C.P.(45) 312

28TH NOVEMBER, 1945

CABINET

WASHINGTON FINANCIAL TALKS

Memorandum by the Chancellor of the Exchequer

I attach the draft of a Financial Agreement. This seems likely to be the best which we can hope to secure.

I regret that I should have to ask my colleagues to consider this at such short notice, but the situation calls for an urgent reply.

H.D.

Treasury Chambers, S.W.1.

28TH NOVEMBER, 1945
1. **Amount of the Line of Credit.**

(I) The Government of the United States will extend to the Government of the United Kingdom a line of credit of 4½ billion dollars.

(II) This line of credit will be available until December 31, 1951.

2. **Purpose of the Credit**

(I) The purpose of the credit shall be to facilitate purchases by the United Kingdom of goods and services from the United States, to assist the United Kingdom to meet transitional post-war deficits in her current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars and to assist the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

(II) It is understood that drawings by the United Kingdom on this line of credit will not be in excess of the United Kingdom overall cumulative adverse balance of current payments during the period of its availability.

3. **Amortisation and Interest**

(I) The amount of the credit outstanding on December 31, 1951, shall be repaid in 50 annual instalments, beginning on December 31, 1951, until 50 instalments have been paid, subject to the provisions of (4) and (5) below.

(II) The rate of interest shall be 2 per cent per annum, computed annually beginning with January 1, 1951, on the amount outstanding each year, and payable in 50 annual instalments, beginning on December 31, 1951, subject to the provisions of (4) and (5) below.

(III) The 50 annual instalments of principal repayments and interest shall be equal, amounting to $1.33 million dollars for each 1 billion dollars outstanding on December 31, 1951. Each instalment shall consist of the full amount of the interest due and the remainder of the instalment shall be the principal to be repaid in that year.

4. **Waiver and Postponement of Payment**

(I) The Government of the United States, at the request of the Government of the United Kingdom, will agree to waive in any year the amount of the interest and postpone to the end of the period of repayment the amount of the principal due in that year if as certified by the International Monetary Fund, the income of the U.K. from home-produced exports plus its net income from invisible current transactions in its balance of payments (as defined in Article XXIX (1) of the Final Act of Bretton Woods) was less than the amount of U.K. imports during 1936-8, fixed at 866 million pounds, as such figure may be adjusted for changes in the price level of these imports.
The Government of the United Kingdom will not avail themselves of the provision under (I) above except after taking due account of the prospective and actual prevailing conditions of international exchange and the adequacy of their available reserves, as well as of the rate at which obligations to other creditors are to be met.

5. Accelerated Repayment

The Government of the U.K. may accelerate repayment of the line of credit.

6. Sterling Area Exchange Arrangements

(I) The Government of the United Kingdom will proceed not later than the end of 1946 to make arrangements under which the sterling receipts from current transactions of all sterling area countries, apart from any receipts arising out of military expenditure by the United Kingdom prior to December 31, 1945, which it may be agreed to treat on the same basis as the balances accumulated during the war, will be freely available for current transactions in any currency area without discrimination.

(II) As an integral part of these arrangements the Government of the U.K. intends to seek by voluntary agreement with the countries of the sterling area an early settlement, varying according to the circumstances of each case, covering their accumulated sterling balances (together with any future receipts arising out of military expenditure by the U.K. which it may be agreed to treat on the same basis as the balances accumulated during the war).

The Government of the U.K. will propose that the settlements with the sterling area countries should be on the basis of dividing these accumulated balances into three categories, (A) balances to be released at once and convertible into any currency for current transactions, (B) balances to be similarly released by instalments over a period of years beginning in 1951 without prejudice to the possible anticipation by the U.K. releases to a particular country which was in a position such as might otherwise have called for assistance from the U.K. by way of a loan, and (C) balances to be written off as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

(III) The effect will be that when the arrangements contemplated above are completed any discrimination arising from the so-called dollar-sterling pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

7. Exchange arrangements between the United States and the United Kingdom

(I) The Government of the United Kingdom agree that after the coming into force of this memorandum of agreement they will apply no exchange restrictions, except in accordance with the articles of agreement of the International Monetary Fund, so as to prevent payments or transfers in respect of imports from the U.S.A. into the
United Kingdom which are permitted by the authorities controlling imports or of other current transactions between the two countries as defined in Article XIX (1) of the said articles or on the use of sterling balances in the hands of United States residents arising out of current transactions.

(II) The Governments of the United Kingdom and United States agree that if either country imposes quantitative import restrictions as an aid to the restoration of equilibrium in the balance of payments, such restrictions shall be administered on a basis which does not discriminate against imports from the other country in respect of any product; provided that this undertaking shall not apply

(a) in cases in which its application would have the effect of preventing the country imposing such restrictions from utilizing convertible currencies for the purchase of needed imports or

(b) in cases in which there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war.

The provisions of this paragraph shall become effective as soon as practicable and in any case not later than the end of 1946.

9. Other exchange restrictions and import controls

In relation to other remaining exchange restrictions and to import policy, the Government of the United Kingdom associates itself with the objectives of the Government of the United States as set out in the Articles of Association of the International Monetary Fund and in the United States proposals for an I.T.O. Their policy in the transitional period will accordingly be directed towards assuring as rapidly as economic conditions permit, the free use of sterling accruing to other countries through current transactions; and towards reducing to the greatest extent compatible with the restoration of the United Kingdom's external position, the application of their import controls and the discriminatory use of such controls.

9. Provision for Review

Either Government shall be entitled to approach the other for review and modification by mutual consent of this agreement if its working has become such as to burden international commerce within the meaning of Article VII of the Mutual Aid Agreement of February 23rd 1942, or is otherwise contrary to the intention of the two Governments in entering on this agreement.

20th November, 1945