

DRAFT RFM-ef 5/27/47

Dear Judd:

Have just read your letter of April 30, 1947, with considerable interest. We appreciate having a detailed account of the discussions regarding the \$80 million stabilization loan, as well as your views with respect to it.

Your comments on the possibility of discrimination against U.S. trade arising out of Egypt's efforts to accumulate gold reserves are interesting. My first reaction is that Egypt could accumulate reserves without discrimination, simply by converting more of her convertible sterling into dollars for use in payment for imports from the dollars, than would have been the case if she were not using the dollars which she acquired directly from exports to the United States for the purchase of gold. Perhaps you mean that Britain would not permit the conversion of sterling into dollars while Egypt was using dollars otherwise acquired to buy gold. In this event it would be to Egypt's advantage to borrow the dollars for the purchase of gold reserves and then repay the loan over a period of years, since such repayments would have to be considered as current transactions. However, it has been our position that all currently acquired sterling is freely convertible into dollars and that the net current position of a country is not to be used as a criterion of convertibility. Assuming that the accumulation of gold reserves by Egypt does not involve discrimination, it does not appear to us to be undesirable for Egypt to accumulate gold and thereby reduce the ~~E~~ pressure of world demand at this time. Lending her the reserves now would simply add to her balance-of-payments burden later on when the demand for U.S. exports will have substantially declined.

With regard to your suggestion for a stabilization fund or Export-Import Bank loan of \$50 million for the purpose of financing Egypt's imports in the transition period immediately after July 15, it would appear that such a credit could more properly be extended by the Fund.

In summary, our position regarding a stabilization loan to Egypt is as follows:

1. While recognizing the psychological advantages of a gold reserve for Egypt, such a reserve does not appear to us to be necessarily related to the question of discrimination against U.S. trade.
2. There is nothing in Egypt's intention to accumulate gold reserves which would require discrimination against U.S. trade.
3. It appears ill advised to make a loan to a country for the purpose of obtaining that country's pledge not to discriminate against our trade vis-a-vis the sterling area, when the United States has just made a \$3.75 billion dollar loan to Britain, which makes such discrimination unnecessary. Such a loan would be tantamount to a bribe.
4. If Egypt needs a loan for the transition period after July 15, she should apply to the Fund. Whether or not such credits are necessary will depend upon the amount of the initial release of convertible sterling.