the calendar year 1946. It will be recalled that the calculation attached to Mr. Collado's memorandum was based on the estimates of the requirements of foreign countries for dollar credits in 1946, as given in NAC Document 21, with allowances for (1) lend-lease credits already arranged or under negotiation, (2) credits recently authorized by the Export-Import Bank, (3) loans under consideration by the Export-Import Bank with favorable recommendations from the Department of State, (4) the Export-Import Bank's special cotton credit, (5) private financing, (6) loans by the International Bank, and (7) uncommitted funds of the Export-Import Bank. This calculation is reproduced below:

	(Millions of Dollars)
Total requirements of foreign countries for dollar credits in 1946 according to NAC Document 21, exclusive of U.K. requirements	7,520
Deduct:	
(1) Lend-lease credits	700
(2) Recently authorized Eximbank loans	1,010
(3) Loans under consideration by Eximbank with support of State Department	195
(4) Eximbank special cotton credit	100
(5) Private financing (NAC Doc. 21)	1,000
(6) International Bank credits (NAC Doc. 21)	1,000
(7) Uncommitted Eximbank funds	<u>1,631</u>
	<u>5,636</u>
Balance required from Export-Import Bank or directly from Congress	1,884

It will be recalled also that Mr. Collado, having offered this calculation, gave it as his personal opinion that the lending authority of the Bank should be increased by \$2,500,000,000 to \$3,000,000,000, "so that it would be in a position to meet all requests which are reasonable, proper, and likely to be met in 1946."

The Export-Import Bank agrees that it will require additional lending authority to meet the legitimate demands which will be made upon it during 1946. However, the Bank is not prepared to accept the estimates of NAC Document 21 as point of departure because it believes they do not

give sufficient weight to the high proportion of local expenditures involved in reconstruction and development or to the time necessary for procuring and installing capital equipment of the type which Export-Import Bank loans will be used in large part to finance. The Bank takes the position that the most useful computation for present purposes is one which takes account of its specific knowledge of the stated needs of foreign countries for dollar credits and their probable demands upon the Bank during the current year.

There follows a country-by-country summary of these anticipated demands based upon information in the files of the Bank. This summary shows a total of \$6,615,000,000 including the British credit, or \$2,865,000,000 without the British credit. If allowance is made for the uncommitted funds of the Export-Import Bank amounting to \$1,940,000,000 as of December 31, 1945, the additional funds needed for 1946 would be \$4,675,000,000 with the British credit or \$925,000,000 without the British credit.

Regardless of the figure which is used as the basis of a request to Congress for additional lending authority for the Export-Import Bank, the proposal should not be confined to estimated requirements for the calendar year 1946 alone. It should also make allowance for needs at least during the second half of the fiscal year 1947 and provide a reasonable "cushion" against unforeseen and unforeseeable contingencies. The Bank believes that a minimum of \$500,000,000 should be available for these purposes. It therefore concludes that a reasonable request to Congress would be for additional lending authority of \$5,250,000,000 including the British credit or \$1,500,000,000 without it. The principal doubts attach to the credits that may be extended to China, France, the U.S.S.R., Poland, and Czechoslovakia. If the amounts made available to any of these countries should be appreciably larger than those used in the present compilation, the additional lending authority required by the Bank would be increased accordingly.

EUROPE

Belgium. The Belgian Government has made an official request to the Bank for general reconstruction credits totalling \$250,000,000. There is nothing in the request which indicates the extent to which it might be modified as a result of the overall financial settlement with Belgium reached in October. However, we have had an indication within the past month that Belgium will apply in the near future for an additional credit of \$100,000,000. Since the amount is not large in comparison with Belgium's requirements for reconstruction financing and since the risk will probably be judged good, this amount should be included among the possible new credits extended by the Export-Import Bank during 1946.

Czechoslovakia. The Government of Czechoslovakia has applied to the Bank for a reconstruction loan of \$300,000,000. For a variety of reasons, involving both economic and political problems, this application has not so far been the subject of active negotiations. It has recently been proposed by the Department of State that an initial credit of, say,

\$30,000,000 might be considered in the near future by the Bank. If such a credit is granted during the early part of 1946, the further requirements of Czechoslovakia for external financing can probably be met in other ways. This would seem probable also in view of the estimate of the Balance-of-Payments Subcommittee of the NAC Staff Committee that Czechoslovakia will have a deficit in transactions with the United States during 1946 of only \$56,000,000. Hence, only \$30,000,000 is included as a probable demand on the Export-Import Bank during 1946.

Denmark. The Export-Import Bank has not been approached by Denmark for credits in addition to the \$20,000,000 line already in operation. However, there have been rumors from Copenhagen and elsewhere that the Danes would apply for an additional credit of \$30,000,000, and this amount has been included despite its rather flimsy foundation.

Finland. The Export-Import Bank has before it a proposal for a general credit to Finland of \$35,000,000. The Finns have indicated that, if this is approved, they will come back in a few months with a request for an additional \$30,000,000 to cover the balance of their 1946 requirements.

France. The French have indicated on several occasions that they hope to negotiate credits with the Export-Import Bank in addition to the \$550,000,000 credit concluded in December. The first application, which may be expected early in 1946, will probably be for a second credit of \$500,000,000. If such a credit is arranged before the middle of the year, it may be anticipated that the further requirements of France for dollar financing during 1946 will be accommodated by the International Bank or that France will draw down her very substantial holdings of gold and dollars pending the availability of funds through the International Bank. The French have said that they would be willing eventually to draw down these holdings, which now exceed \$2,000,000,000, by as much as \$1,000,000,000. If this assumption proves to be incorrect, there may be a demand by France for a third credit in the amount of \$500,000,000. However, only \$500,000,000 has been used in the present calculation as a probable demand on the Export-Import Bank during 1946.

Greece. If the \$25,000,000 credit now pending before the Board of the Export-Import Bank is approved, it can be demonstrated that the essential import requirements of Greece during 1946 can be met fully by this means, by the UNRRA program, and by the use of Greece's own resources. The problem of further external financing for Greece will not arise until 1947, although it will be necessary, of course, to anticipate the 1947 import program by several months. Even so, it would appear that the Greek problem, which is an extremely difficult one, can be transferred to the International Bank, and only \$25,000,000 has been used in the present calculation as a probable Export-Import Bank credit to Greece during 1946.

Italy. The Export-Import Bank has only begun to study the problem of financial aid to Italy during 1946, and it will probably be several months at least before all of the economic and political obstacles can be overcome, if they are overcome. Here, too, in view of the very extensive UNRRA program for Italy during 1946, the acute problem will arise with respect to 1947 requirements rather than 1946 requirements. As a pure guess, it is assumed that the Export-Import Bank will arrange in the course of 1946 general credits of, say, \$100,000,000 to enable Italy to prepare in some measure for the crisis that will surely come in 1947 with the discontinuance of UNRRA assistance.

Netherlands. The further demands of the Netherlands on the Export-Import Bank depend to some extent on the outcome of negotiations now in progress for a credit from a group of private banks. Since it now appears that these negotiations will bring forth a relatively small amount of private credit, it may be assumed that the Government of the Netherlands will seek to meet its need for additional dollar financing for 1946 largely through the Export-Import Bank. The extent of their demand cannot be very definitely foreseen but indications have been given both in private conversation and official correspondence that credits of \$400,000,000 will be sought over and above the credits extended by the Bank at the end of October. If funds are available, the Export-Import Bank would probably give sympathetic consideration to a demand from the Netherlands of this amount both because the need can be demonstrated and because the risk will be considered good. Allowance is made for private credits in the amount of \$35,000,000, which is the figure now estimated to be available from commercial banks.

Norway. The credit of \$50,000,000 to Norway which was authorized by the Board of Trustees of the Bank on July 13, 1945, has still not been formalized in a loan agreement. There is no application before the Bank for an additional credit to Norway. However, so far as can be judged on the basis of need, Norway will require additional credits of perhaps \$50,000,000 during 1946, and this amount is included in the present calculation.

Poland. The Polish Government has applied to the Bank for an immediate credit of \$380,000,000 in terms of 1938 values and has indicated also its desire to negotiate another credit of \$500,000,000 for longer range reconstruction purposes. For various reasons, it is most improbable that any large dollar credits to Poland will be seriously considered in the near future. However, the State Department is prepared to support an initial credit of \$25,000,000 to cover emergency requirements of Poland for capital equipment from the United States, especially transportation equipment. Assuming that such a credit is arranged some time during the first half of 1946, the need of Poland for additional reconstruction credits can possibly be met by the International Bank. The total deficit of Poland as a result of transactions with the United States in 1946 is estimated at \$262,000,000, so that substantial assistance over and above the initial small credit now proposed would almost certainly be necessary.

U.S.S.R. Whether a loan will be extended by the Export-Import Bank to the U.S.S.R. during 1946 is impossible to foretell at present. There has been no approach to the Bank by the Russians, although the question of dollar credits was raised in conversation with Mr. Crowley at the time of lend-lease termination. If a credit to Russia is arranged, the most likely figure would seem to be \$1,000,000,000. This is the amount that has been generally mentioned as a reasonable initial credit to Russia. It would cover the deficit in transactions with the United States in 1946 as estimated by the Balance-of-Payments Subcommittee of the NAC Staff Committee.

United Kingdom. The United Kingdom is, of course, a special case, and the amount of the dollar credit to be made available has been fixed by the recent financial agreement with the United States at \$3,750,000,000.

Yugoslavia. The Bank has before it an application from Yugoslavia for a credit of \$300,000,000. However, there have been no active negotiations for some time, and we have been informed in private conversation that the Yugoslavs are not inclined to press their application at any time in the near future. Even so, a nominal figure of \$25,000,000 might be used for present purposes as the amount of the possible accommodation to Yugoslavia by the Export-Import Bank during 1946. This amount would be less than half of the estimated deficit on account of transactions with the United States during the year.

MIDDLE EAST

Turkey. The Government of Turkey has made application to the Bank for a development loan of \$500,000,000. Negotiations have not proceeded very far and it is extremely unlikely in any case that a credit of this size would be made available to Turkey. However, it seems entirely possible that a small initial credit might be arranged during 1946, especially since Turkey will probably not have access to the facilities of the International Bank. A nominal figure of \$25,000,000 has been used.

Egypt. We have had some informal talk with a representative of the Government of Egypt regarding possible development loans to that country. In the absence of concrete proposals and because of other complications, it is improbable that any credits will be arranged during 1946. Hence, nothing has been included for Egypt in the present calculation.

Saudi Arabia. The Bank has approved an additional credit to Saudi Arabia of \$25,000,000 which will appear on the books of the Bank as a commitment made during 1946.

FAR EAST

China. The Bank has under study an application from the Chinese Supply Mission for a reconstruction and development credit for use during 1946

of \$560,000,000. The Bank has not been willing to consider an initial credit of this size to China, and the recent order from the President to suspend negotiations with the Chinese strengthens the hand of the Bank in dealing with the Chinese program on a piece-meal basis. An initial credit of \$50,000,000 has been suggested, subject to instructions from General Marshall, in addition to the \$33,000,000 cotton credit recently approved by the Bank's Board. A figure of \$100,000,000 has been used for present purposes as an estimate of the possible extent of the Export-Import Bank aid to China during 1946. The smallness of the figure is explained not only by circumstances connected with General Marshall's mission to China but also by the fact that the Chinese Government has substantial resources of gold and dollar exchange, will be the beneficiary of an UNRRA program amounting to \$500,000,000, and will have access to the facilities of the International Bank as soon as it goes into operation.

India. It is difficult to make any prediction about the possible extent of Export-Import Bank credits to India during 1946. There have been some informal discussions both with the Indian Industrial Mission to the United States and with representatives of the Independent Indian States, but there are no concrete proposals before the Bank. An arbitrary figure of \$100,000,000 has been included in the present calculation.

Netherlands East Indies. The credit of \$100,000,000 to the Netherlands East Indies authorized by the Board of Trustees of the Bank on September 11, 1945, has not been concluded and may not be for some time because of the revolt in the Indies and the continuing negotiations regarding the supplying of tin to the United States. If the credit already authorized is formalized, it will fully cover the dollar deficit on current account for 1946. Accordingly, no additional amount for the Netherlands East Indies has been included in the 1946 program of the Bank.

Philippine Islands. Although the Philippine Islands has become eligible for credits from the Export-Import Bank under a recent amendment to the Export-Import Act of 1945, it seems very improbable from what we have been able to learn from persons concerned with Philippine financial affairs that assistance from the Export-Import Bank will be required during 1946.

LATIN AMERICA. At the time the Bank assessed the probable demands on it during the fiscal year 1946, it was estimated that Latin American projects might require as much as \$300,000,000. Since that time, approximately \$100,000,000 of new credits have been arranged. A figure of \$200,000,000 will cover prospective demands during the calendar year 1946.


August Maffry
Economic Adviser

RECAPITULATION

Estimate of Probable Demands on Export-Import Bank During 1946

EUROPE

Belgium	\$100,000,000
Czechoslovakia	30,000,000
Denmark	30,000,000
Finland	65,000,000
France	500,000,000
Greece	25,000,000
Italy	100,000,000
Netherlands	365,000,000
Norway	50,000,000
Poland	25,000,000
U.S.S.R.	1,000,000,000
United Kingdom	3,750,000,000
Yugoslavia	25,000,000

MIDDLE EAST

Turkey	25,000,000
Egypt	—
Saudi Arabia	25,000,000

FAR EAST

China	100,000,000
India	100,000,000
Netherlands East Indies	100,000,000
Philippine Islands	—

<u>LATIN AMERICA</u>	<u>200,000,000</u>
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TOTAL	\$6,615,000,000
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TOTAL excluding United Kingdom	\$2,865,000,000
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