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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTRA-EUROPEAN PAYMENTS PLAN 1948-49

January 20, 1950

Economic Department
Prepared by: Alexander Stevenson
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1. Up till the middle of 1949 the Intra-European Payments Plan functioned reasonably satisfactorily. In the third quarter of 1949, however, the disequilibrium in intra-European payments increased sharply mainly because of the rapid deterioration in the position of the U.K. The period since the devaluations shows striking changes in the pattern of intra-European payments although it is still too early to say whether these changes are lasting. The indications that Belgium, Italy and Western Germany - countries which had previously recorded substantial net surpluses with the group as a whole and which devalued by a smaller proportion than sterling and the Dutch and Scandinavian currencies - are running much smaller net surpluses or even net deficits since September. On the other hand, since devaluation the Netherlands and the U.K. appear to be recording substantial net surpluses compared with net deficits in the months preceding the currency adjustments. The changed pattern of payments has resulted in the utilization of drawing rights being much smaller than anticipated, but, on the other hand, it has made more compensation operations possible. In any case, a thorough review of the system is now being undertaken in Paris.
2. Under the Intra-European Payments Agreement two distinct types of operation are conducted. First, the balances of individual countries with other individual countries at the end of each month are reduced by compensation operations with the agent operating much in the manner of a clearing house among commercial banks. Second, a system of drawing rights was set up in advance whereby certain countries agreed to make available given amounts of their currencies to certain other countries on condition that, when they did so, they would receive grants of ERP dollars. The system of drawing rights set up in the Agreement of October 1948 was designed to finance bilateral surpluses or deficits among the ERP countries amounting to \$805.5 million in the period October 1948-June 1949, i.e., at a monthly rate of almost \$90 million. Similarly, the revised Agreement of September 1949 was designed to finance intra-European payments totalling \$802 million for the period July 1949-June 1950, i.e., at a monthly rate of about \$67 million. The revised Agreement differed from its predecessor in two main ways. First, it included Belgian franc credits amounting to the equivalent of \$87.5 million to be used for financing Belgian export surpluses to the United Kingdom, France

1/ The Intra-European Payments Plan grew out of an earlier Agreement for Multilateral Compensations of November 1947, to which France, Belgium/Luxembourg, Italy and the Netherlands were parties. This arrangement ante-dated the European Recovery Program and of course contained only provision for compensation transactions among the members. A system of drawing rights could of course not be incorporated since it depended on the availability of American aid.

2/ First category compensations are defined as compensations which reduce the balances of all countries taking part in them. This type of adjustment is made automatically by the agent except as regards Switzerland and Portugal during the operation of the 1948-49 Agreement - where the prior consent of the Swiss National Bank is required. Second category compensations are those which would result in an increase of one or more balances or the formation of a new balance or balances. These require the prior consent of all parties concerned and so far have been quantitatively unimportant.
and the Netherlands. Second, whereas in the 1948 Agreement all the drawing rights were bilateral (i.e., could be utilized only against the country against which they were established), in the 1949 version a quarter of the drawing rights were multilateral (i.e., could be utilized against any other member of the group). These totalled about $197 million.

3. In the period of the original Agreement, the imbalance in intra-European payments was somewhat larger than could have been handled by available drawing rights (even if the assumed distribution of payments had been realized) notably because the positions of Belgium, Western Germany, Italy and France were stronger and that of the United Kingdom weaker than had been provided for. Apart from these and some other minor exceptions, however, on the whole the system of drawing rights established suited the actual trade pattern fairly well. Unused drawing rights at the end of June 1949 totalled $128.5 million of which Western Germany accounted for $68.0 million, Italy for $27.0 million and France for $20.6 million. On the other hand, drawing rights amounting to $86.5 million granted by the United Kingdom were not used and the Agreement did not prevent the United Kingdom from having to make substantial gold payments, totalling about $125 million for the period October 1948-June 1949, to Belgium, Switzerland and Western Germany. These developments resulted mainly from the fact that the drawing rights established against Belgium were not large enough, because the United Kingdom ran a deficit with Western Germany and Italy instead of the surplus which had been expected when the system of drawing rights was set up. The tendency of some countries, notably Belgium, to have a creditor position vis-a-vis most other countries together with the tendency for others, notably the United Kingdom, to become a debtor on an increasing number of accounts caused the opportunities for
compensations to shrink very substantially. In the period April-June 1949 they averaged only $1.71 million a month compared with a monthly rate of $10.29 million in the period October-December 1948 and $22.57 million in the period January-March 1949.

4. In the third quarter of 1949, the disequilibrium in intra-European payments increased, mainly because of the rapid deterioration in the position of the United Kingdom. This change resulted in the disequilibrium in intra-European payments being much larger than could possibly have been financed through drawing rights, use of which averaged only $73.36 million. The net creditor positions of France, Switzerland and Belgium continued to grow. While the explanation of these movements lay partly in seasonal factors, they were no doubt also closely associated with the postponement of transactions with the United Kingdom in anticipation of the devaluation of sterling. As might be expected, these changes were not calculated to open up new opportunities for compensations, which remained at the very low monthly average of $3.32 million for July and August.

5. The period since the devaluations shows striking changes in the pattern of payments among the ERP countries, but it is as yet too early to say with certainty to what extent these changes will be lasting. In the period immediately following the devaluations, large covering operations took place, the outflow of funds from the "hard currency" countries such as Switzerland and Belgium, and the inflow into the United Kingdom, Netherlands and Denmark being particularly noticeable. Since then the imbalance in intra-European payments has decreased substantially. Some interesting changes appear to have taken place in the payments positions of various countries. Among the countries which devalued by a smaller proportion than sterling and the Dutch and
Scandinavian currencies, there is evidence to indicate that Belgian, Italian and Western German surpluses with the group taken as a whole have been far smaller than in the period before the currency adjustments of September 1949 and may sometimes even have given place to deficits. In the case of Western Germany, part of the change at least appears to be connected with the new and more liberal trade and payments policy typified especially by the recent agreement with the Netherlands. On the other hand, since devaluation the Netherlands and the U.K. have apparently recorded substantial net surpluses with the group taken as a whole, although the latter country has been running a sizable deficit with France.

6. As might have been expected, drawing rights utilized in the months since the currency adjustments have been much smaller than in the previous period. In October and November they amounted to only \$29.48 and \$30.68 million respectively, which was less than half the monthly average for the previous year. Drawing rights granted by Belgium dropped to only \$4.41 and \$7.7 million respectively in October and November compared with a monthly average of \$79.5 million in July-August. On the other hand, France, which has achieved a position significantly stronger than was forecast when the pattern of drawing rights for 1949-50 was set up, has used only $24.3 million of the drawing rights of \$236.5 million made available to her for the year. As yet she has utilized none of the $93 million of bilateral drawing rights made available by the U.K.

If the changed payments pattern might have been expected to hinder the functioning of the drawing rights' system which was predicated on the strong creditor position of some countries, the weakening of that strong creditor position might, on the other hand, have been expected to make more compensation operations possible. This is, in fact, what happened in October and November
when compensations rose to $10.63 and $29.81 million respectively, a level higher than any yet achieved.

7. Opinions differ over the extent to which the Intra-European Payments Agreement has contributed to the purposes of the European Recovery Plan. It seems likely that without it or some similar arrangement, a severe disruption in intra-European trade would have occurred. The Agreement did not, however, provide a solution that could be satisfactory in the long run. This was so partly because the structure of intra-European trade provided few opportunities for compensations, and the current effort by CEEC to reduce bilateral import quotas within Europe is an attempt to improve the situation by changing that trade pattern. Objections may also be raised to the system of drawing rights itself and especially to its substantially bilateral character. Estimates of bilateral payments positions were not always well grounded and positions actually achieved sometimes differed widely from the estimates. In any case, however, a thorough review of the system is now being undertaken in Paris with a view to introducing what may be major revisions for the next fiscal year. In general, the purpose of these revisions would be (a) to assure full multilateral transferability of Western European currencies earned on current account, and (b) to provide a system of incentives and deterrents which would lead both deficit and surplus countries to take steps toward achieving equilibrium in their trade relations with the other members of the group. It is likely that such a system would involve the creation of some kind of mutual credit pool supported in part by an injection of ECA dollars.
### TABLE I

Operations under the Intra-European Payments Plan 1948-49

(Expressed in millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th>Compensations carried out³/</th>
<th>Drawing rights utilized</th>
<th>Utilization of the Belgian loan</th>
<th>Protocol No. ²/</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct.-Dec. 1948³/</td>
<td>10.29</td>
<td>66.13</td>
<td></td>
<td></td>
<td>76.42</td>
</tr>
<tr>
<td>Jan.-Mar. 1949³/</td>
<td>22.57</td>
<td>75.36</td>
<td></td>
<td></td>
<td>97.93</td>
</tr>
<tr>
<td>Apr.-June 1949³/</td>
<td>1.71</td>
<td>84.19</td>
<td></td>
<td></td>
<td>85.90</td>
</tr>
<tr>
<td>July-August 1949³/</td>
<td>3.32</td>
<td>73.36</td>
<td></td>
<td></td>
<td>76.68</td>
</tr>
<tr>
<td>September 1949</td>
<td>6.12</td>
<td>45.75</td>
<td>2.12</td>
<td></td>
<td>53.99</td>
</tr>
<tr>
<td>October 1949</td>
<td>10.63</td>
<td>29.48</td>
<td></td>
<td></td>
<td>40.11</td>
</tr>
<tr>
<td>November 1949</td>
<td>29.81</td>
<td>30.68</td>
<td></td>
<td>1.24</td>
<td>61.73</td>
</tr>
</tbody>
</table>

¹/ Mainly first category compensations.
²/ Amounts earmarked before June 30, 1949, i.e., under the 1948-49 Agreement.
³/ Arithmetic average of monthly data.