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MR. BLACK'S TRIP TO LONDON
March, 1954

Finance and Business

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# WORLD BANK STERLING

## Heavy Demand for Textile Issue

BY OUR FINANCIAL STAFF

Mr Eugene Black, president of the World Bank, is in London on one of his customary visits to see representatives of the Treasury, the Bank of England, and City institutions. He has not, he says, come with any plan for freeing the pound. But there is no doubt that the future of sterling will be constantly in the background, for the bank has a sterling problem of its own. Early last year the bank was allotted £60 millions to utilise in development projects in the Commonwealth. Yet so far little of this sterling has been taken up by Commonwealth countries. India, with £5 millions, has been virtually the only recipient.

Two reasons are given for this. One is that Commonwealth countries can raise money much cheaper in London. The other is that the £60 millions cannot be lent to Colonies where sterling is the domestic currency. The first point is a sound one. Though the World Bank has been able to raise funds in New York this year at 3½ per cent and, in view of the rise in the bond market since January, could no doubt get money even cheaper now, borrowers still have to face a 1 per cent commission charge. The bank's lending rates of, say, 4½ per cent have to compare in fact with the 4 per cent or so which Colonial and Commonwealth borrowers have been paying for new capital in the London market. The validity of the other point is less easy to assess. According to the bank's articles it cannot lend a country its own domestic currency "except in exceptional circumstances." Whether this has prevented some of the sterling being lent to Colonial territories is not clear, though the escape clause would seem to apply to cases such as this.

But even if the fate of this £60 millions is still obscure, the World Bank has certainly been active in lending dollars to Commonwealth countries. So far the equivalent of $500 millions has been lent to Commonwealth countries, which is about a quarter of the bank's total loans to date. Moreover, loans up to a further $200 millions are currently being discussed within the Commonwealth. A first loan to Ceylon will shortly be arranged and loans to India and Pakistan are being prepared. As for the future the World Bank has lately been successful in getting New York banks to join it in some of its schemes and the success of the Sui gas project in Pakistan (where the Commonwealth Development Finance Company has co-operated with it) should provide the basis for talks in the City this week about similar co-operative efforts in other fields.



# MR. EUGENE BLACK IN LONDON TALKS

Mr. Eugene Black, the president of the International Bank for Reconstruction and Development, began a three-day visit to London yesterday.

During his stay he is having talks with Mr. R. Maudling, Economic Secretary to the Treasury, and with Mr. R. A. Butler, Chancellor of the Exchequer. He will also visit financial institutions in the City.

It is expected that one of the main points he will discuss with British Ministers is the future use of the £60m. of Britain's local currency subscription to the Bank's capital, which the British authorities released for backing loans by the Bank to sterling area countries more than a year ago. So far, arrangements have been made to put to use only a few millions of this sum.

After leaving London, Mr. Black will travel to the Continent, where he will spend five days visiting France and Switzerland before he returns to Washington.

## LOAN OFFER TO GREECE

ATHENS, May 18.

A letter from the Governor of the World Bank offering credits to Greece expresses the hope that progress will be made in negotiations for the settlement of Greece's foreign debt. This was announced here by the Minister of Co-ordination.

The letter said the bank was prepared to provide industrial credits and also part of the capital for one of the projects in Greece's rehabilitation programme. It proposed immediate negotiations to decide which project this should be.—Reuter.

THE NEW YORK TIMES
THE NEW YORK HERALD TRIBUNE
THE WALL STREET JOURNAL
THE NEW YORK JOURNAL OF COMMERCE
THE WASHINGTON POST
THE WASHINGTON STAR
THE TIMES HERALD
THE WASHINGTON NEWS
THE TIMES (LONDON)
THE FINANCIAL TIMES
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Banking and Finance

# WORLD BANK'S £'s

By LOMBARD

It is now 15 months since the British authorities announced their intention to allow the International Bank for Reconstruction and Development to put to use in financing development projects in sterling area countries £60m. of Britain's local currency subscription to the bank's capital. Up to now, however, arrangements have been announced for employing only £5m. of this sum—the whole of it in the form of a loan to India for paying for the erection of a steel plant and some other smaller projects. It seems certain, therefore, that there will be much to talk about when Mr. Eugene Black, the president of the World Bank, meets the Chancellor of the Exchequer and other U.K. Ministers during his three-day visit to London this week.

There is no doubt that proposals have been under consideration for utilising part of the sterling funds Britain has placed at the bank's disposal in connection with prospective advances by the bank to sterling countries in Africa and elsewhere. One reason why none of these schemes has as yet come to fruition is that a great deal of groundwork has to be covered before the negotiations for a loan by the bank can be completed. For instance, the bank usually insists upon being allowed to assure itself not only that the project it is being asked to finance is itself a sound one but also that the country that is receiving the money will be able to accommodate the resulting amortisation payments within its payments system. And that, more often than not, means on-the-spot surveys of a geographical and economic kind lasting many weeks and sometimes running into several months.

## INTEREST FACTOR

This, however, is not the only factor that is slowing down the movement of sterling finance from the bank into sterling area projects. There is a good deal of evidence that much of the trouble is due to the fact that sterling area countries needing money for development work have an alternative to going to the bank—they can come straight to the London market. The disadvantage of taking the latter course is that they may have to take their turn in the queue with other intending borrowers in London, such as the U.K. municipalities and even the Treasury itself.

But as most capital development projects take time to mature, this may not be a very serious handicap. And against this disadvantage can be set the fact that the sterling area country that comes to London for its capital development finance may, in present conditions, be able to do its business on more attractive terms than if it operated through the bank. For in the recent past the bank has been charging rates of about 4½ to 4¾ per cent. for most of its loans (including a 1 per cent. commission charge). Yet sterling area Governments have been able to borrow in London at no more than 4 per cent. And it must be remembered that, as the bank insists that payment of interest and repayment of capital on all its advances must be guaranteed by the Government of the country to which the money is being advanced, the bank's loans are of equivalent status to loans to Governments even when the money is actually going to be spent by private concerns.

## BANK'S CHARGES

If, therefore, the bank is going to be able to stimulate the demand from sterling countries for its sterling resources, it may have to find a way of bringing down its charges, especially now that the reduction in the U.K. Bank Rate has laid the basis for a further trimming of money costs in London. But since the bank's lending rates are to a large extent determined by the rates at which it can borrow, this may not be easy.

One possibility is that it may be decided to put a sizeable part of the bank's sterling resources to use in backing projects of the kind that could not easily raise their requirements in the London market. The recent announcement that arrangements are being made for a link-up between the World Bank, the Commonwealth Development Finance Company, the Burmah Oil Company and private investors in Pakistan in financing the Sui Gas project in that country may be of considerable significance in this respect.

Another possibility is that Mr. Black will press the U.K. authorities to allow him greater freedom in employing his surplus sterling for backing projects outside the sterling area itself. As access to the London capital market is at present restricted very largely to sterling area countries, there would be no danger of that market being able to undercut the bank in transactions of this kind. And, of course, there are plenty of countries outside the sterling area that would be anxious to get hold of additional sterling funds for backing their development schemes even at 4½ or 4¾ per cent.

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Banking and Finance

# STERLING CAPITAL FOR NON-£ COUNTRIES?

By LOMBARD

No immediate results seem likely to flow from the three-day visit which Mr. Eugene Black, the president of the International Bank for Reconstruction and Development, paid to London this week for talks with British Ministers. It has been officially stated that these discussions ranged over all subjects touching upon the bank's relations with the U.K. But there can be little doubt that, as expected, the main question that came under examination was whether steps should be taken to speed up the use of Britain's local currency subscription to the bank's capital.

The overseas sterling area countries have so far shown little interest in the £60m. of such money which Britain agreed early in 1953 to release for backing loans by the bank to them—mainly because they can raise their sterling capital requirements on more attractive terms by coming straight to the London market. So Mr. Black has apparently urged that the British authorities should consent to these moneys being lent to the many countries outside the sterling area that would be glad to have them.

The U.S. and several other members of the World Bank have, of course, already given it permission to dispose of their local currency subscriptions to its capital in any loans it chooses. For reasons of prestige the British Government might like to follow suit. But it is not difficult to see that there are important objections to such a course.

## INCREASED STRAIN

To begin with, when the £60m. was released for lending by the bank to sterling area countries, the British authorities were acting on the assumption that the net effect would not be to add to the strain imposed on the U.K.'s economy by financing overseas development. It was considered likely that, to the extent that these countries obtained their sterling capital development needs from the bank, they would borrow so much less heavily on the London Capital market. But since non-sterling countries are not at present allowed access to the London Capital market, the effect of allowing them to draw on the World's Bank sterling supply would be to increase the pressure on Britain's economic resources.

Some quarters, of course, argue that the experience of the past year or so has indicated that this country could, in fact, undertake a certain amount of capital development activity outside the sterling area while fulfilling its obligations to sterling countries. But it can be argued—and with considerable force—that if the U.K. is now in a position to shoulder responsibilities of this sort, it should reopen the London Capital market to foreign countries rather than allow the World Bank to lend sterling for it. For one thing, the World Bank pays no interest on the local currencies it lends for its members, whereas money lent through the London Capital market would add to Britain's invisible income. For another, the ability to make credits available through the London market would undoubtedly strengthen Britain's bargaining position in economic relations with not a few foreign countries—in a way that sterling credits emanating from the World Bank would never do.

Thus, while the British authorities may show themselves willing to release sterling for backing World Bank loans to non-sterling countries in a few special cases—as they have done once or twice in the past—it seems unlikely that they will grant Mr. Black any general permission to commit these moneys in operations outside the sterling area.

Incidentally, comments made by Mr. Black at a Press conference held during his visit to London suggest that hopes that the recent talks between the World Bank and Argentina will eventually lead to the Argentines extending better treatment to British capital in that country should not be placed too high.