

*Spaced*

HISTORY OF THE LUXEMBOURG LOAN APPLICATION

- I. In a letter dated November 18, 1946, Mr. Le Gallais, Minister of Luxembourg in Washington, forwarded a letter and a memorandum which he had received from Mr. Dupong, President of the Luxembourg Government and Minister of Finance. The letter requested a loan of \$20,000,000 "with respect to the reconstruction of the devastated areas in Luxembourg and to the restoration of the Luxembourg economy". The memorandum gave the vague outlines of a 5,000,000,000 franc (\$114,000,000) 5-year Reconstruction Plan, but did not show Luxembourg's need for Foreign Exchange or relate the expenditure of the proposed loan to the Reconstruction Plan. In a conversation with Mr. Pineo and Mr. Hoar, Mr. Le Gallais was informed that the bank had not enough information on which to base an opinion.
- II. As a result, on December 30, 1946, Le Gallais forwarded Complementary Notes numbers 1 and 2 to the memorandum and asked for an opportunity to discuss the matter with Mr. Pineo. Complementary Note number 1 gave a breakdown of the imports required in 1947 in connection with the Reconstruction Plan which showed hardly any need for U. S. dollars except for the importation of coke from Germany. On the other hand, Complementary Note number 2 indicated that Luxembourg normally had in pre-war years a favorable balance of trade and had, since liberation, again achieved this position. It also gave sketchy information about the the Institut Belgo-Luxembourgeois du Change, the single authority charged with the operation of foreign exchange control in the Economic Union of Belgium-Luxembourg. From these Complementary Notes, it looked as if the question of a loan to Luxembourg was complicated by three main questions:
- (a) The existence of common foreign exchange pool.
  - (b) The apparent purposes for which the loan was to be used.
  - (c) The use of the loan for internal financing.



25 March, 1947

In view of these complications, it seemed that it would be much better if the Economic Union of Belgium-Luxembourg would present a joint application for a loan, particularly as it was understood that Belgium would shortly file an application.

III. However, in the course of a conversation which Le Gallais held with Mr. Pineo and other officials of the Bank on January 22, 1947, it was obvious that Le Gallais was strenuously opposed to the idea of a joint application and that this was an extremely sensitive political point. Consequently, it was decided to ask for details from the Luxembourg Government which would enable the Bank to decide on the question of the desirability in principle of the Bank granting a loan to Luxembourg. This letter, addressed to Le Gallais and dated January 23, 1947, asked that two elements of uncertainty in particular be clarified by giving - (a) a full exposition of the Reconstruction Plan, and (b) the fundamental purpose of the loan, i.e., whether the loan application was to relieve the internal strain of financing in francs or to cover an expected shortage in foreign exchange. It also requested information on the availability of alternative means of providing the required funds.

IV. The answer forwarded by Le Gallais on March 18, 1947 was in the form of a 3rd Complementary Note. This Complementary Note does not give specific answers to all the questions raised in our letter of January 23, 1947, but it does bring out the following points, the existence of which had been suspected by the Bank from the previous memorandum and Complementary Notes.

(a) The loan requested is required for relieving the strain of internal financing rather than for relieving a shortage of foreign exchange.

(b) The economy of Luxembourg is now comparatively prosperous.



25 March, 1947

- (c) The Reconstruction Plan is on a very generous scale and much of it could not be classed as productive.
- (d) Luxembourg's economy is dependent to a very large extent on the steel industry. This is now running at 60% of capacity only because allocations of coke and coal, every ton of which has to be imported, are insufficient due to the scarcity of supplies.

Problems now Posed by the Information Received from Luxembourg To Date

It seems necessary that, firstly, the Bank must give an answer to Mr. Le Gallais' letter of March 18, 1947, accompanying the 3rd Complementary Note and, secondly, that the Bank should not ask for further information if it is now satisfied that there is enough evidence to show that the loan is undesirable in principle. It appears, therefore, that the following questions should be decided upon:

(a) Practical Difficulties.

Luxembourg is a sovereign state and a member government of the Bank. However, it would appear that the formal consent of the Institut Belgo-Luxembourgeois du Change would be necessary before the Luxembourg Government could borrow externally and before it could acquire foreign exchange for the servicing of any loan which it was permitted to make. Even though these consents would be automatic, the service of the loan is ultimately dependent upon the foreign assets of the National Bank of Belgium which, again, are dependent upon the policies which the Belgian Government will follow. If, to insure that sufficient foreign exchange would be available for the service of a loan, the Bank were to demand that the National Bank of Belgium set aside sufficient foreign exchange, such an agreement would, of course, have to receive the consent of the Belgian Government.



25 March, 1947

(b) Currencies Required.

Should the Bank lend dollars when the currency actually required is Belgian francs? Should the Bank make a loan in Belgian francs? If so, the consent of the Belgian Government would be required.

(c) Internal Financing.

Should the Bank make a loan to be used for the purpose of relieving a strain on internal financing?

(d) The Economic Position of Luxembourg.

Is the Bank justified in making a loan to a country which, though it has suffered some war damage, is yet comparatively well off compared with other European countries.

(e) Purposes of the Loan.

If the four questions posed above are resolved in favor of the granting of a loan, should the bank make good a budgetary deficit which is largely caused by a very generous plan for the indemnification of war damage? If not, should the Bank request the Luxembourg Government to put forward a specific project for which the Bank might be inclined to grant a loan? If Luxembourg agrees to put forward a specific project, should not the Bank insist on the elimination of unproductive expenditures from the Budget?

(f) Availability of Alternative Means of Financing.

If the answers to the above questions are all favorable, it is still pertinent to inquire:

(i) Why an external loan at a reasonable rate of interest could not be raised, and

(ii) If it can be shown that no alternative means of financing can be found, why the period of the Reconstruction Plan should not be extended beyond five years so that (as seems

25 March, 1947

possible) the Luxembourg Government might be able to finance  
it out of its own resources.