INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THIRD ANNUAL REPORT

1947 - 1948

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TO THE BOARD OF GOVERNORS

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INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

WASHINGTON, D. C.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

September 27, 1948

My dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Bank for Reconstruction and Development, I have the honor to submit to the Board of Governors the Third Annual Report of the Bank, as approved by the Executive Directors. This report includes financial statements as of June 30, 1948, based on an audit of the accounts of the Bank made pursuant to Section 19 of the By-Laws. It also incorporates, pursuant to Section 19 of the By-Laws, an administrative budget for the fiscal year ending June 30, 1949, prepared by the President and approved by the Executive Directors.

While the financial statements cover the fiscal year ended June 30, 1948, the remainder of the report reflects the activities of the Bank for the period from August 10, 1947 to August 31, 1948.

Sincerely yours,

JOHN J. MCCLOY,
President.

Chairman, Board of Governors,
International Bank for Reconstruction and Development.

TABLE OF CONTENTS

INTRODUCTION

THIS THIRD ANNUAL REPORT of the International Bank for Reconstruction and Development records the Bank's activities during the period from August 10, 1947 to August 31, 1948. The story it tells is one of solid if modest achievement.

During the period covered by this report, the Bank authorized the granting of its first credits for development purposes. The pattern set by this financing is promising, especially by reason of the cooperation shown by the borrowing country in adopting measures designed to put its economy on a stronger and more stable basis and to improve its credit position. The year has also witnessed the Bank's first loans to private enterprises and its first use of its guarantee powers. There has been an impressive increase in the number of projects brought to the Bank for consideration; active discussions are now being conducted concerning such projects in more than 20 member countries. At the same time, as a result of these discussions, of extensive trips made by the top officials of the Bank within Europe and South America and of a number of field investigations undertaken by the Bank, there has emerged a much clearer understanding, both by the Bank and by its members, of the essential nature of the Bank's task and of the conditions necessary for its satisfactory fulfilment. There have also been encouraging developments in connection with the creation of a broader market for the Bank's securities; in particular, the Bank has been able to consummate the first sale of its non-dollar bonds.

The amount of money which the Bank has been able to invest during the year in sound, productive projects has not been large. The reasons are not obscure nor are they, from a long-range standpoint, disheartening. So far as European reconstruction is concerned, substantial loans by the Bank have been precluded primarily because of the uncertainties which have existed, first with respect to the shape and content of the European Recovery Program and later with respect to the manner in which loans by the Bank could best be brought into harmony with that program. So far as concerns other areas of the world, large-scale Bank financing has not yet been possible, due largely to the length of time required for the preparation of specific projects up to the point where they are ready for financing. In part, too, it is due to the need in some cases for the borrowing country to take steps to rectify unsound economic and financial conditions which affect its credit and which, if not remedied, would impair both the effectiveness of any Bank loan and the prospects for its repayment.

These are not long-term obstacles. It may reasonably be expected that the Bank's role in relation to the European Recovery Program will become clarified during the forthcoming months and, to the extent that the program helps Europe to regain stability, it will facilitate the Bank's operations. In other areas, considerable progress has already been made in drafting detailed plans for projects proposed for Bank financing and in initiating necessary economic and financial reforms; these steps should soon make possible a substantial increase in the amount of Bank investment for development purposes.

The fact must be frankly faced, however, that full realization of the Bank's potentialities cannot be expected as long as economic and financial stability in large areas of the world continues to be threatened by political tensions and unrest. The prevailing political uncertainties undermine confidence, hamper productive investment and disrupt normal trade relations. So long as this condition continues, the Bank will be faced with difficulties not only in making good loans but also in convincing the private investment market, to which it must look for the major portion of its loanable resources, that its investment portfolio is sound. Only as the world political situation becomes more stable can the Bank proceed with full momentum toward the accomplishment of its declared purposes.

The Bank's field of activity is still new, new to its clients as well as to the institution itself. The ultimate pattern of its operations is not fully predictable; it will depend in large part upon world economic conditions and trends which the Bank itself can only in small measure shape. But by developing its activities in different directions, both with respect to the size and character of its loans and with respect to the techniques it employs to channel capital into productive international investment, the Bank has grown in flexibility, strength and stature. As it continues to acquire experience and to gain the confidence of its members, the Bank should gradually be able to play an increasingly effective role in helping to raise production levels and living standards throughout the world.

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ROLE OF THE BANK

Post-war experience has shown that the distinction made in the Bank's Articles of Agreement between reconstruction and development is overshadowed in importance by the distinction between the Bank's activities in Europe and its activities in other areas of the world. In Europe, the devastations of war, physical and moral, have had the most far-reaching economic impact upon the world. Unlike the other areas, Europe enjoys for the most part a mature economy; in the import field, its need is less for capital equipment than for food, fuel and raw materials, and in the investment field, its need is more for modernization, expansion and more effective utilization of existing productive facilities than for the construction of new facilities or for the introduction of new industries. Europe, too, has available highly developed technical skills and know-how. And finally, the Bank's role in Europe is affected, in a way that it is not affected elsewhere, by the financial assistance which has recently been made available by the United States to a number of the European countries in the form of the European Recovery Program.

Accordingly, the problems of Europe and the potential contribution of the Bank to the solution of those problems will be discussed first. This will be followed by an analysis of the needs of the Bank's members in other areas of the world and of the manner in which it appears that the Bank can be most helpful in meeting such needs.

If in the course of this discussion frequent mention is made of the European Recovery Program, it is because that program marks perhaps the most spectacular evidence of an economic trend commenced even before the close of the war—the plan of extraordinary and concentrated aid moving from one country or area toward other areas less fortunately situated. The extent of such aid has assumed such an economic significance that no serious résumé of the Bank's past and future activities could possibly be attempted without frequent reference to it. Having said this, however, it is appropriate to add that the activities of the Bank extend far beyond the European Recovery Program and continue to represent a unique cooperative effort to achieve rehabilitation and long-range economic development throughout the world.

EUROPE

Bank Operations in Europe to Date.

As the Bank mentioned in its Second Annual Report, the assumptions about European recovery made at Bretton Woods in 1944 when the Bank's charter was drafted have proved to be both too simple and too optimistic. The conception of Bretton Woods was that the critical short-range relief needs of Europe after the war were to be met through donations by UNRRA; the external financing needed for more permanent recovery programs, to the extent that it could not be furnished from other sources, was to be supplied by loans from the Bank. Recovery was conceived of primarily in terms of the rebuilding of factories, mines, railroads and other specific productive facilities.

It was not until the winter of 1946-47 that the Bank was organized to the point that it could seriously consider making its first loans for European reconstruction. By that time it had become clear that the physical devastation, disruption of trade and industrial and governmental dislocations caused by the war were far greater than had been envisaged at Bretton Woods. The economic problems with which the European nations were confronted at the end of the UNRRA period involved much more than the reconstruction or modernization of specific productive facilities; there was also urgent need for assistance to prevent interruption of the flow of imports, primarily of food, fuel and raw materials. By the end of 1946, European resources of dollar exchange had fallen to dangerously low levels and credits from the United States and other Western Hemisphere countries had largely been exhausted.

The loanable resources upon which the Bank could rely at that time without borrowing in the market amounted to only about $730 million, representing the 20% portion of the United States' capital subscription required to be paid in dollars and the small portion of the

other members' subscriptions paid in gold or dollars. This was obviously far less than was required to fill the financial gap in Europe, even apart from the pressing and justifiable demands upon the Bank from other areas, but the urgency of Europe's need could not be denied. In the spring and summer of 1947, therefore, the Bank granted a series of four European loans—to France, the Netherlands, Denmark and Luxembourg—totalling $497 million. These loans, by permitting the borrowing countries to sustain for a time the necessary volume of essential imports, helped to prevent a disastrous drop in production and possible economic collapse.

The Bank was fully aware, however, that these loans, vital as they were, provided only a partial solution to Europe's problems. It accordingly pointed out in its Second Annual Report that "there must be continued assistance from other sources, such as that contemplated . . . by the so-called Marshall Plan . . . ," and that developments in connection with further United States assistance to Europe would "greatly affect the role of the Bank in the process of European reconstruction."

For eight months after those words were written, a vigorous and healthy debate on the European Recovery Program was conducted on both sides of the Atlantic. During part of this period the most urgent needs of a number of the European countries were met through large grants made by the United States under the Interim Aid Act. Finally, on April 3, 1948, the Economic Cooperation Act of 1948 was enacted into law, authorizing United States financial assistance for a recovery program for Europe to cover a period of slightly more than four years and the establishment of an Economic Cooperation Administration (ECA) to administer such assistance. An initial sum of $5 billion was made available for this purpose. On April 16, representatives of the sixteen European participating countries and of Western Germany met in Paris and signed a convention establishing the Organization for European Economic Cooperation (OEEC) to implement the European undertakings which formed the basis of the program.

During the period while these developments were taking place, the Bank took the position that, until the form and content of the European Recovery Program had taken shape, the Bank could not make large loans to Europe; none of the ERP countries, in fact, urged the Bank to do otherwise. There were several reasons for this position. In the first place, until the amount of ERP aid, and particularly its division as between loans and grants, were known, the prospects for repayment of a Bank loan to any of the ERP countries could not properly be estimated. In the second place, it was clear from the beginning of the debate that United States financial assistance to Europe, whatever the precise amount appropriated, would greatly exceed for the time being any amounts which the Bank might lend. It seemed desirable, therefore, that, instead of providing what would have amounted at best merely to stop-gap aid in meeting current European balance of payments deficits, the Bank reserve its not unlimited resources to finance productive projects in other areas of the world and to supplement ERP by helping the participating countries in their long-term investment programs. Finally, and not least important, most of the ERP countries were reluctant to add to the burden of their debts by borrowing from the Bank until they knew the amount and terms of the financial assistance they could secure from the United States.

These considerations did not stop all Bank activities in Europe. Negotiations have been conducted with respect to a number of small loans for specific productive purposes which seem clearly desirable irrespective of the ultimate form of ERP. One such loan has recently been made—$12 million to four Dutch shipping companies for the purchase of six cargo ships—and several others are in the negotiation stage. In the main, however, the Bank's European operations are now and will necessarily continue for the next few years to be conditioned by developments in connection with the European Recovery Program.

The Nature of Europe's Problem.

It may fairly be said that in most European countries the emergency reconstruction phase is over. Industrial production in all of the major Western European nations, except Germany and Italy, has closely approached or exceeded the pre-war level. Transportation and power facilities have, in general, been restored. And although agricultural production is still well below the pre-war average, considerable

improvement is being made. Detailed facts and figures with respect to Europe's post-war production record are given in two recent publications, "A Survey of the Economic Situation and Prospects of Europe," prepared by the U. N. Economic Commission for Europe, and The Eighteenth Annual Report of the Bank for International Settlements; they will not be repeated here.

The extent of the progress made to date, while noteworthy, provides no ground for complacency. In the case of post-war Europe, reconstruction is not synonymous with recovery —the existing volume of production, despite its approximation to pre-war levels, is still far from satisfying consumption, investment and export requirements.

The many reasons for this have frequently been stated. One major factor is the increase in Western Europe's population by approximately 8% since before the war. Another is the change in the terms of trade to the detriment of the Western European countries as a whole, and particularly of the United Kingdom, prices of the food and raw materials which constitute the bulk of their imports having risen considerably more than the prices of the industrial goods which they export. Again, the necessary liquidation of foreign investments and the destruction of merchant vessels as a result of the war have substantially reduced Europe's invisible income. At the same time, military expenditures, vastly increased over pre-war requirements, are absorbing as much as 20% or 25% of the entire national budget of some of the ERP countries, causing in certain cases a severe drain on their foreign exchange resources. Finally, the physical devastation has been so great that, despite the capital investment already made, a portion of Europe's productive output must still be diverted to repair of war damage, particularly housing.

Financially, these difficulties are reflected in the balance of payments deficit of Western Europe, primarily in relation to the dollar area. The over-all deficit in 1947 amounted to nearly $8 billion, of which more than 90% was with the Western Hemisphere.

It will not suffice, therefore, to restore European production and trade as they existed before the war; indeed, the magnitude of Europe's problems makes thinking in pre-war terms unrealistic. New and bold concepts are required if some of Europe's fundamental weaknesses are to be corrected and new sources of strength provided. The volume of production must be greatly increased and the costs of production substantially reduced. There must be a new pattern of production which will permit both a reduction of imports and an increase of exports. And there must be a reorientation of Europe's trade channels to conform to the fundamental changes which have taken place in world conditions. In short, if Europe is again to become self-supporting at a tolerable standard of living, the need is for a fundamental readjustment in the structure of its economy. The basic objective of the European Recovery Program is to enable Europe, by its own efforts, to achieve just such a readjustment.

The European Recovery Program.

It is necessary in any discussion of the European Recovery Program to distinguish between the problems connected with the allocation and use of ERP funds, on the one hand, and the problems connected with the readjustment of Europe's trade and production, on the other.

The ERP countries as a group are large producers of capital equipment; in the case of such major items as coal-mining machinery and power equipment, as much as 95% of their requirements can be manufactured within the area. For the most part, therefore, ERP funds are not needed to finance equipment imports. To the contrary, they are required primarily to finance food, fuel and raw material imports designed to enable the ERP countries to enlarge their productive and export capacities, largely out of their own manufactures, without at the same time suffering a disastrous decline in their levels of consumption.

The effect of ERP cannot, therefore, be measured either by the particular types of goods it enables Europe to import or by the specific uses to which those particular goods are put. The test is a much more fundamental one. It is whether the European countries participating in the program, during the period while ERP funds are available to help support their consumption standards, will be able to use the opportunity thus afforded to expand, modernize and reorganize their productive mechanisms

and to effect the necessary changes in the pattern of their trade.

The stated goal of ERP is to enable the ERP countries, by June 30, 1952, to reduce their balance of payments deficit from the 1947 level of nearly $8 billion to a level of from $2-$3 billion, or by 60% to 75%. Attainment of this goal may well appear sufficiently difficult. However, it would still leave the ERP countries with a formidable deficit. If, by the end of the ERP period they are to become independent of extraordinary outside economic assistance, more must be accomplished than has yet been faced up to. The measure of accomplishment must be what is necessary rather than what has been possible in the past.

The problems are many and complicated. And the time for their solution is short, since there is no basis to assume that, if European recovery is not in the main achieved by the end of the ERP period, further United States assistance will be forthcoming. It will not be easy to maintain a sense of urgency over the entire four-year period; yet if the availability of ERP funds is permitted to conceal the immediacy and gravity of Europe's difficulties, ERP will in large measure be self-defeating.

There is general agreement on the main prerequisites for recovery. It may, however, be of value to summarize them briefly.

(1) FINANCIAL STABILITY. Worldwide inflation has followed the most destructive of all wars and Europe has suffered markedly from this plague. The principal causes have been the severe shortage of goods at the end of the war, investment programs which over-taxed available resources, governmental expenditures for purposes not directly productive and the lack of firm fiscal policies. Recently, strong efforts have been made by many of the European countries, with varying degrees of success, to bring inflationary pressures under control; however, stability has not yet been achieved.

The Third Annual Report of the International Monetary Fund analyses in some detail the problems of inflation in Europe and the steps necessary to correct the existing situation. It suffices for purposes of this report, therefore, to emphasize that without the firm economic base which only monetary stability can provide, all other efforts to effect a readjustment of the European economy are likely to prove fruitless.

(2) VOLUME OF PRODUCTION. Noteworthy accomplishments in production have already been achieved, considering the difficulties arising from the war and the existing economic organization in Europe. Further material progress depends both upon more effective utilization of existing productive facilities and upon the modernization and, in certain key areas, the expansion of such facilities.

It would clearly not be appropriate for the Bank to attempt any analysis of how the ERP countries can best improve the utilization of their existing plant and equipment. Yet no objective appraisal of the requirements for European recovery can fail to note the substantial opportunities which exist to increase industrial output through better management techniques, the standardization, concentration and specialization of production, the removal of unnecessarily restrictive trade union practices and, in some cases, longer hours of work. The potentialities are not susceptible of accurate statistical estimate, but they are undoubtedly great.

However, the possibilities for improved utilization of existing facilities do not detract from the need for, and indeed in large measure depend upon, a very substantial program for the modernization and expansion of Western Europe's plant and equipment. This cannot be accomplished without continued diversion of a considerable part of production from consumers' to producers' goods and without restricting expenditures for the improvement of housing and public services to the minimum essential to achieve the production goals. Such a policy is severe. It means that, in most of the ERP countries, it will not be possible to raise existing living standards to any marked degree for a number of years. Yet unless the ERP countries maintain the discipline necessary for carrying out this policy, it is difficult to see how they can become self-supporting by 1952.

(3) FREEING INTRA-EUROPEAN TRADE. Increase of production will not be enough unless there are accessible markets in which to dispose of the expanded output, and unless efficiency is improved to an extent which will enable the producers to compete in those markets. Modern industrial techniques and equipment depend to a large degree upon

standardization and specialization which are possible only where there are broad markets in which goods can be freely sold.

During the period between the wars there was an increasing development of trade, currency and other restrictions which hampered the free flow of goods and narrowed the markets for European products. In the post-war period such restrictions have increased. The free markets now available to most of the separate European countries are not sufficiently broad to permit full development of modernized production at economical cost.

Unless the markets for European products can be broadened and greater freedom of intra-European trade can be attained, the hope for ultimate European recovery will be dimmed and the opportunity afforded by ERP will be lost. Trade barriers in whatever form tend to breed productive inefficiency. They enable inefficient and uneconomic enterprises to survive and prevent efficient producers from reaching the markets they need to improve their efficiency and increase their production.

In existing conditions certain trade restrictions may be necessary in order to conserve the dwindling foreign exchange resources of the Western European countries and the removal of those restrictions may not be immediately practicable. In the meantime, however, it is vital that the Western European countries see to it that their investments in the improvement and expansion of their productive resources are so directed that they do not aggravate the situation and constitute new sources of pressure for continued and increased trade restrictions in the future. That will require a degree of economic cooperation among Western European countries which they have never achieved in the past.

Whether or not the existing obstacles to freedom of intra-European trade can be removed without some kind of European union is a question on which opinions differ. The difficulties of achieving such a union are frequently underestimated by those who overlook the historical and deep-rooted differences in language, customs, traditions and national habits and prejudices among the European countries. At best the attainment of such a union may be a slow process.

The fact remains, nevertheless, that unless the Western European countries can by union or otherwise find the key to unlock the gates which now obstruct the free flow of goods, manpower and capital among them, there is grave doubt whether they can in the foreseeable future sustain their peoples at a standard of living approaching pre-war levels.

The world has long since passed 1938. Productive processes and national financial and economic policies which may have been tolerable in those days are now inadequate. It is time to focus attention, not on the difficulties of bringing those processes and policies abreast of the times, but on the necessity of overcoming such difficulties.

Cooperative effort to that end in one form or another, but in some effective form, would seem to be a *sine qua non* to progress. The OEEC may well be the best available vehicle for furthering that effort. It may be hoped that this organization will be permitted to do more than just recommend how United States financial assistance shall be allocated. If, in addition, it is increasingly entrusted with responsibility for guiding the necessary readjustment of the ERP countries' production and trade, it should become a powerful force for the economic unification of Western Europe. The more strength and influence that the OEEC possesses, and the more it comes to be a truly international body and not merely a grouping of conflicting national claimants, the more it will contribute to fulfilling the great hopes which ERP has inspired.

(4) GERMANY. The problem of Germany deserves special mention. Production in Bizonia, although it has shown a steady rise during the past year, is still only about 50% of pre-war. This is not attributable in major degree to the lack of productive facilities. The principal factors have rather been chaotic monetary conditions, the lack of working capital, the absence of effective political mechanisms, the almost complete disruption of trade connections, the inevitably dampening effects of military occupation upon all sectors of the economy and the over-all political uncertainty.

The condition of Germany has direct and immediate repercussions upon the economic situation of the rest of Europe. Before the war, Germany accounted for approximately 11% of the international trade of the ERP countries;

in 1947 the comparable figure was about 2%. Clearly, therefore, more effective utilization of German productive facilities, to the extent consistent with security precautions, is an essential requirement for European recovery. Some improvement may be hoped for as a result of the recent currency reform, the steps being taken to improve governmental machinery and the considerable increase in imports which ERP aid will make possible. A further liberalization of the conditions now governing Germany's international trade would also be of substantial help. The pace of recovery in Germany, however, may depend to a great extent upon the settlement of German political issues by the occupying powers.

(5) PATTERN OF PRODUCTION AND TRADE. Before the war Western Europe normally depended on its trade with and investments in the Far East, particularly Southeast Asia, to provide it with the dollars to finance its import surplus from the Western Hemisphere. The importance of Southeast Asia as a source of dollar supply resulted from the fact that it was the only major region with which the United States had an import surplus before the war. This situation no longer obtains. Recovery in the Far East will be a long process and, even when it is achieved, it may be anticipated that the relation of the Far Eastern economy to Europe and the United States will have been substantially altered. The Far East may be able to provide Europe with increased raw material imports to replace some existing imports from the Western Hemisphere, but it cannot be relied upon to provide Europe with a substantial portion of the dollars necessary to meet its dollar import requirements. Since Europe cannot depend upon an export surplus with any of the other areas outside of the Western Hemisphere to provide it with dollars and since only a moderate increase can be expected in Europe's invisible dollar earnings, the long run need is clearly for Europe both to increase its exports to the dollar area and to decrease its imports from that area.

No substantial progress has yet been made towards attainment of the first of these objectives. Although the over-all exports of the ERP countries increased by approximately 50% in 1947 over 1946, exports to the United States dropped from 7.1% to less than 5.7% of the total and, in volume, were considerably below the 1938 figure. This occurred despite the substantial tariff reductions made by the United States in recent years, the absence of import quotas, and a national income in the United States almost three times the 1938 level. While exports to the Western Hemisphere as a whole amounted to 15.7% of the total as compared with 13.5% before the war, this increase is far from sufficient to compensate for the increased demand for dollar imports and for the loss of dollar earnings from trade with the Far East.

Equilibrium cannot, therefore, be achieved without a readjustment of production and trade so as to promote larger exports to the Western Hemisphere, even at the cost of some sacrifice of established markets in Europe or other areas. Further development in the dependent areas of the production of raw materials such as chrome, lead, copper and tin, in which the resources of the United States are deficient, would seem to afford particularly promising opportunities. There is also a large demand in the United States for consumer goods, especially those in the luxury or semi-luxury categories, and for other special manufactures of traditional high quality. Canada and Latin America offer substantial and ready markets for capital goods and industrial products of all kinds.

For European producers to reach the American market effectively, more is required, of course, than the adjustment of their production to the demands of that market. Steps will also have to be taken, possibly through collective action, to create promotional, distributing and sales mechanisms which can fit successfully into established American marketing procedures. Similarly, it is important that the trade policies of the United States be adapted to its position as the great creditor nation of the world.

It cannot realistically be expected, however, that the ERP countries will be able to expand their exports to the dollar area sufficiently to finance the present level of dollar imports. It is for this reason that the ERP countries are emphasizing the production of additional goods of a type which will reduce their dependence on dollar imports. The progress already made

is reflected by the substantially increased output of such items as iron and steel, coal, automotive equipment, shipping, chemicals, machinery and numerous other products, and existing investment programs contemplate further increases in such production. In addition, plans are under way for investments in Africa designed to increase the supply of fats and oils and cotton.

Reference must also be made to the vital importance of East-West trade within Europe itself. In 1938, Eastern Europe accounted for around 8% of Western Europe's trade; qualitatively such trade was more important than its aggregate quantity indicates, since each area provided the other with a high percentage of certain key products. In 1947, however, Western Europe's imports from Eastern Europe amounted to only 4.4% of the total, while only 6% of Western Europe's exports went to Eastern Europe. An expansion of this trade from its present levels would make available to the Western European nations additional supplies, particularly of foodstuffs, coal and timber, which they need to replace present dollar imports, and would make available to the Eastern European nations increased amounts of the capital equipment and industrial raw materials they require for their reconstruction and development programs. The recent unanimous resolution of the Economic and Social Council of the United Nations, requesting its Economic Commission for Europe to take steps to promote trade throughout the whole of Europe, is encouraging in this respect, since it indicates a general recognition of the importance of East-West trade and some agreement to move towards its improvement.

Future Bank Financing in Europe.

The European Recovery Program is still too new, and the policies of both ECA and OEEC are still too much in the formative stages, for a definite statement to be made at this time with respect to the manner in which the Bank may most effectively supplement the financial assistance being furnished by the United States to the ERP countries.

Two points which have been emphasized in the foregoing discussion, however, furnish a significant indication of what may reasonably be expected to be the Bank's proper role. The first is the necessity that the ERP countries maintain as high a rate of investment as is compatible with monetary stability. The second is the insufficiency of ERP funds to meet all of Western Europe's investment requirements. It should be noted, too, that in determining the amount of United States aid, it was expressly assumed that the Bank would advance substantial credits to Western Europe during the ERP period.

It seems clear, therefore, that there is a real need for Bank financing in addition to the financial assistance made available by ECA. Furthermore, since the first claim on ERP funds will necessarily be for those imports most immediately essential, the long-range investment field seems obviously the one most appropriate for Bank assistance.

Accordingly, it is the intention of the Bank to supplement ERP, to the extent that the Bank's resources (in the light of the other demands upon them) and the credit standing of the ERP countries permit, primarily by financing projects which involve permanent additions to productive capacity. The Bank will be particularly interested in those projects which will benefit more than one of the participating nations and which will generally promote international trade.

The Bank will take steps to ensure that projects which it finances are not inconsistent with any over-all investment program which may be formulated for purposes of ERP. To this end, the Bank proposes to consult with the OEEC and ECA with respect to prospective loans to any of the participating countries. The Bank will also keep itself continually informed with respect to the activities and policies of the OEEC and ECA, particularly in connection with loans proposed to be made out of ERP funds.

It does not seem feasible at the present time to make even an estimate of the amount of loans the Bank can and should make to the participating countries, either during the first year or over the entire period of ERP. Any such estimate would involve too many imponderables, such as the amount of its own bonds which the Bank may be able to sell in the market and the timing of such sales, the amount of the other justifiable claims which may be made upon the Bank's resources and the pace

of European recovery. The extent of possible Bank assistance depends, too, upon whether the amount and terms of ECA loans impose upon the recipient countries such a burden of repayment that they cannot assume further indebtedness to the Bank. It is obvious, however, that to the extent that ERP funds are made available in the form of grants rather than loans and that loans are made on terms which do not interfere with Bank financing, ERP aid will facilitate rather than impede the Bank's operations in the participating countries. Such aid should serve to improve the economic position of the recipient nations to a point where loans by the Bank will not only be a better risk, but will be more likely to serve their intended purpose of making a lasting contribution towards increasing Europe's productive capacity.

In the foregoing discussion particular emphasis has been placed on the future role of the Bank in the ERP countries, because it is evident that ERP and its administration are bound to have an important bearing on the Bank's future operations in Europe. As is indicated in the discussion, the Bank is not unmindful of the importance of the economic development of its member countries in Europe which are not participants in ERP.

It is unfortunate but nonetheless true that the existing political difficulties and uncertainties in Europe present special problems which have thus far prevented the Bank from making loans in those countries. The Bank is fully cognizant of the injunction in its Articles of Agreement that its decisions shall be based only on economic considerations. Political tensions and uncertainties in or among its member countries, however, have a direct effect on economic and financial conditions in those countries and upon their credit position.

The Bank believes that there are substantial opportunities for the development of the productive resources of its member countries in Europe which are not participants in ERP. It hopes, therefore, that the existing uncertainties can be clarified to an extent which will enable it to render financial assistance in the development of such countries, which will not only be of benefit to them but to Europe generally, and it is continuing to explore such possibilities.

Dependence of Europe on Other Areas.

No discussion of the European problem would be complete without reference to the inter-dependence of European recovery and economic progress in the rest of the world. The rehabilitation of Europe, by providing both an increased source of supply for the capital and other industrial goods needed for the development and further industrialization of Latin America, Asia, Africa and the Middle East, and an increased market for their products, particularly foodstuffs and raw materials, will contribute substantially to their prosperity. Equally, however, the further development of these areas, as both a market and source of supply, is essential to the long-run economic well-being of Europe.

LATIN AMERICA, ASIA, AFRICA AND THE MIDDLE EAST

Potentialities and Basic Problems of Development.

The Bank's continued interest in assisting European recovery has not prevented a definite increase in its activities in other parts of the world during the past year; in fact, the problems of the Bank's underdeveloped member countries are more and more occupying the major portion of the Bank's attention and, in the long run, they will undoubtedly constitute the Bank's primary concern.

Some indication of the extent of both the potentialities and needs of the underdeveloped countries of the world is provided by the wide disparity which exists between their productivity and, therefore, their standards of living, and those of the more highly developed countries, notably in North America and Western Europe. It is estimated, for example, that the average income per head in the United States is over $1300, in the United Kingdom is between $700 and $750, and in the Western European countries as a whole is somewhat above $500. The bulk of the underdeveloped countries, on the other hand, are estimated to have an average income per head of only around $100; in a number of them, particularly in the Far East, the figure is somewhat lower and in very few is it above $200.

To raise the income level of the underde-

veloped countries requires an expansion of their production, primarily through technological development and increased capital investment. This has always been a primary objective of the underdeveloped countries but its importance is now more sharply focused than ever before because, as a result of modern means of communication, their peoples are becoming increasingly aware of the contrast between their status and that of the peoples of the more economically advanced nations. The more advanced countries, too, have a vital interest in promoting the development of the underdeveloped areas, for the more effective utilization of the vast resources of those areas will result directly in an increase in trade between them and the more developed countries, to the substantial benefit of both.

Considerable progress has been made by some of the underdeveloped countries in recent years. It is estimated, for example, that the aggregate output of the Latin American countries as a group increased by from 15% to 25% from 1937 to 1947; that their production of electric energy nearly doubled in that period; and that in a number of these countries employment in manufacturing industries rose by 30% to 40%. The steel production of India (including the territories now constituting Pakistan) rose by about 35% during the period from 1938 to 1945, and its cement production, a good index of construction activity, increased by over 50% during the same period. In the Middle East, the development of oil production and the construction of pipe lines and refineries have been of substantial benefit in improving the economic situation of the region, and there has been considerable increase in industrial output in Egypt and Turkey. Again, in the colonial areas of Africa, there has been a substantial expansion and diversification of agricultural and mineral production, especially during the war, and a promising beginning has been made towards the establishment of local processing and other manufacturing industries. In all these areas agricultural improvements have been introduced on a progressively wider scale.

On the other hand, some of the less developed countries were extensively damaged during the war and a number of others suffered serious economic dislocations as a result of the war. Even in those areas where a substantial increase in production has been realized in recent years, their standard of living has not improved correspondingly, and frequently has not improved at all, because of the large increase in their population. It is natural, then, that the underdeveloped countries should press for faster progress in developing their resources, to narrow as rapidly as possible the economic gap between them and the more advanced nations.

In focusing attention on this goal—which is also a primary goal of the Bank—it is easy to forget that development is necessarily a process measured in decades, not years. Some of the difficulties involved are inherent in the fact of underdevelopment; others arise out of the special strains of the war and the post-war period; still others result from local conditions peculiar to particular countries.

A fundamental obstacle to long-range development is the lack of capital to build the necessary productive facilities and buy equipment; to provide schools and shops to train workers in new skills; and to establish the housing, public utilities, transportation and other services needed for an efficiently functioning economy. A considerable portion of the capital needed must be derived, in the initial stages at least, from external sources. Since, however, foreign capital cannot be relied upon to do more than supplement local development efforts, it is important that the underdeveloped countries take all possible measures to encourage local savings and their investment for productive purposes.

A second obstacle is the shortage of technical and managerial personnel, particularly those with advanced training and experience. This difficulty, which is applicable to public administration as well as to industry and agriculture, retards development at all stages. It is necessary for almost all underdeveloped countries, therefore, to secure help from foreign technicians and also to institute programs of technical training to build up an adequate local supply of skilled personnel. Direct investment by foreign business enterprises has the special advantage of supplying technical and managerial skills as well as capital.

Economic instability often imposes a third obstacle to healthy development. Many underdeveloped countries are suffering from mounting inflation and chaotic monetary conditions. In many instances these problems have been precipitated or intensified by the war and its after-effects, but often, too, they are due in large measure to unsound fiscal and monetary policies followed by the governments concerned and to the inadequacy of their financial mechanisms.

Again, there is lacking in many countries any well-formulated concept of the over-all lines along which sound development is most likely to make progress. In the absence of such a general pattern of development, it is difficult to estimate the relative importance and urgency of different undertakings, their ability to function economically, and the need for power, transportation and other basic facilities to support them.

Another factor retarding development is the low educational level of the mass of the peoples of most underdeveloped countries. To improve standards of living requires more than raising the average per capita income; it involves equally an ability on the part of the people to utilize such increased income to achieve a better life.

Finally, in a number of countries unsettled political conditions impair confidence in the future and thus impose an important restraint upon capital investment not only from abroad but also out of domestic savings. In such countries progress on the economic level depends to a large extent upon similar progress in the achievement of a reasonable degree of internal political stability.

These problems, in all their complexity, directly affect the Bank's operations in the development field. To date, the Bank has been able to grant only one loan for development purposes; it has made commitments to Chile, aggregating $16 million, for hydroelectric projects and for the importation of agricultural machinery. Although several other development loans are now in an advanced stage of negotiation and discussions are in progress with regard to various projects in many different countries, it remains true that the number of sound, productive investment opportunities thus far presented to the Bank is substantially smaller than was originally expected.

This fact is due in part to the length of time required to complete the engineering and other technical studies necessary to bring projects up to the point where they are ready for financing. In large measure, however, it reflects the difficulties which have been mentioned—the lack of economic, financial, and in some cases political stability, the lack of technical skills, the lack of adequate planning. And it provides proof, if proof be needed, that sound development requires much more than simply making available large sums of money.

The Bank is convinced that its resources cannot be used effectively to expand production and to raise living standards unless they are invested in well-prepared and well-planned projects. It is also convinced that sound development is best promoted, not by sporadic injections of large amounts of capital, but rather by a steady flow of capital in moderate amounts. The Bank's approach to its underdeveloped member countries has been framed accordingly. That approach is one of willingness to help its members to analyze their development problems, to work with them in mapping out the broad lines along which their development may be advanced most soundly and rapidly, and whenever possible to select for initial financing those projects which seem most likely to contribute to such advance. Where economic or financial conditions in the borrowing country are such that they endanger the productive purposes and the repayment prospects of a Bank loan, such a loan will normally be conditioned upon measures designed to bring about financial and monetary stability and, where necessary, re-establishment of the country's credit.

This approach by the Bank necessarily varies from country to country. Nonetheless, the Bank's experience to date has indicated that there are a number of guideposts of more or less general applicability. These may perhaps best be dealt with by considering in turn the Bank's role in relation to (1) the pattern of development, (2) the provision of technical assistance, and (3) the stimulation of investment from other sources.

Pattern of Development.

The importance of working out an overall development program, to minimize spotty and wasteful investment, has already been emphasized. It appears axiomatic that such a program should be related to and based on the existing natural resources, the country's location, climate, and type of population and the financial and administrative resources available. It should attempt to balance the increase of economic production to meet essential domestic needs with the development of exports to accessible markets. It should favor the application of the limited supplies of capital to projects which will result in the greatest increase in production and trade in relation to the size of the investment. If these practical ends are kept in view it should not be too difficult to outline a balanced program setting forth a general pattern of development, on the basis of which public policies and projects can be intelligently formulated and appropriate private enterprise stimulated.

The shape of appropriate programs will vary widely. In some countries the most effective means of development may be through intensive application of capital and improved techniques in agriculture and related activities. The productivity of the underdeveloped countries in agriculture is generally quite low. Substantial possibilities exist for increasing the amount of food and other agricultural products both for local consumption and for export, through use of modern agricultural machinery, diversification of crops and application of modern methods of cultivation. Irrigation, reclamation, and measures to combat erosion offer important possibilities. In some cases migration or resettlement programs may also be required. Development of agricultural production may usefully be accompanied by industrialization in related lines, such as the processing of agricultural products and the production of agricultural equipment and supplies. This is the pattern of development which has given New Zealand, for example, one of the highest standards of living in the world.

The establishment or expansion of appropriate manufacturing and processing industries is an essential aspect of sound development in almost every case. It will normally be advisable, however, to lay initial stress on light consumer goods and processing industries which employ small amounts of capital equipment per worker and can often build upon traditional skills in the introduction of mechanized techniques. Furthermore, because they result in a relatively quick increase in the supply of goods, these industries stimulate further development by providing incentives for increased productive effort.

Until these earlier stages of industrialization have produced sufficiently broad home markets, there will generally be lacking the basis for creation of heavy industries, either to supply domestic needs at economic prices or to compete in world markets. This principle is, of course, subject to individual exceptions, especially where the world demand situation and the existence of the requisite natural resources make the establishment of some particular heavy industry economically justifiable.

In almost all underdeveloped countries a major part of the necessary investment must be made for transportation and communication facilities, port developments, power projects, water and sewage systems and other public utilities which form the basis for the development of all other sectors of the economy. If housing and similar facilities are included, requirements in this category may amount to two-thirds or more of the total capital needed. Moreover, it is of major importance that adequate provision be made for such less directly productive investments as those required for technical training and other educational activities, and for nutrition and medical programs, which are essential to efficiency and morale. The extensive capital required for all of these purposes emphasizes the need for application of the remaining capital to immediately productive uses rather than to premature or disproportionate development of heavy industries.

The Bank is not, of course, interested in promoting any particular pattern of development nor has it formulated any detailed policies regarding the types of projects which it is willing to finance. Nonetheless, there are certain broad general principles which must guide its action. First, because the Bank's resources are limited

in relation to the total development needs of its member countries, it must emphasize those strategic projects which will eliminate production bottlenecks or generate increased output of related goods or in related areas. Second, as an international agency, the Bank is particularly interested in projects which are likely to contribute to a better balance in world trade. Third, the Bank's Articles of Agreement provide that "the most useful and urgent projects, large and small alike" must be dealt with first; the Bank must satisfy this requirement either by financing such projects itself or by helping to promote conditions necessary for their financing from other sources. And finally, the Bank's loans must be confined to projects for which financing through private or other channels is not available on reasonable terms.

The application of these general principles to any particular project proposed for Bank financing must obviously depend upon all of the relevant facts of the case. By and large, however, it may be expected that private capital will be most readily available, and Bank financing will therefore be least necessary, for projects within two broad categories: first, the production and processing of primary materials, agricultural and mineral, where a large percentage of the output is destined for export; and second, the development of light manufacturing industries.

Projects within the first of these categories have attracted and should continue to attract private foreign capital, provided favorable conditions exist. The principal incentive for such investment is the world demand for the materials produced—petroleum, metal ores, timber, sugar, oil seeds and the like. The need for many of these products is growing, while existing sources of supply for some of them are being seriously depleted. Furthermore, foreign investment in projects of this type is apt to involve less of a transfer risk than the financing of other types of development, because the direct result of the investment is to make additional goods available for export, thereby providing the foreign exchange necessary for interest, dividend and amortization payments.

Light consumer industries are also likely to be attractive to private capital because they do not usually involve any very large single investment and tend to produce relatively quick and substantial returns. Since the output of these industries is generally sold mainly in the local market and since their development can be undertaken gradually, they are apt to be of particular interest to, and within the reach of, local entrepreneurs.

Some other fields of investment which are equally essential to well-balanced development may frequently be less attractive to private capital, either because of the size of the investment required, or the smallness or uncertainty of the returns, or the prospect of government intervention or control. Large irrigation and reclamation projects, public utilities, health and training programs and migration schemes are likely to be subject to these difficulties. While many investments made by private capital in the past have been in transportation, communications and power facilities and additional investments may be anticipated, the trends of recent years suggest that this is the type of development that is most apt to require assistance from the Bank, either in the form of direct loans or through guarantees.

Bank investment in meritorious light industry and other projects is certainly not excluded in cases where private capital is not available. In particular, such financing by the Bank may sometimes be required, under present conditions, to provide an initial stimulus to development before private capital will be attracted. In the long run, however, if the Bank is to play its proper role of encouraging and supplementing, rather than supplanting, private international investment, it must emphasize those basic undertakings which, on the one hand, are relatively less attractive to private capital and, on the other, will help to promote the flow of such capital into other sectors of the economy.

Provision of Technical Assistance.

Successful development depends in most cases just as much upon the provision of technical assistance from abroad as upon the availability of foreign capital. It is an important concern of the Bank, therefore, not only to provide financial help but also to ensure that adequate technical assistance is available to define the shape of a sound over-all development pro-

gram, to assign priorities and prepare specifications for projects within that program, and to formulate and help effectuate the economic and financial policies necessary for its success.

Clearly the Bank cannot by itself provide a major share of the external technical assistance that is required. Such assistance will have to be sought largely from independent consultants and private enterprise; in appropriate cases, too, assistance may be secured through intergovernmental arrangements or from other international organizations, such as the United Nations, the International Monetary Fund and the Food and Agriculture Organization of the United Nations. The Bank can, however, play a constructive role by helping its member countries to secure technical assistance from these other sources and by advising with them from time to time concerning the general pattern of their programs and the economic and financial problems which confront them. The Bank is in a particularly good position to be of help in these connections, not only because it is recognized to be objective in its approach, but also because, as one of the principal sources of international financing, its advice is apt to be persuasive.

In formulating its policies with respect to furnishing advice to its member governments, the Bank has borne in mind that it must avoid any gratuitous interference in the internal affairs of any country, or the assumption of financial or other commitments which it cannot fulfill, or too deep an involvement in the details of a particular program. The general approach it has adopted may be summarized as follows:

(1) Insofar as possible, in the light of its other responsibilities, the Bank is prepared to undertake, upon request, a broad investigation of conditions in any underdeveloped member country. This provides the basis for general conclusions as to the country's development needs and possibilities, the principal obstacles to development and the internal measures required to overcome those obstacles. Such Bank investigations have already been undertaken or are in process in Bolivia, Chile, Colombia, Ecuador, the Lebanon, Mexico, Peru and the Philippines. A number of additional investigations are planned for the near future.

(2) The Bank encourages its member countries to establish suitable machinery to undertake or coordinate comprehensive surveys of development possibilities, to establish priorities for projects to be undertaken under governmental auspices, to work out appropriate sources and methods of financing, both domestic and foreign, to propose measures for encouraging private investment and to review economic and financial policies in the light of development needs. Where desirable, the Bank is willing, acting so far as possible in cooperation with the International Monetary Fund, to advise with the government of the country concerned on the ways and means by which such machinery might best be established.

(3) The Bank is also prepared to assist member governments in mapping out the general contours of an appropriate program of economic development, including necessary improvements in the country's financial structure as well as additions to its productive capacity, and providing for measures to encourage private investment as well as for government-financed projects. The Bank does not, of course, attempt to impose a particular conception of development on any country. Any development program, if it is to have the necessary popular and governmental support, must emerge from the thinking of the responsible leaders of the country itself. The proper role for the Bank is rather that of providing impartial counsel and of stimulating and crystallizing local thinking toward agreement on a sound program which will enlist the support of all elements within the country.

(4) The Bank itself is in no position to provide extensive aid in working out the details of particular development programs. Upon request, however, it is ready to recommend qualified independent experts in various fields, such as agriculture, industry, engineering, finance and taxation, to provide the assistance required.

(5) After the general outlines of a development program have been formulated, the Bank is ready to consult periodically with the government concerning the progress made and the problems encountered in carrying out the program and concerning any alterations that may be required to meet changed conditions.

The granting of loans by the Bank need not await the formulation by the borrowing coun-

try of an over-all development program or the adoption by it of all necessary economic, financial and administrative measures. To the contrary, it is hoped that it will frequently be possible for the Bank to select particular meritorious projects for financing concurrently with the initiation by the borrower of such measures.

Stimulation of Investment From Other Sources.

It is inherent in what has already been said that the major effort in the development of any country must be made by that country itself. Foreign assistance may be important, even essential, but the initiative, the labor and the greater part of the capital must be supplied locally. Indeed, in the long run foreign investment may impede rather than accelerate development along sound lines unless domestic conditions furnish a firm economic base for such investment.

A prime concern of any country seeking to promote rapid development, therefore, must be to make the most effective possible use of local capital resources. In some cases the amount of local wealth available is substantial, but because of unstable conditions and lack of effective financial mechanisms to channel it into productive investment, much of it may be held abroad or applied to purposes which do not contribute to the development of the country. In some cases, loans by the Bank and other foreign financing may help to correct this situation by facilitating the establishment of more stable economic and financial conditions. But the major responsibility for promoting productive investment of local resources must be assumed by the local government itself, by following sound fiscal and monetary practices, by adopting tax policies designed both to encourage increased capital formation and to channel it into productive enterprise, and in appropriate cases by encouraging the creation of an active local capital market. Action along these lines will not only help to increase the amount of local resources available for development, thereby reducing the need for foreign financing, but will also assist greatly in attracting such foreign capital as may be required.

Some part of the necessary foreign capital may be obtainable from public sources, through inter-governmental and International Bank loans. In the long run, however, development on the scale that is within the range of practicability needs financial assistance in amounts which only the free flow of private capital can provide. Furthermore, it is desirable that a considerable part of the foreign capital employed for development purposes be in the form of equity investments in order to avoid an undue burden of fixed charges which might impair the credit of the borrowing country or intensify its balance of payments problems during a period of declining trade or falling prices. One of the principal objectives of the Bank, therefore, is to help to create conditions which will encourage a steady and substantial stream of private investment, particularly equity investment, flowing into its underdeveloped member countries.

Many of the Bank's policies, already mentioned, may help to overcome some of the existing obstacles to private international investment. It has already been pointed out, for example, that the Bank, when considering a loan application, takes into account the willingness of the borrowing country to take effective measures to promote economic and financial stability, to eliminate discriminatory restrictions which impede the flow of private capital, to rehabilitate its credit standing, where that may be necessary, and otherwise to create conditions which will attract private investment. It has also been pointed out that the Bank is prepared to help its members in obtaining the technical assistance required to implement these measures and to work out sound development programs. To the extent that the Bank's efforts along these lines are successful they should contribute substantially to an increase in the flow of private capital.

There may well be cases, too, where development projects which come to the attention of the Bank appear suitable for private financing. In such cases, the Bank may be able to suggest possible sources of capital, or to bring the projects to the attention of investing groups, or otherwise to assist in arranging the necessary financing. The Bank may sometimes also be able to facilitate the raising of private capital for meritorious projects by making loans to cover part of the capital cost. Bank participation in such investments would reduce the

amount of capital that would have to be raised privately and at the same time the Bank's tangible demonstration of confidence in the soundness of the investments should increase their attractiveness to private investors.

Through the use of its guarantee powers the Bank can itself assume the risk of loans made from private funds. Such loans, of course, do not constitute private international investment in the usual sense of the term, but they do establish a direct relationship between private lender and borrower which may lead to other credit operations without the Bank's intervention. In addition, the Bank is examining the possibilities of granting limited guarantees—for example, a guarantee of transfer of interest—to reduce the special risks involved in international financing without eliminating the private character of the investment.

Finally, the Bank may be able to contribute to the flow of private capital by encouraging the development of principles and practices fair to capital-exporting and capital-importing countries alike. On the one hand, private investors must recognize the necessity for conducting their affairs in accordance with the public interest of the underdeveloped countries; noteworthy progress has, in fact, already been made in this direction. On the other hand, the underdeveloped countries must increasingly recognize that extreme protectionist measures resulting in the inequitable treatment of private foreign capital are neither required nor justified and are harmful to the development of their economies.

It seems clear that the real measure of the Bank's effectiveness will be, not so much the number or amount of its loans and guarantees, significant as they may be, but rather its success in influencing attitudes—in promoting a realistic, constructive approach to development problems on the part of its members and in fostering a greater degree of confidence among investors.

LOAN ACTIVITIES

Loans Granted

As of the date of the Second Annual Report, two loans had been granted by the Bank: a French loan of $250,000,000 and a Dutch loan of $195,000,000. Following is a description of the loans granted since that date.

DANISH LOAN. On August 22, 1947, an agreement was signed granting a loan of $40,000,000 to the Kingdom of Denmark. The loan bears interest at the rate of 3¼% per annum, in addition to the special commission of 1% per annum. The loan is for a period of 25 years, with amortization beginning after the fifth year. It came into effect on October 17, 1947.

The loan is designed to assist Danish economic recovery by financing the import, during 1947 and 1948, of essential capital goods and raw materials, such as agricultural and textile machinery, machine tools, trucks, steel, textile fibres, non-ferrous metals and chemicals.

By the end of the war, German depredations, the depreciation of farm and industrial machinery, and the loss of 40% of the pre-war merchant fleet had greatly impaired the efficiency and competitive power of the Danish economy. Energetic measures have been taken to promote recovery, and with the budget balanced, production increasing and price and wage levels under control, Denmark has attained a degree of economic stability. The loan constitutes approximately 9% of the estimated net capital expenditures to be made during 1947-1948, the bulk of the reconstruction effort depending upon private enterprise and private financing. The Danish loan is in accord with the Bank's mandate to foster the economic recovery of member nations and is justified by the record of the Danish people in their endeavor to regain economic stability.

LUXEMBOURG LOAN. On August 28, 1947, an agreement was signed granting a loan of $12,000,000 to the Grand Duchy of Luxembourg. Since some of the proposed expenditures under this loan were to be in Belgian francs, the loan offered an opportunity to use a portion of the equivalent of $2,000,000 in Belgian francs which the Belgian Government had made available to the Bank for lending

purposes out of its paid-in subscription to the capital stock of the Bank. Part of the loan to Luxembourg, therefore, represents the Bank's first use of its non-dollar capital in its lending operations. The loan bears interest at 3¼% per annum in addition to 1% commission, and is for a period of 25 years, amortization beginning at the end of the second year. The loan came into effect on October 24, 1947.

The purpose of the loan is to finance the purchase of equipment for the Luxembourg steel industry and of rolling stock for its railways. Iron and steel is the major industry of Luxembourg, and exports of metallurgical products in the years directly preceding the war accounted for up to 80% of all exports. Owing to under-maintenance during the war, the industry is in need of modernization and its production requires adaptation to post-war market requirements.

The railways of Luxembourg are also of vital importance both as adjuncts to the country's heavy industry and as international carriers linking the Ruhr, the Saar, Lorraine, Switzerland and other inland areas and the Low Country ports. At present the railways of Luxembourg are suffering from a shortage of rolling stock.

The loan from the Bank, by providing the means for raising the volume of traffic over Luxembourg's railways and for expanding the country's capacity to produce the type of steel products for which there is a heavy demand, is designed to increase Luxembourg's national production and its export potential. In addition, because of the critical shortage of rolling stock in Europe and the part which iron and steel play in the reconstruction of the continent, the loan should contribute to Europe's recovery.

CHILEAN LOANS. On March 25, 1948, commitments for two Chilean loans, totalling $16 million, were entered into by the Bank. The first is a loan of $13.5 million for hydro-electric development in Chile. The borrowers are Corporación de Fomento de la Producción (Fomento), an instrumentality of the Chilean Government created to promote Chilean economic development, and Empresa Nacional de Electricidad, S.A. (Endesa), a subsidiary of Fomento engaged in generating and distributing electric energy. This loan is for a term of 20 years, with an annual interest rate of 3½%, in addition to 1% commission. Amortization begins in the sixth year.

The purpose of the loan is to provide foreign exchange for the construction of additional hydro-electric plants and related transmission lines, for the installation of additional generating units in existing plants and for the installation of pumping equipment for irrigation. The existing supply of power is insufficient to cover present and prospective needs. In view of the high cost and relative insufficiency of coal and liquid fuels, the development of Chile's extensive potential hydro-electric resources is of prime importance to the Chilean economy.

The second Chilean loan, of $2.5 million, is to the Fomento organization for the purchase of agricultural machinery. This loan is for a term of six and one-half years, with amortization beginning in the third year. Interest is at 2¾% per annum, in addition to 1% commission. The agricultural program, which this loan is designed to assist, is expected to decrease the cost of production by increased mechanization of agricultural equipment and to increase the amount of land available for agricultural production by bringing into cultivation areas now covered by forest, turning pasture land into crop land, and shortening the time required for harvesting in certain areas. Special attention is being given in connection with this program to the technical training of personnel in order that full advantage may be taken of the equipment to be made available.

Both loans are to be guaranteed by the Government of Chile. A bill to authorize such guarantee has been introduced into the Chilean legislature and is expected to be enacted shortly. The loans will not come into effect until such guarantee is given.

The Bank has observed with satisfaction that the Chilean Government has taken steps to remedy certain conditions to which the Bank drew attention as likely to impair the efficacy of a loan and to deter the resumption of international investment in Chile. The budgetary situation has been improved and progress has been made in arresting inflation. Early this year the various foreign bondholders' associations accepted proposals put forward by Chile for a readjustment of the country's external debt, the

full service of which had been interrupted by the depression of the 1930's, and the Chilean Congress has recently passed legislation making this readjustment effective.

SUPPLEMENTAL DUTCH LOAN. On May 25, 1948, a Supplemental Loan Agreement was entered into between the Bank and the Kingdom of the Netherlands providing for certain modifications in the Loan Agreement dated August 7, 1947, by which a loan of $195 million was granted to the Netherlands. These modifications took the form of a new loan of 17 million Swiss francs (the equivalent of approximately $4,000,000) and a cancellation of an equal portion of the original loan. In substance, the transaction was merely an arrangement enabling the Bank to utilize, for the Netherlands loan, the Swiss francs acquired for this purpose through a sale of the Bank's 2½% Swiss Franc Serial Bonds to the Bank for International Settlements. The Supplemental Loan Agreement became effective on June 1, 1948.

DUTCH SHIPPING LOAN. On July 29, 1948, agreements were executed providing for loans to four of the principal Dutch shipping companies to finance the entire purchase price of six merchant vessels, each costing $2 million, for the Dutch mercantile marine:

Shipping Company	*No. of Ships*	*Amount of Loan*
N.V. Nederlandsch-Amerikaansche Stoomvaart-Maatschappij "Holland-Amerika Lijn" (Holland-America Line)	1	$ 2 million
N.V. Vereenigde Nederlandsche Scheepvaartmaatschappij (United Netherlands Navigation Company)	1	$ 2 million
N.V. Rotterdamsche Lloyd (Rotterdam-Lloyd Line)	2	$ 4 million
N.V. Stoomvaart Maatschappij "Nederland" (Nederland Line)	2	$ 4 million
Totals	6	$12 million

These ships, which are being acquired from the Waterman Steamship Corporation, were formerly "baby flat-tops" and have been reconverted, or are in process of reconversion, into steam-turbine cargo liners. All are expected to be in commission by the end of October, 1948.

Each of the six loans is secured by a Netherlands ship mortgage and is represented by serial mortgage notes repayable in twenty equal half-yearly maturities of $100,000, bearing interest at the rate of 2½% per annum. In addition, the borrowers are to pay to the Bank a commission of 1% per annum and a service charge of 1-16% per annum. The payment of principal, interest, commission and service charges is fully guaranteed by the Netherlands Government.

In making these loans, the Bank has taken into account the importance of shipping earnings in the Dutch balance of payments. The six ships have been acquired at a price below current costs of construction, at a time when delivery of similar new ships could not be guaranteed in less than 18 months. They will thus be able to take full advantage of the favorable ocean traffic prospects during the ERP period, and their low operating costs should enable them to maintain profitable operation. The borrowing companies have a long-standing reputation for sound and successful management. The addition of these vessels to the Dutch mercantile marine is expected to save or earn for the Netherlands over the period of amortization at least sufficient dollars to meet the whole service of the loans, entirely apart from the return in other currencies.

The Bank has also given due weight to the fact that, despite the continued handicaps imposed by disrupted economic relations with Germany and the Netherlands East Indies, there has been substantial progress in the reconstruction of the Dutch economy, to which a significant contribution has been made by

the $195 million loan granted by the Bank in 1947.

Use of Loan Proceeds

At the date of this report, the entire amount of the French and Dutch loans and of the loan to the several Dutch shipping companies has been disbursed, an aggregate of $457 million. Approximately $21 million has been disbursed under the loan to Denmark and $9 million under the loan to Luxembourg.

Most of the disbursements were made for the purpose of assisting in financing large general programs of reconstruction. In these programs, the Bank's loans played a significant but by no means preponderant role. It would obviously not be possible fully to appraise the effect of the Bank's contribution without a detailed analysis of the programs, the goals they were designed to achieve and the extent to which these goals have been attained. It may be useful, nevertheless, to set forth some of the principal categories of supplies and equipment to which the proceeds of the Bank's loans have been applied, as an illustration of the sectors of the European economy in which the Bank's activities have made themselves felt.

FRENCH LOAN—Tankers, general cargo vessels, river barges, tugs and light-ships; transport aircraft and spare engines; locomotives and parts for the construction and repair of locomotives and freight cars; equipment for a continuous strip steel mill, for automobile and truck manufacture, for oil drilling and for agriculture; earth-moving equipment; fuel; industrial materials, principally steel products, copper and cotton.

DUTCH LOAN—Ships; equipment for the shipbuilding, metal and textile industries; fuel; feeding grains and cakes; fertilizer; industrial materials, principally steel products for the shipbuilding and food-processing industries.

DANISH LOAN—Agricultural, textile and chemical equipment; rolling-mill steel products; copper and fibers.

LUXEMBOURG LOAN—Equipment for a steel rolling-mill; locomotives and other railway rolling stock.

As was to be expected, most of the expenditures financed by the Bank's loans were made in the United States. Nevertheless, substantial amounts were spent in other countries. As of June 30, 1948, out of the $470.1 million disbursed by the Bank, the geographical distribution of expenditures, in round numbers by groups of countries, was as follows:

Area of Expenditure	*Amount* (In millions of U. S. dollars)
United States	356.4
Canada	12.5
Latin America	50.0
Europe	47.7
Near East	2.2
Africa	1.2
Far East	.1
	470.1

Loan Discussions

It is not possible to summarize the current state of the Bank's loan discussions by compiling a simple list of outstanding applications, each characterized by a definite amount and purpose. The earlier contacts between the Bank and a prospective borrower usually take the form of an indication by the borrower, in general terms, of its development or reconstruction aims and of tentative inquiries as to the possibility and conditions of Bank assistance. These inquiries may develop into exploratory conversations leading to an invitation to the Bank to study the reconstruction or development program of the borrower or specific projects which the borrower proposes to undertake; this generally involves sending a Bank mission to the country in question. Only after the Bank and the borrower have selected the portions of the borrower's program which are suitable for financing by the Bank is it possible to begin technical study of selected projects and negotiations in terms of a definite sum. The Bank's experience indicates that an informal and flexible approach of this nature is more fruitful than the submission at the outset of a definitive application.

The Bank has at present under considera-

tion projects in more than 20 member countries. Discussions are in various stages, ranging from exploratory talks to detailed negotiations. They cover a great variety of proposed projects, such as power developments, transportation and communication facilities, irrigation, reclamation and other agricultural projects, shipbuilding, migration programs, mining development and industrial plants. In the course of investigating these various loan requests, the Bank has sent technical missions to 13 countries and a number of similar missions are planned for the near future.

Results of Operations and Loan Charges

As reflected in the annexed Statement of Income and Expenses (Appendix B), the Bank's operations during the fiscal year ended June 30, 1948 resulted in an excess of income over expenses of $4,094,652 (exclusive of loan commissions credited to the Special Reserve). The excess was sufficient to cover the deficit accumulated in prior years and to provide a net profit of $3,030,847 as of June 30, 1948. In addition to this net profit, $3,084,930 has been set aside in the Special Reserve.

The Bank believes the results of its first year of active operations indicate that its loan charges have been adequate and reasonable. Those charges are related to the cost to the Bank of funds secured by the sale of its own obligations; they are low compared to the historical rates for foreign lending and to the rates which have been paid in recent years for the small number of foreign loans sold in the United States market. The Bank is not organized for the purpose of making large profits, and its charges should clearly not be so high as to impose unreasonable burdens on its borrowers. Nevertheless, it is in the interest of the Bank, its members and its security holders, and ultimately of borrowers and potential borrowers as well, that the Bank accumulate reasonable reserves against future contingencies.

In reviewing the results of the Bank's operations for the past year, there should be taken into account the fact that the entire amount disbursed on loans, except for approximately $4 million in borrowed Swiss francs, was advanced out of capital funds rather than out of borrowed funds. Since capital funds are available to the Bank without cost, in contrast to borrowed funds on which the Bank must pay interest, the preponderance of loans out of capital has obviously had a favorable effect on the profit-and-loss account. Until additional amounts of the Bank's capital become available for lending, the proportion of loans made out of borrowed funds will increase as the Bank's loan operations expand and the rate of profit in relation to the volume of loans outstanding will therefore tend to decrease.

During the past year, the level of interest rates rose in the United States market. Since this development affected the estimated cost of money to the Bank, appropriate increases were made in the interest rates charged on Bank loans. The extent of the change, as related to long-term transactions, can be measured by comparing the rate of 3½% charged on the 20-year loan to Fomento (Chile) in 1948 with the rate of 3¼% charged on long-term loans in 1947. No change was made in the rate of commission, which remained at 1%.

During 1948, the Bank entered the field of specific project loans, involving disbursement of loan proceeds over extended periods. Typical applications for such loans contemplate disbursement over three, four and five years, in contrast to the periods of six to 18 months that characterized earlier applications. The Bank's policy has been to require the borrower to bear a substantial part of the cost to the Bank of undisbursed funds held in order to meet commitments. With the longer disbursement periods, that cost would increase substantially. Accordingly, on loans made in 1948, after an initial six months' period at a 1½% commitment charge, borrowers were charged full interest on undisbursed funds, subject to a credit calculated to approximate the rate earned by the Bank on its short-term investments.

Administration of Loans

One of the significant developments of the past year has been the establishment of proce-

dures in conformity with Section 5 (b) of Article III of the Bank's Articles of Agreement, which requires that the Bank "make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."

When a loan is granted, the goods and services to be purchased with the proceeds of the loan are determined by agreement between the Bank and the borrower. The proceeds of the loan are subject to withdrawal by the borrower only upon satisfactory certification that expenditures have been made or will be made for the purchase of authorized goods and services, that the cost and terms of purchase thereof are reasonable and that the cost has not been and will not be financed out of any other credit available to the borrower. The borrower must also submit to the Bank in due course documentary evidence of the purchase, payment and delivery.

These disbursement operations are similar to those of commercial banks in making payments under documentary letters of credit. In practice, the Bank frequently makes disbursements on the basis of reports by commercial banks that payment has been made by them under letters of credit. This procedure not only reduces the administrative work of the Bank but also enables the borrower to use normal banking facilities. In appropriate cases the Bank deposits funds with commercial banks as security for letters of credit for the purchase of goods which are to be financed out of the proceeds of a Bank loan.

These procedures keep the Bank informed of the goods and services purchased with the proceeds of its loans, the suppliers of such goods and services and the destination to which the goods are sent. This forms the basis of the Bank's subsequent investigation of the end use to which the goods are put. The checking of the end use is generally carried out in the borrowing country by field representatives of the Bank. In the first instance this checking relates to the adequacy, accuracy and efficiency of the control systems and records maintained by the borrower. If they are adequate for the purpose, the subsequent investigations are based on the borrower's records, with suitable checks and, in appropriate cases, physical inspection. When necessary, the Bank suggests to the borrower supplementary procedures.

Procedures for disbursement and end-use supervision must, of course, vary with the varying problems presented by different loans. As the Bank deals more and more with specific projects in the development field, involving construction in accordance with detailed engineering plans and specifications, the Bank expects that it will be able to place more emphasis on following the general progress of the project from an engineering standpoint. The Bank's concern in such cases is to see that the proceeds of the loan are devoted exclusively to the furtherance of the project and that the project is carried through to completion with due efficiency, economy and diligence. The Bank is, therefore, interested in the project as a whole and not primarily in individual items of supplies and equipment financed by the Bank. Comparison of accounting and engineering progress reports with original estimates, supplemented by inspection of the project by engineers and other technicians, will be the normal procedure.

While these procedures for control of disbursements and end-use supervision satisfy the requirements of Section 5 (b) of Article III of the Bank's Articles, there is also need for continuous cooperation between the Bank and its borrowers so that the Bank may keep fully informed of economic and financial developments in the borrowing countries. The Bank's loan agreements contain appropriate provisions to that end.

Enabling Legislation

The first loans made by the Bank were ratified by the legislatures of the borrowing governments. This procedure is clearly desirable in the case of relatively large loans made directly to governments. However, in the case of loans made to private enterprises and to certain types of government agencies, the ratification procedure may be found to be unduly cumbersome, particularly when the loans are relatively

small in amount. Even in those cases, of course, the loan must be guaranteed by the member government or its central bank or comparable agency and the Bank must be satisfied that the execution of the guarantee is authorized by law.

As a method of dealing with this problem, the Bank's members, particularly those who foresee the possibility of a series of loans from the Bank to official agencies or private enterprises in their territories, may wish to consider the desirability of enacting general enabling legislation, authorizing designated officials to give the government's guarantee to loans from the Bank and to execute such legal documents as may be necessary for this purpose. It is desirable that the Bank be consulted in advance regarding proposed legislation of this kind so as to avoid subsequent questions with respect to its legal sufficiency as applied to particular loans.

MARKETING ACTIVITIES

Borrowing Operations

The first issue of bonds by the Bank on July 15, 1947, reported in the Second Annual Report, afforded the Bank ample funds to cover its dollar needs during the past year. Accordingly, no public issues of the Bank's dollar securities were made during that period. However, the Dutch shipping loan provided an opportunity for a marketing transaction of a different kind. On August 6, 1948, the Bank sold, with its guarantee, to a group of 10 United States banks a block of $8.1 million of the notes received by the Bank from the Dutch shipping companies under this loan. This transaction was the result of a series of discussions between the Bank, the Netherlands authorities and the United States banks. Notes covering the balance of the principal amount of the loan, amounting to $3.9 million and including the longer maturities, have been retained in the Bank's portfolio.

The Bank's only direct borrowing operation since July 15, 1947, was the sale on June 1, 1948 of an issue of 2½% Swiss Franc Serial Bonds of 1948, in an aggregate principal amount of 17,000,000 francs (the equivalent of approximately $4,000,000). The entire issue was purchased for investment by the Bank for International Settlements at par and accrued interest. The bonds are dated April 1, 1948 and mature in 1953 and 1954. The proceeds of the issue were immediately advanced to the Kingdom of The Netherlands under the Supplemental Dutch Loan to which reference has already been made. Although the amount of the Swiss issue is relatively small, the transaction is significant as the Bank's first borrowing of a currency other than United States dollars.

To date the funds available to the Bank for lending have come very largely from United States sources, either from the 20% paid-in portion of the subscription of the United States Government to the Bank's capital or from the proceeds of the sale of the Bank's bonds in the United States investment market. These funds, expressed in round numbers in terms of United States dollars, consist of:

20% paid-in portion of subscription of the United States	$635,000,000
2% portion of subscriptions of other countries paid in in gold or dollars	98,300,000
Part of the 18% portion of the subscription of Belgium paid in in local currency	2,000,000
Proceeds of two bond issues in the United States	250,000,000
Sales of Swiss Franc Bonds to the B.I.S.	4,000,000
Net available funds from operations to June 30, 1948	3,200,000
Total	$992,500,000

Only slightly more than 10% of the total amount, it will be noted, has come from non-United States sources.

Although up to the present time the Bank has had ample funds for its loan operations, nevertheless from a long-range viewpoint it seems clearly desirable that the Bank should supplement its borrowing in the United States by tapping other sources of capital. This would provide a wider market for the Bank's bonds, would reinforce the Bank's international character and, to the extent that the Bank would be enabled to lend money other than dollars, would tend to lessen the transfer problems involved in eventual repayment of Bank loans. Accordingly, the Bank has endeavored to explore all possible means of expanding the available amount of non-United States capital, either by use of the 18% capital subscriptions of other member countries or by sale of the Bank's bonds outside the United States.

The fact that the Bank has not been able to obtain consent to the use of larger amounts of non-dollar capital, or to the sale of non-dollar bonds in markets outside the United States, is due primarily to difficulties which are inherent in the present economic situation of the world. Most of the traditional capital exporters in Western Europe have deficits in their current balances of payments; it is not to be expected that they can at the same time substantially expand their foreign investments. And even the relatively few countries which have maintained a favorable foreign exchange position are increasingly hesitant to undertake substantial foreign loan commitments for fear of aggravating domestic inflationary pressures or unduly depleting their foreign exchange reserves. But the Bank cannot function with full effectiveness as an international agency, and cannot fulfill its purpose of promoting a better balance in world trade, unless it can draw funds for its loans from expanded sources of capital. It is hoped, therefore, that those countries whose productivity and trade position permit the export of capital will increasingly make it possible for the Bank to use for loans the 18% of their capital subscription paid in in local currency, or to sell the Bank's non-dollar securities in their investment markets.

There would appear to be some avenues which offer promise of increasing to a limited extent the loanable resources of the Bank even in countries not presently in a position to permit additional exports of capital. All countries require foreign exchange reserves which usually include individual holdings. These holdings, although they cannot safely be reduced below a minimum level, can in many cases readily be shifted from one form of investment to another and, if already invested in dollar securities similar in nature to those of the Bank, could be reinvested in the Bank's dollar securities without placing any additional burden on the exchange position of the country in question. If the Bank's members should encourage the reinvestment of holdings of this kind in dollar bonds issued by the Bank, they would thereby provide a means of mobilizing for productive international investment foreign dollar funds or investments held by their nationals. The favorable yields on the Bank's dollar bonds, coupled with their tax status under United States income tax laws, should make them attractive to non-American holders of dollars or dollar securities, including those who are reluctant to convert their holdings into local currency. Such purchases of the Bank's bonds by non-American nationals might well support the Bank's marketing activities in the United States because they would properly be regarded as constituting an expression of confidence in the Bank's operations and would underline the Bank's international cooperative character. Accordingly, discussions are being conducted with several member countries with respect to the possibility of the sale in their markets of dollar bonds of the Bank.

Legislative Program

In the United States, institutional investors, such as insurance companies, banks and trusts, constitute the largest group of potential purchasers of securities issued or guaranteed by the Bank. Investments by these institutions are strictly regulated by the laws of the several states and, in certain instances, by federal law. At the time when the Bank actively commenced operations, there were only a few states where institutional investors could legally invest in the Bank's securities. Unless this situation could

be remedied, there was little prospect that the Bank would be able to sell any substantial amount of its securities in the United States.

Accordingly, the Bank in 1947 undertook a program to qualify its securities for institutional investment in the United States. By July 1947, these efforts had been sufficiently successful to ensure an adequate market for the Bank's first public offering. Nevertheless much remained to be done to prepare a market for future bond issues and the Bank has therefore continued and intensified its efforts during the past year to obtain the necessary legislative and administrative action.

The program has been highly successful. At the date of this report, the Bank's securities are (or by legislation now enacted but not yet effective soon will be) legally authorized investments for institutional investors, subject to the qualifications and conditions set forth in the applicable statutes and administrative rulings, as follows:

For all national banks, and for other commercial banks in 41 states and the District of Columbia;
For savings banks in 22 states and the District of Columbia;
For insurance companies in 32 states;
For trust funds in 28 states and the District of Columbia.

On the basis of the latest information available to the Bank, this means that the Bank's securities may now be purchased by commercial banks whose deposits amount to 93% of all commercial bank deposits in the United States, mutual savings banks whose deposits amount to 95% of all such deposits in the United States, and insurance companies and fraternal insurance organizations whose admitted assets amount to 93% of all such assets in the United States. These figures indicate the extent of the progress made in opening the institutional market in the United States to the Bank's securities. In addition to their significance for future security issues, they provide evidence that legislatures and officials in the United States have come to understand the Bank's organization and operations and to recognize the sound investment quality of its obligations.

One further legislative project should be mentioned. During the spring of 1948, as a result of consultations between the Bank and United States Government officials, legislation was introduced into the United States Congress authorizing national banks to deal in the Bank's securities (purchases by national banks for investment and for customers' account being already authorized) and exempting the Bank's securities from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In the Bank's opinion, legislation of this character is needed to facilitate distribution of future issues of its securities. The proposed legislation, although favorably reported by the Senate Committee on Banking and Currency and passed by the Senate subject to a motion to reconsider, did not reach the floor of the House of Representatives and thus failed of enactment. The Bank expects that similar legislative proposals will be introduced into the next regular session of the Congress.

Although the Bank's legislative program during the past year has concerned itself primarily with the United States market, the Bank is equally interested, as has already been pointed out, in the possibility of placing its securities in countries other than the United States. In that connection, it has made inquiries of all its members as to the possibilities of removing any legal restrictions, other than foreign exchange control regulations, which may exist on investment in the Bank's securities by institutions in their territories and of making the Bank's securities eligible for deposits required by law of foreign corporations doing business in their territories. The response to these inquiries has been desultory and it is hoped that the Board of Governors will take steps to urge upon their respective governments the advisability of vigorous cooperation with the Bank in this field. The Bank intends to pursue the matter further during the coming year.

The Bank has also obtained official rulings from the United States Treasury Department in regard to the taxability, under United States income tax laws, of interest paid on Bank bonds held by nationals of countries other than the United States. The Treasury Department's rulings are to the effect that interest on securities

issued by the Bank is exempt from United States income taxes, including withholding taxes, if paid to an individual who is not a national or resident of the United States, or to a corporation organized under the laws of a country other than the United States, whether or not such corporation is engaged in trade or business in the United States, unless the corporation is a life insurance company and the interest is attributable, within the meaning of the United States Internal Revenue Code, to the company's life insurance business in the United States. These rulings should be of substantial assistance to the Bank in finding a market for its securities in countries other than the United States.

Condition of United States Market and Future Marketing Plans

In July 1947, when the Bank's first bond issues were offered to the public, a strong market existed in the United States for high-grade bonds. Both issues were oversubscribed and soon sold at substantial premiums. In the following months, however, the high-grade bond market experienced a severe decline, one of the most drastic that had occurred since 1931. The period of general weakness lasted in its acute phase until the end of the year, culminating in the action of the United States Government authorities in reducing the levels at which prices of Government obligations were supported.

This weak and uncertain market, which persisted during most of the period covered by this report, constituted a severe trial for the Bank's bonds. By mid-January 1948 the bonds had been forced to discounts of slightly more than 5½ points below their original offering prices. However, as these low levels were reached, large institutional investors re-entered the market and the bonds recovered rapidly. The improvement continued during the early months of 1948 and on May 17 sales on the New York Stock Exchange reached a high of 98-30/32 for the 2¼'s due 1957 and 99-30/32 for the 3's due 1972. Thereafter the bonds, again reacting to general market conditions, sold off from these levels and on the date of this report bids on the New York Stock Exchange for the 2¼'s and 3's were 96¼ and 97¼ respectively.

The market performance of the bonds during this period has been highly encouraging. Being unseasoned issues, not generally familiar to investors and subject to special pressures because of the continual flow of unfavorable international news, the bonds might well have been expected to show more weakness than the market as a whole. In fact, however, the bonds demonstrated a gratifying stability and resilience and their performance, during the first year of their existence, was better than the average market performance of comparable high-grade bonds.

As of August 31, 1948, the Bank had uncommitted loanable funds amounting to approximately $475 million. Until at least a substantial portion of these funds is earmarked for approved loans the Bank will be under no necessity to borrow. However, the Bank intends to consider carefully all opportunities that may be presented to increase its loanable resources by obtaining the consent of members to the use of their paid-in capital, by selling the Bank's securities in countries other than the United States, and by selling securities out of the Bank's loan portfolio with or without the Bank's guarantee. Several projects of this nature are presently under consideration.

MISCELLANEOUS

Management and Organization

The only change in the principal officers of the Bank since the Second Annual Report was occasioned by the resignation of Mr. Charles C. Pineo as Loan Director on October 31, 1947. He was succeeded on February 5, 1948 by Mr. William A. B. Iliff, who came to the Bank from the United Kingdom Treasury. Mr. Pineo was the Bank's first Loan Director and held that important office during the crucial period of the Bank's initial operations. The Bank wishes to record its appreciation of his loyal

service. A list of the Bank's officers appears as Appendix L.

The Bank's organization and the functions of its several departments remain as stated in the Second Annual Report, except that the Research Department has been renamed the Economic Department and the function of making studies of economic and financial conditions in the territories of members has been transferred from the Loan Department to the Economic Department.

As of August 31, 1948, the Staff of the Bank consisted of 435 persons and 21 different nationalities.

On May 31, 1948, the Bank put into effect a pension plan for its permanent staff. The plan contemplates a normal retirement age of 65. The Bank contribution to the pension fund is estimated to be about twice the contributions of staff members.

Advisory Council

The Advisory Council of the Bank consists of the following ten members:

Name	*Field of Interest*
Arthur Salter, Chairman (U.K.)	General
Pedro G. Beltran (Peru)	Agriculture
Edward E. Brown (U.S.)	Banking
R. D. Harkness (Canada)	Industry
Herbert Hoover (U.S.)	Commerce
Leon Jouhaux (France)	Labor
Michal Kalecki (Poland)	Economics
C. V. Raman (India)	Science
Lionel C. Robbins (U.K.)	Economics
S. K. A. Sze (China)	General

Nine of these councillors were selected by the Board of Governors at their Second Annual Meeting and the tenth by subsequent vote of the Governors, completed on April 30, 1948.

The First Annual Meeting of the Advisory Council was held at the principal office of the Bank from July 19 to July 23, 1948. A full exchange of views took place with respect to the more important policies of the Bank. No report was made.

Relationship with Other International Organizations

Relations between the Bank and the International Monetary Fund remain close and fruitful. There are practically continuous contacts between officials of the two organizations at all levels.

The Bank has also maintained close liaison with the United Nations and with other international organizations whose fields of activity are related to those of the Bank. The Bank has been represented at all of the meetings of the Economic and Social Council, the Economic and Employment Commission, the Subcommission on Economic Development and the Subcommission on Economic Stability and Employment. It has also been represented at meetings of the Economic Commission for Europe and its various committees and subcommittees and at meetings of the Economic Commission for Asia and the Far East. Similarly, it participated in meetings of the committee established by the Economic and Social Council to consider the creation of an Economic Commission for Latin America. In addition, the Bank has participated in the Geneva and Havana conferences held for the purpose of drafting a charter for the proposed International Trade Organization. It has likewise been represented at various meetings of the Food and Agriculture Organization of the United Nations and at the annual meeting of the Bank for International Settlements.

The number of international meetings held at many different places throughout the world to consider matters of interest to the Bank is very considerable and appears to be constantly increasing. This has imposed a severe strain on the staff of the Bank and has resulted in some instances in an inability on the part of the Bank, without interfering with the conduct of its own work, to participate in meetings held at far distances from Bank headquarters.

Contacts at staff level between the Bank and the United Nations and other international organizations have proved of particular value and are believed to constitute the most effective means for coordination of the Bank's activities with those of the other agencies. For example, the Bank had a member of its Economic Department in Geneva for a substantial part of the past year in order to make possible effective liaison with the secretariat of the Economic Commission for Europe. It has also recently appointed a representative to maintain

liaison in Paris with the OEEC and ECA. Much value has also been derived from many informal exchanges of views on matters of mutual interest between representatives of the Bank and of the Food and Agriculture Organization of the United Nations. Furthermore, frequent trips have been made by Bank officials to Lake Success to maintain contact with the United Nations Secretariat, with a view to exchanging information on a wide variety of subjects and avoiding unnecessary duplication or overlapping on such matters as research activities, the collection of statistics and the handling of administrative problems.

The Bank has also maintained excellent relations with the Organization of American States. The President of the Bank, upon invitation, addressed both the Inter-American Economic and Social Council and the Economic Commission of the Ninth Conference of American States.

The agreement between the Bank and the United Nations, which the Board of Governors approved at the Second Annual Meeting, was approved by the General Assembly of the United Nations on November 15, 1947. Pursuant to its terms, the agreement came into effect on that date. It has thus far proved entirely satisfactory.

Increases in Membership

Membership in the Bank has increased from 45 to 47 since the Second Annual Meeting of the Board of Governors, Finland and Austria having become members on January 14, 1948 and August 27, 1948, respectively.

Subscriptions and Voting Power of Member Countries

In accordance with Resolution No. XIII adopted by the Board of Governors at the First Annual Meeting, Paraguay's subscription to the capital stock of the Bank has been increased from 8 shares to 14 shares.

At the Second Annual Meeting, the Board of Governors authorized increases of 96 shares and 133 shares, respectively, in the subscriptions of Iran and Egypt to the capital stock of the Bank. Egypt's increased subscription was accepted by the Bank on June 10, 1948. By vote without meeting completed on May 28, 1948, the Board of Governors extended until July 31, 1948 the time within which Iran's increased subscription might be received by the Bank. The subscription was received within the extended time limit and was accepted by the Bank on June 28, 1948.

Through the admission of new members and through increases in the capital subscriptions of Paraguay by $0.6 million, Egypt by $13.3 million and Iran by $9.6 million, the Bank's total subscribed capital increased from $8,224.5 million as of August 10, 1947, to $8,336 million as of August 31, 1948.

Election of Additional Executive Directors

The election of a thirteenth Executive Director pursuant to Resolution No. 10 adopted at the Inaugural Meeting of the Board of Governors was completed on August 22, 1947. At that election, Professor Costantino Brescianí-Turroni of Italy was elected as an additional Executive Director, representing Columbia, Denmark, Italy, Turkey and Venezuela, with a total of 4,615 votes.

Pursuant to Resolution No. 23 adopted by the Board of Governors at the Second Annual Meeting, Mr. Stuart Gordon McFarlane of Australia was elected as an additional Executive Director as of January 30, 1948, representing Australia, Lebanon and Syria, with a total of 2,860 votes.

A regular election of elective Executive Directors is required to be held at the Third Annual Meeting in September 1948 and forms the subject of a separate report to the Board of Governors.

Financial Statements and Reports

Attached as Appendices A to G, inclusive, are a Balance Sheet showing the financial position of the Bank as of June 30, 1948, a Statement of Income and Expenses, an Opinion of Independent Auditor, and a number of schedules giving further details concerning the assets and liabilities, capital and financial operations of the Bank.

Administrative Budget

There is attached as Appendix H the administrative budget of the Bank for the fiscal year ending June 30, 1949. This budget has

been prepared by the President and approved by the Executive Directors in accordance with Section 19 of the By-Laws of the Bank.

The budget as presented represents the best estimate of the management and Executive Directors of the minimum cost of effective administration for the current fiscal year. It is not possible, however, to foresee all contingencies which may arise. If, therefore, unanticipated conditions develop which necessitate changes in programs, appropriate adjustments in the budget will be required.

Appendices

In addition to the appendices containing the financial statements and reports and the administrative budget of the Bank, to which reference has already been made, there are included in this report for the information of the Board of Governors the following appendices:

Appendix I—Governors and Alternates as of August 31, 1948

Appendix J—Voting Power and Subscriptions of Member Countries as of August 31, 1948

Appendix K—Executive Directors and Alternates and Their Voting Power as of August 31, 1948

Appendix L—Officers of the Bank as of August 31, 1948

Additional Reports to Board of Governors

In addition to this Annual Report, the following reports are being submitted for consideration of the Board of Governors at the Third Annual Meeting:

(1) Report on the Allocation of Net Income;

(2) Report on Loan Regulations No. 2;

(3) Report on Draft Resolution proposed by the Governor of the Bank for Poland;

(4) Report on the Second Regular Election of Executive Directors;

(5) Report on Convention on the Privileges and Immunities of the Specialized Agencies;

(6) Report on Decisions of Executive Directors Interpreting Articles of Agreement.

APPENDIX A

Balance Sheet—June 30, 1948

EXPRESSED IN UNITED STATES CURRENCY

(See Notes to Financial Statements)

ASSETS

Gold (Valued at $35.00 per fine troy ounce)			$ 183,869
Due from Banks and Other Depositories			
Member currency—United States		$ 36,154,429	
Member currency—other than United States—Note A		114,793,349	150,947,778
Investment Securities			
United States Government obligations ($418,508,000 face amount at cost)		$ 417,964,779	
Accrued interest and discount		1,442,999	419,407,778
Receivable from Members			
Non-negotiable, non-interest-bearing, demand notes—Note B			
Payable in member currency—United States	$ 65,785,000		
Payable in member currency—other than United States—Note A	802,961,483	$ 868,746,483	
Calls on subscriptions to capital stock			
Payment deferred—Note C		4,915,000	873,661,483
Loans Outstanding			
Total loans—Note D	$ 497,000,000		
Less—Unused portion of commitment	26,944,249		
Principal outstanding—Note E		$ 470,055,751	
Accrued interest and commitment charges—Note E		3,272,214	473,327,965
Miscellaneous Receivables and Other Assets			198,187
Special Reserve Fund Assets—Note F			
Due from Banks—member currency—United States		$ 409	
Investment securities—United States Government obligations ($2,184,000 face amount at cost)		2,178,496	
Accrued loan commissions—Note E		906,025	3,084,930
Staff Retirement Plan Assets—Note G			312,919
Total Assets			**$1,921,124,909**

LIABILITIES, RESERVES AND CAPITAL

Liabilities			
Accounts payable and accrued expenses, including $3,132,199 bond interest		$ 3,540,425	
Bonds outstanding			
Payable in United States Dollars—Note H			
Ten Year 2¼% Bonds, due July 15, 1957	$ 100,000,000		
Twenty-Five Year 3% Bonds, due July 15, 1972	150,000,000		
Payable in Swiss Francs			
2½% Swiss Franc Serial Bonds of 1948, due 1953-54 (Swiss Francs 17,000,000)	3,955,788	253,955,788	$ 257,496,213
Special Reserve—Note F			3,084,930
Staff Retirement Plan Reserve—Note G			312,919
Capital			
Capital stock			
Authorized 100,000 shares of $100,000 par value each			
Subscribed 82,860 shares	$8,286,000,000		
Less—Uncalled portion of subscriptions—Note I	6,628,800,000	$1,657,200,000	
Excess of income over expenses for twelve months ended June 30, 1948	$ 4,094,652		
Less—Excess of expenses over income at June 30, 1947	1,063,805	3,030,847	1,660,230,847
Total Liabilities, Reserves and Capital			**$1,921,124,909**

Statement of Income and Expenses
For the Twelve Months Ended June 30, 1948

EXPRESSED IN UNITED STATES CURRENCY
(See Notes to Financial Statements)

Income		
Interest earned on investment securities	$ 3,593,623	
Income from loans:		
Interest	9,917,304	
Commitment charges	2,136,027	
Commissions	3,051,478	
Other Income	5,546	
	$18,703,978	
Deduct—Amount equivalent to commission appropriated to Special Reserve (Note F)	3,051,478	$15,652,500
Expenses		
Operating Expenses:		
Salaries and wages	$ 2,238,580	
Provision for taxes on salaries	253,540	
Travel	447,981	
Rents and utility services	377,046	
Communication services	88,956	
Furniture and equipment	89,365	
Publications, printing and binding	87,641	
Supplies	65,233	
Contributions to staff benefits:		
Staff Retirement Plan	301,516	
Other	10,471	
Handling and storage of gold	25,662	
Miscellaneous expenses	62,891	
Total Operating Expenses	$ 4,048,882	
Interest on bonds	6,232,963	
Bond registration and issuance expenses	1,276,003	11,557,848
Excess of Income Over Expenses		$ 4,094,652

Statement of Loans—June 30, 1948

EXPRESSED IN UNITED STATES CURRENCY
(See Notes to Financial Statements)

	Date of Loan Agreement	*Serial Maturities (Semi-Annually)*	*Interest Rate (Note F)*	*Total Loans (Note D)*	*Disbursements (Note E)*	*Unused Balance of Commitment*
Credit National (Guaranteed by Republic of France)	May 9, 1947	1952-1977	3-¼%	$250,000,000	$250,000,000	
Kingdom of the Netherlands	August 7, 1947	1954-1972	3-¼%	191,044,212	191,044,212	
	May 25, 1948	1953-1954	3-¼%	3,955,788	3,955,788	
Kingdom of Denmark	August 22, 1947	1953-1972	3-¼%	40,000,000	16,448,259	$23,551,741
Grand-Duchy of Luxembourg	August 28, 1947	1949-1972	3-¼%	12,000,000	8,607,492	3,392,508
				$497,000,000	$470,055,751	$26,944,249

Statement of Members' Currencies Held by the Bank

June 30, 1948

(See Notes to Financial Statements)

Name of Member	*Unit of Currency*	*Amount Expressed In Member Currency (Restricted)*	*Rate of Exchange (Note A)*	*Total Expressed in U. S. Dollars*
Australia	Pound	111,693	$ = 0.310174	$ 360,098
Belgium	Franc	14,741,644	$ = 43.8275	336,356
Bolivia	Boliviano	516,200	$ = 42.00	12,290
Brazil	Cruzeiro	349,588,083	$ = 18.50	18,896,653
Canada	Dollar	583,612	$ = 1.00	583,612
Chile	Peso	195,160,700	$ = 31.00	6,295,506
China	Yuan	12,948,953,640	$ = 12,000.00	1,079,079
Colombia	Peso	11,020,972	$ = 1.74999	6,297,734
Costa Rica	Colon	2,021,338	$ = 5.615	359,989
Cuba	Peso	63,000	$ = 1.00	63,000
Czechoslovakia	Koruna	11,079,502	$ = 50.00	221,590
Denmark	Krone	529,957	$ = 4.799007	110,431
Dominican Republic	Peso	3,466	$ = 1.00	3,466
Ecuador	Sucre	7,776,000	$ = 13.50	576,000
Egypt	Pound	774,256	$ = 0.241955	3,200,000
El Salvador	Colon	449,529	$ = 2.50	179,812
Ethiopia	Dollar	1,340,403	$ = 2.484472	539,512
Finland	Markka	930,240,000	$ = 136.00	6,840,000
France	Franc	202,515,821	$ = 214.392	944,605
Greece	Drachma	22,500,000,000	$ = 5,000.00	4,500,000
Guatemala	Quetzal	357,351	$ = 1.00	357,351
Honduras	Lempira	3,600	$ = 2.00	1,800
Iceland	Krona	1,166,251	$ = 6.48885	179,732
India	Rupee	2,376,332	$ = 3.308519	718,246
Iran	Rial	57,121,200	$ = 32.25	1,771,200
Iraq	Dinar	2,680	$ = 0.248139	10,800
Italy	Lira	7,287,494,669	$ = 225.00	32,388,865
Lebanon	Pound	1,775,075	$ = 2.19148	809,989
Luxembourg	Franc	693,437	$ = 43.8275	15,822
Mexico	Peso	56,796,422	$ = 4.855	11,698,542
Netherlands	Guilder	1,265,477	$ = 2.65285	477,025
Nicaragua	Cordoba	720,000	$ = 5.00	144,000
Norway	Krone	438,845	$ = 4.96278	88,427
Panama	Balboa	36,000	$ = 1.00	36,000
Paraguay	Guarani	775,268	$ = 3.09	250,896
Peru	Sol	197,516	$ = 6.50	30,387
Philippines	Peso	2,392,051	$ = 2.00	1,196,026
Poland	Zloty	22,092,852	$ = 100.00	220,928
Syria	Pound	25,622	$ = 2.19148	11,692
Turkey	Lira	213,753	$ = 2.799999	76,340
Union of South Africa	Pound	44,403	$ = 0.248139	178,944
United Kingdom	Pound	565,256	$ = 0.248139	2,277,981
United States	Dollar	36,009,408	$ =	36,009,408
Uruguay	Peso	2,868,471	$ = 1.519049	1,888,333
Venezuela	Bolivar	4,571,686	$ = 3.35	1,364,682
Yugoslavia	Dinar	360,172,397	$ = 50.026668	7,199,608
	Restricted Currency (*Note K*)			$150,802,757
	Unrestricted Currency (All held in United States Dollars)			145,021
	Total (*Note J*)			$150,947,778

Statement of Subscriptions to Capital Stock

(See Notes to Financial Statements)

	Member	Number of Shares Subscribed	Subscription Price (Note L)	Amounts Paid In (Note A) United States Dollars	Amounts Paid In (Note A) In Currency of Member Other Than United States Dollars
1	Australia	2,000	$ 200,000,000	$ 4,000,000	$ 360,131
2	Belgium	2,250	225,000,000	4,500,000	2,344,422
3	Bolivia	70	7,000,000	140,000	12,600
4	Brazil	1,050	105,000,000	2,100,000	18,900,000
5	Canada	3,250	325,000,000	6,500,000	585,000
6	Chile	350	35,000,000	700,000	6,300,000
7	China	6,000	600,000,000	9,000,000	1,080,000
8	Colombia	350	35,000,000	700,000	6,300,000
9	Costa Rica	20	2,000,000	40,000	360,000
10	Cuba	350	35,000,000	700,000	63,000
11	Czechoslovakia	1,250	125,000,000	1,875,000	225,000
12	Denmark	680	68,000,000	1,020,000	122,400
13	Dominican Republic	20	2,000,000	40,000	3,600
14	Ecuador	32	3,200,000	64,000	576,000
15	Egypt	533	53,300,000	1,066,000	3,200,000
16	El Salvador	10	1,000,000	20,000	180,000
17	Ethiopia	30	3,000,000	60,000	540,000
18	Finland	380	38,000,000	760,000	6,840,000
19	France	5,250	525,000,000	10,500,000	979,719
20	Greece	250	25,000,000	375,000	4,500,000
21	Guatemala	20	2,000,000	40,000	360,000
22	Honduras	10	1,000,000	20,000	1,800
23	Iceland	10	1,000,000	20,000	180,000
24	India	4,000	400,000,000	8,000,000	720,383
25	Iran	336	33,600,000	672,000	1,771,200
26	Iraq	60	6,000,000	120,000	10,800
27	Italy	1,800	180,000,000	3,600,000	32,400,000
28	Lebanon	45	4,500,000	90,000	810,000
29	Luxembourg	100	10,000,000	200,000	18,014
30	Mexico	650	65,000,000	1,300,000	11,700,000
31	Netherlands	2,750	275,000,000	5,500,000	496,098
32	Nicaragua	8	800,000	16,000	144,000
33	Norway	500	50,000,000	1,000,000	90,000
34	Panama	2	200,000	4,000	36,000
35	Paraguay	14	1,400,000	28,000	252,000
36	Peru	175	17,500,000	350,000	31,500
37	Philippines	150	15,000,000	300,000	1,200,000
38	Poland	1,250	125,000,000	1,875,000	225,000
39	Syria	65	6,500,000	130,000	11,700
40	Turkey	430	43,000,000	860,000	77,400
41	Union of South Africa	1,000	100,000,000	2,000,000	180,000
42	United Kingdom	13,000	1,300,000,000	26,000,000	2,375,750
43	United States	31,750	3,175,000,000	569,215,000	—
44	Uruguay	105	10,500,000	210,000	1,890,000
45	Venezuela	105	10,500,000	210,000	1,365,000
46	Yugoslavia	400	40,000,000	600,000	7,200,000
		82,860	$8,286,000,000	$666,520,000	$117,018,517

and Voting Power of Members—June 30, 1948

(See Notes to Financial Statements)

Amounts Paid In (Note A)				
Non-Interest-Bearing, Non-Negotiable Demand Notes (Notes B and J)	*Amounts Payment of Which is Postponed (Note C)*	*Subject to Call to Meet Obligations of Bank (Note I)*	*Number of Votes*	
$ 35,639,869	$ —	$ 160,000,000	2,250	1
38,155,578	—	180,000,000	2,500	2
1,247,400	—	5,600,000	320	3
—	—	84,000,000	1,300	4
57,915,000	—	260,000,000	3,500	5
—	—	28,000,000	600	6
106,920,000	3,000,000	480,000,000	6,250	7
—	—	28,000,000	600	8
—	—	1,600,000	270	9
6,237,000	—	28,000,000	600	10
22,275,000	625,000	100,000,000	1,500	11
12,117,600	340,000	54,400,000	930	12
356,400	—	1,600,000	270	13
—	—	2,560,000	282	14
6,394,000	—	42,640,000	783	15
—	—	800,000	260	16
—	—	2,400,000	280	17
—	—	30,400,000	630	18
93,520,281	—	420,000,000	5,500	19
—	125,000	20,000,000	500	20
—	—	1,600,000	270	21
178,200	—	800,000	260	22
—	—	800,000	260	23
71,279,617	—	320,000,000	4,250	24
4,276,800	—	26,880,000	586	25
1,069,200	—	4,800,000	310	26
—	—	144,000,000	2,050	27
—	—	3,600,000	295	28
1,781,986	—	8,000,000	350	29
—	—	52,000,000	900	30
49,003,902	—	220,000,000	3,000	31
—	—	640,000	258	32
8,910,000	—	40,000,000	750	33
—	—	160,000	252	34
—	—	1,120,000	264	35
3,118,500	—	14,000,000	425	36
1,500,000	—	12,000,000	400	37
22,275,000	625,000	100,000,000	1,500	38
1,158,300	—	5,200,000	315	39
7,662,600	—	34,400,000	680	40
17,820,000	—	80,000,000	1,250	41
231,624,250	—	1,040,000,000	13,250	42
65,785,000	—	2,540,000,000	32,000	43
—	—	8,400,000	355	44
525,000	—	8,400,000	355	45
—	200,000	32,000,000	650	46
$868,746,483	$4,915,000	$6,628,800,000	94,360	

Notes to Financial Statements

NOTE A

Amounts in currencies other than United States dollars have been translated into United States dollars at the rates recognized in making capital payments by member countries. In the cases of 37 members these rates are the established par values under the International Monetary Fund Agreement. In the cases of nine members (Brazil,* China, Finland, France, Greece, Italy, Poland, Uruguay and Yugoslavia), the par values of their currencies had not been so established at June 30, 1948.

No representation is made that any of such currencies is convertible into any other of such currencies at any rate or rates.

Article II, Section 9, of the Bank's Articles of Agreement contains the following provisions with regard to the maintenance of the value of certain currency holdings of the Bank:

"(a) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within the member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member which is held by the Bank and derived from currency originally paid in to the Bank by the member under Article II, Section 7(i), from currency referred to in Article IV, Section 2(b), or from any additional currency furnished under the provisions of the present paragraph, and which has not been repurchased by the member for gold or for the currency of any member which is acceptable to the Bank.

"(b) Whenever the par value of a member's currency is increased, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency described in (a) above.

"(c) The provisions of the preceding paragraphs may be waived by the Bank when a uniform proportionate change in the par values of the currencies of all its members is made by the International Monetary Fund."

NOTE B

Demand notes delivered to the Bank in substitution for currency of member, in accordance with Article V, Section 12.

NOTE C

Payments postponed until June 25, 1951, in accordance with the provisions of Article II, Section 8(a)(i). These amounts are payable in gold or United States dollars.

NOTE D

In addition to the $497,000,000 of loans effective as of June 30, 1948, the Bank on March 25, 1948 entered into a loan agreement with Corporación de Fomento de la Producción and Empresa Nacional de Electricidad, S.A., providing for a loan in the amount of $13,500,000, or the equivalent thereof in other currencies. Also on March 25, 1948 the Bank entered into a loan agreement with Corporación de Fomento de la Producción, providing for a loan in the amount of $2,500,000, or the equivalent thereof in other currencies. These agreements will become effective after the Bank has received evidence that the Government of Chile has guaranteed these loans, together with certain other certificates and documents, and the Bank has notified the borrower and the guarantor of its acceptance of such evidence.

NOTE E

The principal outstanding, accrued interest and commitment charges, and accrued loan commissions are payable in United States dol-

* The parity rate of Brazil has since been approved, on July 14, 1948, by the International Monetary Fund.

lars except the following amounts for which the dollar equivalent is shown:

	Currency Payable		
	Swiss Francs	*Belgian Francs*	*Total*
Principal Outstanding	$3,955,788	$2,005,835	$5,961,623
Accrued Interest and Commitment Charges	10,567	21,764	32,331
Accrued Loan Commissions	3,251	6,697	9,948
Totals	**$3,969,606**	**$2,034,296**	**$6,003,902**

NOTE F

The amount of commissions received by the Bank on loans made or guaranteed by it is required under Article IV, Section 6, to be set aside as a special reserve to be kept available for meeting obligations of the Bank created by borrowing or guaranteeing loans. On all loans outstanding at June 30, 1948, the rate of commission is 1% per annum.

NOTE G

Assets segregated and held in trust for the Staff Retirement Plan which became effective on May 31, 1948. The Plan provides for retirement, total disability and death benefits to participating members of the Bank's staff. Participants are required to contribute to the Plan amounts equal to 6 percent of their regular net remuneration; the remainder of the cost of operating the Plan is to be borne by the Bank. According to actuarial computations, the Bank's share will be approximately two-thirds of the cost of operation of the Plan, exclusive of administrative expenses which are also to be borne by the Bank. The amount of $301,516 contributed by the Bank up to June 30, 1948, consisted of $21,610 current service contributions for the month of June 1948, and $279,906 being the estimated amount of the Bank's contribution with respect to services prior to the inception of the Plan.

NOTE H

As a sinking fund for the Twenty-Five Year Bonds, the Bank has agreed to purchase and retire or redeem bonds of said issue commencing July 15, 1958, in varying amounts calculated to retire 50% of the total issue by maturity.

NOTE I

Subject to call by the Bank only when required to meet the obligations of the Bank created by borrowing or guaranteeing loans.

NOTE J

The currencies of the several members and the notes substituted for any part of such currencies are held on deposit with designated depositories in the territories of the respective members.

NOTE K

These currencies are derived from the 18% of the subscriptions to the capital stock of the Bank which is payable in the currencies of the respective members. Such 18% may be loaned by the Bank, and funds received by the Bank on account of principal of loans made by the Bank out of such currencies may be exchanged for other currencies or reloaned, only with the approval in each case of the member whose currency is involved; provided, however, that, if necessary, after the Bank's subscribed capital is entirely called, such currencies may, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings or to meet the Bank's liabilities with respect to contractual payments on loans guaranteed by it. The United States has approved the use by the Bank in the making of loans of such 18% of the subscription of the United States to the capital stock of the Bank, and Belgium similarly has approved the use of the Belgian Franc equivalent of $2,000,000, which amount has already been disbursed. (Article IV, Section 2(a) and (b).)

NOTE L

In terms of United States dollars of the weight and fineness in effect on July 1, 1944.

Opinion of Independent Auditor

PRICE, WATERHOUSE & CO.

AMERICAN SECURITY BUILDING
WASHINGTON 5, D. C.
July 27, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT,
Washington, D. C.

We have examined the financial statements listed below of International Bank for Reconstruction and Development as of June 30, 1948. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary in the circumstances.

In our opinion, such financial statements, with the notes thereto, present fairly the position of the Bank at June 30, 1948, expressed in United States currency, and the results of its operations for the twelve months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price, Waterhouse & Co.

PRICE, WATERHOUSE & CO.

Financial Statements Covered by the Foregoing Opinion

Balance Sheet—June 30, 1948	APPENDIX A
Statement of Income and Expenses for the twelve months ended June 30, 1948	APPENDIX B
Statement of Loans—June 30, 1948	APPENDIX C
Statement of Members' Currencies held by the Bank—June 30, 1948	APPENDIX D
Statement of Subscriptions to Capital Stock and Voting Power of Members—June 30, 1948	APPENDIX E
Notes to Financial Statements	APPENDIX F

Administrative Budget

FOR THE FISCAL YEAR ENDING JUNE 30, 1949

There is outlined below the Administrative Budget for the Fiscal Year ending June 30, 1949, as prepared by the President and approved by the Executive Directors in accordance with Section 19 of the By-Laws. For purposes of comparison there is also outlined below the expenses incurred during the Fiscal Year ending June 30, 1948.

	1947-1948 Expenses	*1948-1949 Budget*
Personal Services	$2,200,050	$2,804,424
Travel	256,690	284,600
Rent, Utility Service, and Building Alterations	368,932	314,800
Supplies and Equipment	167,778	119,500
Books and Printing	87,555	95,800
Communication Service	84,197	105,000
Contribution to Staff Benefits	311,988	297,500
Other Expenses	66,876	17,100
Contingencies		100,000
Total Administrative Expenses	**$3,544,066**	**$4,138,724**
Office of Executive Directors	328,814	449,800
Annual Meeting, Board of Governors and Advisory Council	176,002	88,000
Total Expenses	**$4,048,882**	**$4,676,524**

In submitting the 1947-1948 Administrative Budget it was estimated that expenditures, excluding bond registration and issuance expense, would aggregate $4,361,000. Expenses for this period as shown above amounted to $4,048,882. Bond registration and issuance costs estimated at $3,987,000, amounted to $1,276,003.

No estimate has been made of bond registration and issuance expenditures for the Fiscal Year ending June 30, 1949, since the amount of bonds which may be issued by the Bank during such year is not known. It has been estimated, however, that such expenditures will amount to $725,000 for each $100 million of bonds which the Bank may issue.

Governors and Alternates

As of August 31, 1948

COUNTRY	GOVERNOR	ALTERNATE
AUSTRALIA	J. B. Chifley	N. J. O. Makin
AUSTRIA *(became member on August 27, 1948)*		
BELGIUM	Gaston Eyskens	Maurice Frere
BOLIVIA	Rene Ballivian Calderon	Jaime Gutierrez Guerra
BRAZIL	Francisco Alves dos Santos-Filho	Edgard de Mello
CANADA	D. C. Abbott	R. B. Bryce
CHILE	Arturo Maschke	Fernando Illanes
CHINA	Wang Yun-Wu	T. L. Soong
COLOMBIA	Emilio Toro	Diego Mejia
COSTA RICA	Julio Pena	Angel Coronas-Guardia
CUBA	Guillermo Belt	Miguel A. Riva
CZECHOSLOVAKIA	Leopold Chmela	Bohumil Sucharda
DENMARK	Carl Valdemar Bramsnaes	Hakon Jespersen
DOMINICAN REPUBLIC	Jesus Maria Troncoso	Luis Julian Perez
ECUADOR	Augusto Dillon	Pedro L. Nunez
EGYPT	Ahmed Zaki Bey Saad	
EL SALVADOR	Catalino Herrera	Manuel Melendez-Valle
ETHIOPIA	George A. Blowers	
FINLAND	Sakari Tuomioja	Ralf Torngren
FRANCE	Rene Mayer	Pierre Mendes-France
GREECE	Athanase Sbarounis	Grigorios Zarifopoulos
GUATEMALA	Manuel Noriega Morales	Leonidas Acevedo
HONDURAS	Julian R. Caceres	Jorge Fidel Duron
ICELAND	Jon Arnason	Thor Thors
INDIA	Sir Chintaman Deshmukh	N. Sundaresan
IRAN	A. H. Ebtehaj	Mocharraf Naficy
IRAQ	Saifullah Khandan	Munim Gailani
ITALY	Donato Menichella	Giorgio Cigliana-Piazza
LEBANON	Charles Malik	George Hakim
LUXEMBOURG	Pierre Dupong	Hugues Le Gallais
MEXICO	Antonio Espinosa de los Monteros	Luciano Wiechers
NETHERLANDS	P. Lieftinck	M. W. Holtrop
NICARAGUA	J. Jesus Sanchez Roiz	Alejandro Montiel Arguello
NORWAY	Gunnar Jahn	Ole Colbjoernsen
PANAMA	Octavio Vallarino	Roberto Heurtematte
PARAGUAY	Juan Plate	Ruben Benitez
PERU	Carlos Montero Bernales	Jose Barreda Moller
PHILIPPINE REPUBLIC	Joaquin M. Elizalde	Narciso Ramos
POLAND	Konstanty Dabrowski	Janusz Zoltowski
SYRIA	Faiz El-Khouri	Hunsi A. Sawwaf
TURKEY	Nurullah Esat Sumer	Nahit Alpar
UNION OF SOUTH AFRICA	M. H. de Kock	J. E. Holloway
UNITED KINGDOM	Sir Stafford Cripps	Sir Gordon Munro
UNITED STATES	John W. Snyder	William L. Clayton
URUGUAY	Carlos Quijano	Nilo Berchesi
VENEZUELA	Carlos A. D'Ascoli	Hector Santaella
YUGOSLAVIA	Stane Krasovec	Radomir Arandjelovic

Voting Power and Subscriptions of Member Countries

As of August 31, 1948[a]

Member Countries	*Voting Power*		*Subscriptions*	
	Number of Votes	*Percent of Total*	*Amount (In Millions of Dollars)*	*Percent of Total*
Australia	2,250	2.37	200.0	2.40
Austria	750	.79	50.0	.60
Belgium	2,500	2.63	225.0	2.70
Bolivia	320	.34	7.0	.08
Brazil	1,300	1.37	105.0	1.26
Canada	3,500	3.68	325.0	3.90
Chile	600	.63	35.0	.42
China	6,250	6.57	600.0	7.20
Colombia	600	.63	35.0	.42
Costa Rica	270	.28	2.0	.02
Cuba	600	.63	35.0	.42
Czechoslovakia	1,500	1.58	125.0	1.50
Denmark	930	.98	68.0	.81
Dominican Republic	270	.28	2.0	.02
Ecuador	282	.30	3.2	.04
Egypt	783	.82	53.3	.64
El Salvador	260	.27	1.0	.01
Ethiopia	280	.29	3.0	.04
Finland	630	.66	38.0	.46
France	5,500	5.78	525.0	6.30
Greece	500	.53	25.0	.30
Guatemala	270	.28	2.0	.02
Honduras	260	.27	1.0	.01
Iceland	260	.27	1.0	.01
India	4,250	4.47	400.0	4.80
Iran	586	.62	33.6	.40
Iraq	310	.33	6.0	.07
Italy	2,050	2.16	180.0	2.16
Lebanon	295	.31	4.5	.05
Luxembourg	350	.37	10.0	.12
Mexico	900	.95	65.0	.78
Netherlands	3,000	3.16	275.0	3.30
Nicaragua	258	.27	.8	.01
Norway	750	.79	50.0	.60
Panama	252	.26	.2	[b]
Paraguay	264	.28	1.4	.02
Peru	425	.45	17.5	.21
Philippine Republic	400	.42	15.0	.18
Poland	1,500	1.58	125.0	1.50
Syria	315	.33	6.5	.08
Turkey	680	.71	43.0	.52
Union of South Africa	1,250	1.31	100.0	1.20
United Kingdom	13,250	13.93	1,300.0	15.59
United States	32,000	33.65	3,175.0	38.09
Uruguay	355	.37	10.5	.13
Venezuela	355	.37	10.5	.13
Yugoslavia	650	.68	40.0	.48
Total	**95,110**	**100.00**	**8,336.0**	**100.00**

[a] On August 27, 1948, Austria was admitted to membership. The total of subscriptions and total of votes shown in this Appendix differ, therefore, from those as of June 30, 1948, shown in Appendix E.

[b] Less than .005 per cent.

APPENDIX K

Executive Directors and Alternates and their Voting Power as of August 31, 1948

DIRECTORS	ALTERNATES	CASTING VOTES OF	VOTES BY COUNTRY	TOTAL VOTES
APPOINTED				
Eugene R. Black	John S. Hooker	United States	32,000	32,000
Sir Gordon Munro		United Kingdom	13,250	13,250
Yuen-Ting Shen	Kuo-Hwa Yu	China	6,250	6,250
Roger Hoppenot	Emmanuel Lamy	France	5,500	5,500
N. Sundaresan	B. K. Madan	India	4,250	4,250
ELECTED				
J. W. Beyen *(Netherlands)*	W. Koster *(Netherlands)*	Netherlands	3,000	4,250
		Union of South Africa	1,250	
Franz De Voghel *(Belgium)*	Thomas Basyn *(Belgium)*	Belgium	2,500	3,860
		Norway	750	
		Luxembourg	350	
		Iceland	260	
Victor Moller *(Chile)*	Fernando Illanes *(Chile)*	Brazil	1,300	3,670
		Chile	600	
		Philippine Republic	400	
		Bolivia	320	
		Costa Rica	270	
		Guatemala	270	
		Paraguay	258	
		Panama	252	
Leon Baranski *(Poland)*	Mihailo Kolovic *(Yugoslavia)*	Czechoslovakia	1,500	3,650
		Poland	1,500	
		Yugoslavia	650	
Luis Machado *(Cuba)*	Joaquin Meyer *(Cuba)*	Mexico	900	3,610
		Cuba	600	
		Peru	425	
		Uruguay	355	
		Ecuador	282	
		Dominican Republic	270	
		El Salvador	260	
		Honduras	260	
		Nicaragua	258	
Graham F. Towers *(Canada)*	J. F. Parkinson *(Canada)*	Canada	3,500	3,500
K. Varvaressos *(Greece)*	F. Noury-Esfandiary *(Iran)*	Egypt	650	2,230
		Greece	500	
		Iran	490	
		Iraq	310	
		Ethiopia	280	
Costantino Bresciani-Turroni *(Italy)*	Francesco Giordani *(Italy)*	Italy	2,050	4,615
		Denmark	930	
		Turkey	680	
		Colombia	600	
		Venezuela	355	
S. G. McFarlane *(Australia)*	Roland Wilson *(Australia)*	Australia	2,250	2,860
		Syria	315	
		Lebanon	295	

Since the date of the Second Annual Report, the following changes have taken place in the membership of the Executive Directors and Alternates:

Executive Directors

Resigned	*Appointed or Elected*	*Date of Appointment or Election*
	Costantino Bresciani-Turroni *(Italy)*	August 23, 1947
Pierre Mendes-France *(France)*	Roger Hoppenot *(France)*	October 28, 1947
	S. G. McFarlane *(Australia)*	January 30, 1948

Alternates

Resigned	*Appointed*	*Date of Appointment*
	Francesco Giordani *(Italy)*	September 9, 1947
Y. L. Chang *(China)**	Kuo-Hwa Yu *(China)*	December 1, 1947
Stefan Michalski *(Poland)**	Mihailo Kolovic *(Yugoslavia)*	February 11, 1948
Maurice H. Parsons *(U. K.)*	Frank Figgures *(U. K.)*	February 11, 1948
	Roland Wilson *(Australia)*	February 27, 1948
Frank Figgures *(U. K.)*		
Guy de Carmoy *(France)*	Emmanuel Lamy *(France)*	July 6, 1948

* Temporary.

There has been no change in the composition of Standing Committees of the Executive Directors during the year.

Officers of the Bank

As of August 31, 1948

President.....John J. McCloy
Vice President.....Robert L. Garner
General Counsel.....Chester A. McLain
Secretary.....M. M. Mendels
Treasurer.....D. Crena de Iongh
Loan Director.....William A. B. Iliff
Economic Director.....Leonard B. Rist
Director of Marketing.....E. F. Dunstan
Director of Public Relations.....Drew Dudley
Director of Administration.....Chauncey G. Parker
Assistant to the Vice President.....Richard H. Demuth