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Washington, D.C.

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L.B. Rist: U.K. Credit Conditions
1957

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Leonard B. Rist - United Kingdom Credit Conditions - Correspondence - 1945 - 1957

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Henry B. Therman = 3405

US loan to UK in 1946. 3,750,000,000

50 y. 2%.

- with delaying feature

= how money time used by UK?

- actual text of loan contract

—

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

amended

UK Parliament

April, 8, 57

US Congress voted
April 20, 57

Notification to UK.

April 25, 57

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Kybal -

EDs approved

increase from 6 to 6 1/2

loan to Venezuela

for INOS

10 mil at 6 1/2

7.2 — at 4.

Pen release Dec 5.

Financiera - Mexico

6 and 8 -

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Canada - \$ 1.250.-

same substance.

^{with statement}
delayed 1957 - 64-65-

- BITTERMAN -

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

- OFFICE OF THE PRESIDENT -

Canadian Statute

Canada

Repeal

Library -

Call

Call of Blackwell
IMF

expulsion
Canada

2893 -

OK suspended 56 57

61-63 - 65

Anglo-American Financial Agreement - signed December 6, 1945

Approved by Congress July, 1946

Total Line of Credit \$3,750 billion.

Interest 2 percent

Repayment 50 years beginning 1951.

Period of grace up to December 31st 1951.

Comments of Treasury Department on Interest Waiver Clause

Why will interest payments be waived under certain conditions?

The waiver clause recognizes that temporary adverse conditions can make payment of interest difficult. The British point out that American purchases of British goods might in a depression sink so low that over several years it would be impossible for them to earn the dollars necessary for their interest payments.

It has not been customary to make allowance in foreign loans for the possibility of a depression in world trade. The absence of such a provision is one of the reasons why default was often difficult to avoid. Our representatives thought that a provision which permitted interest to be waived in especially bad years was not only fair but also to our benefit. We certainly would prefer to collect the principal rather than force default, which might be the only alternative.

England may request a waiver of interest and the United States will grant it in any year if (a) the British find a waiver is made necessary by the present and prospective conditions of international exchange and the level of British gold and foreign exchange reserves; and (b) the International Monetary Fund certifies that the income from exports of goods produced in England, plus their net income for services rendered to foreigners, such as insurance and shipping receipts and foreign investment, falls below an agreed minimum, stipulated in the Financial Agreement, necessary to pay for essential imports.

The Agreement provides that the amount of interest due will not be waived in any year unless interest payments are also waived on other obligations of England incurred during the period from December 1945 to the end of 1951 and unless payments on the accumulated sterling balances are correspondingly reduced.

It should be noted that the waiver does not apply to repayment of principal. The whole of the principal of the credit must be repaid without qualification.

Extract from U.S. Treasury Department pamphlet of January 1946 -
"Questions and Answers on the Anglo-American Financial Agreement.

Extracts from Financial Agreement between the Governments of
the United States and the United Kingdom

It is hereby agreed between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland as follows:

1. Effective date of the Agreement. The effective date of this Agreement shall be the date on which the Government of the United States notifies the Government of the United Kingdom that the Congress of the United States has made available the funds necessary to extend to the Government of the United Kingdom the line of credit in accordance with the provisions of this Agreement.

2. Line of credit. The Government of the United States will extend to the Government of the United Kingdom a line of credit of \$3,750,000,000 which may be drawn upon at any time between the effective date of this Agreement and December 31, 1951, inclusive.

3. Purpose of the line of credit. The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

4. Amortization and interest. (i) The amount of the line of credit drawn by December 31, 1951 shall be repaid in 50 annual installments beginning on December 31, 1951, with interest at the rate of 2 percent per annum. Interest for the year 1951 shall be computed on the amount outstanding on December 31, 1951, and for each year thereafter interest shall be computed on the amount outstanding on January 1 of each such year.

Forty-nine annual installments of principal repayments and interest shall be equal, calculated at the rate of \$31,823,000 for each \$1,000,000,000 of the line of credit drawn by December 31, 1951 and the fiftieth annual installment shall be at the rate of \$31,840,736.65 for each such \$1,000,000,000. Each installment shall consist of the full amount of the interest due and the remainder of the installment shall be the principal to be repaid in that year. Payments required by this section are subject to the provisions of section 5.

(ii) The Government of the United Kingdom may accelerate repayment of the amount drawn under this line of credit.

5. Waiver of interest payments. In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the installment of that year, the Government of the United States will grant the waiver if -

- (a) the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves; and
- (b) the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-8, fixed at £866 million, as such figures may be adjusted for changes in the price level of these imports. Any amount in excess of £43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities, and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

12. Consultation on Agreement. Either government shall be entitled to approach the other for a reconsideration of any of the provisions of this Agreement, if in its opinion the prevailing conditions of international exchange justify such reconsideration, with a view to agreeing upon modifications for presentation to their respective legislatures.

Signed in duplicate at Washington, District of Columbia, this 6th day of December 1945.

For the Government of the United States of America:

Fred M. Vinson,
Secretary of the Treasury
of the United States of America.

For the Government of the United Kingdom of Great Britain and Northern Ireland:

Halifax
His Majesty's Ambassador Extraordinary and
Plenipotentiary at Washington.

Agreement to amend the Financial Agreement of December 6, 1945, between
the Governments of the United States and the United Kingdom

Subject to the provisions of paragraph 3 hereof, it is hereby agreed between the Government of the United States and the Government of the United Kingdom of Great Britain and Northern Ireland as follows with regard to the Financial Agreement executed by them on December 6, 1945:

1. Section 5 is amended to read:

5. Deferment of annual installments.

(i) In any calendar year after December 31, 1956, in which the Government of the United Kingdom advises the Government of the United States that it finds that a deferment is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves, the Government of the United Kingdom may defer the payment of the annual installment for that year of principal repayment and interest specified under Section 4. Not more than seven (7) annual installments may be so deferred. The first of any such deferred installments shall be paid on December 31, 2001, and the others shall be paid annually thereafter, in order.

(ii) In addition, the installment of interest in respect of the year 1956 is hereby deferred, in lieu of any right of waiver hitherto existing. This installment shall be paid on December 31 of the year following that in which the last of all other installments, including installments deferred under the preceding paragraph, is due.

(iii) Deferred installments shall bear interest at the rate of 2 percent per annum, payable annually on December 31 of each year following that in which deferment occurs.

(iv) Payment of deferred installments may be accelerated, in whole or in part, at the option of the Government of the United Kingdom.

2. Section 6 is amended to read:

6. Relation of this line of credit to other obligations. The Government of the United Kingdom undertakes not to defer an installment under Section 5 of this Agreement in any year, unless it also defers the installment due in that year under the Financial Agreement between the Government of Canada and the Government of the United Kingdom, dated March 6, 1946.

3. This Agreement shall become effective when the Government of the United States has notified the Government of the United Kingdom that the Agreement has been approved by the Congress and the Government of the United Kingdom has notified the Government of the United States that the appropriate Parliamentary action has been taken.

Signed in duplicate this 6th day of March, 1957.

For the Government of the United States of America:

G. M. Humphrey
Secretary of the Treasury of the United States of America

For the Government of the United Kingdom of Great Britain and Northern Ireland:

Harold Gaccia
Her Majesty's Ambassador Extraordinary and Plenipotentiary at Washington