

R.D. 1017

## INTERNATIONAL MONETARY FUND

Research Department

The Financing of the Western Hemisphere Deficit of Western Europe  
in 1947 and 1948 with Particular Reference to ECA Aid

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May 4, 1949

Introduction

In a recent Research Department study (Trends in Trade and Payments of Western Europe in 1948, RD-800) the main developments in the current account of the balance of payments in 1947 and 1948 have been analyzed. The present paper supplements this study by showing in some detail the financing of Western Europe's deficit in payments with the Western Hemisphere in 1947 and 1948 and particularly the role played by ECA-aid in this connection.

Fairly comprehensive data are now available on 1947 financing though some supplementary estimates have also had to be used. The 1948 data, are still incomplete for most countries and had to be supplemented to a much larger extent by staff estimates. All figures should therefore be considered as approximate and 1948 figures especially as preliminary and tentative.

For the purposes of this paper Western Europe has been defined as comprising the U. K., the Scandinavian and Benelux-countries, France and Italy. It therefore, does not include Germany, Austria, Spain or Portugal.

1947 and 1948 Financing of Western Europe's deficit in  
gold and Western Hemisphere currencies

Table I, the exact coverage of which is explained in Annex I, shows the financing of Western Europe's payments in gold and Western Hemisphere currencies, classified according to individual countries, in 1947 and 1948.

Western Europe's deficit on current transactions with the Western Hemisphere was reduced from \$ 6.8 billion in 1947 to \$ 4.0 billion in 1948. The improvement was the combined result of an increase in exports of nearly \$ 0.7 billion, a reduction in (f.o.b.) imports of \$ 1.6 billion and a reduction in net-payments for invisibles of \$ 0.5 billion.

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1/ In collaboration with other members of the Western European and the British Commonwealth Division of the Research Department.

In order to show the total payments to be financed in gold and Western Hemisphere currencies, private capital transactions (direct investments, etc.), special official capital transactions (mainly repayment of Western Hemisphere loans) and multilateral settlements in gold and dollars with countries outside the Western Hemisphere have to added to (or subtracted from) the deficits on current account.

On private capital transactions (net direct private investment of the Western Hemisphere in Western Europe and vice versa) information is scanty and not available at all for the United Kingdom. Nevertheless available data suggest that private investment played a very minor role in Western Europe's balance of payments in both 1947 and 1948.

Among special official capital transactions the main item is the repayment of loans to the Western Hemisphere, which amounted to \$206 million in 1947 and \$204 million in 1948.

Multilateral settlements in gold and dollars with non-Western Hemisphere countries were very important in 1947 and 1948. Intra-Western European settlements (under payments agreements and, in 1947, sterling convertibility) as far as known totaled at least \$405 million in 1947 and close to \$200 million in 1948, of which Belgium was the main recipient country and the United Kingdom (sterling area), France and the Netherlands were the main paying countries. Western Europe as a whole paid a net of some \$1,072 million in dollars and gold to other non-Western Hemisphere countries in 1947 and some \$321 million in 1948. Almost the whole of this sum was accounted for by the United Kingdom as the "multilateral settlements" of that country include its net gold and dollar payments made as a result of deficits with the dollar area incurred by sterling area countries outside the United Kingdom, as well as those to non-Western Hemisphere, non-sterling-area countries as a result of deficits incurred by the sterling area as a whole.

By adding these three items to (or subtracting them from) the deficits on current transactions with the Western Hemisphere, the total of required financing in gold and Western Hemisphere currencies for Western Europe as a whole is calculated to have amounted to \$8.0 billion in 1947 and \$4.5 billion in 1948.

The main sources of this financing in 1947 and 1948 have been the following:

1. Western Europe received a little over \$600 million both in 1947 and in 1948 in the form of grants, exclusive of ECA-grants. This mainly includes UNRRRA-aid to Italy and U. S. grants to various countries in different forms (reverse lend-lease, compensation for war-time shipping losses, payment for goods and services rendered to allied troops, "post UNRRRA-aid" (and "Interim-aid"). A classification by country and type of "grant" is shown in Table II.

2. The use of credits in Western Hemisphere-currencies, exclusive of ECA-credits, dropped from \$5.4 billion in 1947 to \$1.5 billion in 1948. Table III classifies these credits according to receiving country and country of origin. The use of U. S. loans (Eximbank, surplus credits) dropped from \$4,025 million in 1947 to \$647 million in 1948. The use of Canadian and South American credits showed a similar reduction. On the latter, which are revolving credits under payments agreements, there was actually a net repayment by Western Europe in 1948. The use of both IBRD and IMF credits was materially lower in 1948 than in 1947.
3. The most important single financing source in 1948 was ECA-aid, which started April 3, 1948. ECA-disbursements to Western Europe totaled \$1,611 million in 1948.
4. Liquidation of Western European assets in the Western Hemisphere totaled some \$715 million in 1947, the greater part of which took place in the second half of that year when less credits became available. In 1948, it was stepped up to some \$965 million, largely to overcome the gap between the exhaustion of available credits and the beginning of ECA aid and later between ECA authorizations and actual ECA disbursements.
5. The net use of official gold and dollar reserves (exclusive of subscriptions to the I.M.F) by Western European countries totaled some \$1,352 million in 1947. For all countries for which data are available, the total net loss of reserves in 1948 was held to \$81 million, although this figure is incomplete and may have to be revised upward. For some countries reserves were practically exhausted, and elsewhere the loss of reserves reflects both the effect of ECA and reluctance to go on depleting reserves in 1948. Some countries (United Kingdom and Netherlands) parted with further reserves in 1948 to prefinance ECA aid, others (Italy and possibly Belgium) managed actually to replenish their reserves to some extent.

#### ECA aid in 1948

ECA aid has helped Western Europe to maintain reasonable consumption and investment standards and prevented the abrupt and disastrous adjustment to much lower standards that would otherwise have been unavoidable. Since the initiation of the program on April 3, 1948 Western European countries have been able to count on sizable ECA allocations to maintain adequate imports.

From the point of view of financing, ECA has not however immediately eased the burden on the participating countries, as actual disbursements are as a rule made only after authorized shipments are completed. A

certain amount of pre-financing, in some cases equal to up to three months' purchases, was called for and initially necessitated a further liquidation of assets and monetary reserves in 1948. Improvements in the administrative procedures, of ECA as well as of the participating countries, have gradually during the latter part of 1948 reduced the amount of pre-financing, but all participating countries are still currently pre-financing ECA aid with a sizable working capital of their own.

In Table I the EVA disbursement figures have been used to show ECA as a source of financing. Figures on ECA-financed shipments, would have been preferable for this purpose, as they would exactly match the value of imports recorded in the trade balance, but for most countries they are not yet available. This is one source of the "errors and missions" item in Table I, Part II.

A comparison of ECA-programs, authorizations up to December 31, 1948 and disbursements up to that date, broken down for the various countries, is shown in Table IV.

Table 1. Financing of Payments in Gold and Western Hemisphere Currencies by Western Europe (excluding Germany) 1947 and 1948

	Part I. Payments to be financed (millions of dollars)		Multilateral settlements in gold and dollars with countries outside Western Hemisphere										Total to be financed
	Deficit on current transactions with the Western Hemisphere 1/	Private capital transactions with the Western Hemisphere	Expenditures	Receipts	Expenditures	Special official capital trans- actions with Western Hemisphere	in gold	in dollars	sterling conversion	Total	of which with selected countries	of which outside	
Belgium	1947 - 479	- 569	n.a.	£ 5	n.a.	- 5	£132	£ 28	£204	£ 364	£355	£ 9	205
1948 - 255	- 315	n.a.	n.a.	£ 2	n.a.	- 6	£104	£105	£ 209	£ 209	£176	£ 33	110
Denmark	1947 - 124	- 118	- 8	£ 1	- 8	- 56	£ 1	£ 38	£ 50	£ 88	£ 50	£ 38	34
1948 - 85	- 80	- 8	- 8	£ 5	- 8	- 56	£ 1	£ 38	£ 9	£ 10	£ 10	-	78
France	1947 -1400	-1690	- 8	£ 25	- 8	- 10	-104	-107	n.a.	- 211	-122	- 89	1894
1948 -1064	-1174	-10	£ 35	£ 35	-10	- 25	-	-47	n.a.	- 47	- 27	- 20	1221
Italy	1947 - 595	- 678	- 8	£ 2	- 8	- 11	- 3	- 12	n.a.	- 15	- 3	- 12	702
1948 - 370	- 440	- 10	£ 0	£ 0	- 10	- 22	£ 12	£ 11	n.a.	£ 23	£ 3	£ 20	439
Netherlands	1947 - 530	- 570	- 8	£ 14	- 8	- 30	- 33	- 23	n.a.	- 56	- 58	£ 2	650
1948 - 430	- 450	- 10	£ 20	£ 20	- 10	- 43	- 14	- 45	n.a.	- 59	- 54	- 5	542
Norway	1947 - 190	- 137	-	£ 22	-	n.a.	- 2	- 5	n.a.	- 7	- 1	- 7	122
1948 - 102	- 80	-	£ 7	£ 7	-	- 13	- 2	£ 0	n.a.	- 2	- 1	- 1	88
Sweden	1947 - 426	- 371	n.a.	n.a.	n.a.	n.a.	- 5	-	n.a.	- 5	- 5	-	371
1948 - 130	- 95	n.a.	n.a.	n.a.	n.a.	- 206	-	-	n.a.	-	-	- 1072	7998
United Kingdom	1947 -2195	-2640	n.a.	n.a.	n.a.	-145	-	-	n.a.	-1235 2/	-222	-1013	4020
1948 -1230	-1370	n.a.	n.a.	n.a.	-100	-100	-	-	n.a.	- 4502 2/	-101	- 249	1920
Total selected countries	1947 -5939	-6783	-16	£ 69	-16	-206	-	-	n.a.	-1072	-	-1072	7998
1948 -3666	-4004	-28	£ 64	-28	-209	-	-	-	n.a.	- 321	-	- 321	4498

1/ Figures may differ from those of ED-800, because of more recent data.

2/ Net gold and dollar payments made as a result of deficits with the dollar area incurred by sterling area countries outside the United Kingdom (including net-gold production and excluding IMF subscriptions)

Net gold and dollar payments made to non-Western Hemisphere, non-sterling area countries as a result of deficits incurred by the sterling area as a whole

	1947	1948
Net gold and dollar payments made to non-Western Hemisphere, non-sterling area countries as a result of deficits incurred by the sterling area as a whole	785	105
	450	345
	1235	450

Table 1. Financing of Payments in Gold and Western Hemisphere Currencies by Western Europe (excluding Germany) 1947 and 1948

		Part II. Financing (millions of dollars)											
		Part II. Financing (millions of dollars)											
		Grants exclud- ing E.C.A.	Net use of Credits excluding E.C.A.	E.C.A.	Liquidation of Assets	Increase or decrease in Western Hemisphere holdings of sterling	Gold	Use of official gold and dollar holdings <sup>2/</sup>	Total financing	Errors and Omissions (net) <sup>5/</sup>			
Belgium	1947	59	60		35		81	30	265	✓	60		
	1948		13	57	40		-30	n.a.	80	-	30		
Denmark	1947	10	6		26			-9	33	-	1		
	1948		43	36	n.a.			n.a.	79	✓	1		
France	1947	139	1222		88		360	85	1894	✓	0		
	1948	352	365	456	143		-11	n.a.	1305	✓	84		
Italy	1947	405	158		87		-30	93	713	✓	11		
	1948	251	152	179	22		-22	-135	447	✓	8		
Netherlands	1947	25	344		266		33	n.a.	668	✓	18		
	1948		155	130	140		62	n.a.	487	-	55		
Norway	1947		51		64		3	n.a.	118	-	4		
	1948		27	30	6		22	n.a.	85	-	3		
Sweden	1947				64		276	-50	390	✓	19		
	1948			1	10		25	-25	11	-	89		
United Kingdom	1947		3515		85	50		380	4030	✓	10		
	1948		798	722	600 <sup>4/</sup>	-350		195	1965	✓	45		
Total selected countries	1947	638	5356	-	715	50		1352	8111	✓	113		
	1948	603	1533	1611	961	-350		81	4459	-	39		

<sup>4/</sup> Taking into account short-term credit extended to Argentina under the Andes Agreement.

<sup>5/</sup> Excluding subscriptions to IMF.

<sup>6/</sup> Plus sign correspond to an excess of known financing over requirements, minus to a deficiency.

Table II. Net-grants in Western Hemisphere currencies to Western Europe  
 (excl. Germany)  
 1947 and 1948  
 (millions of dollars)

Sources	UNRRA	U. S. Reverse Lend-Lease	U. S. Compensation for wartime shipping loan	U. S. Payments for goods and services to U. S. troops	U. S. "Post UNRRA" aid and "Interim Aid"		Other	Totals
					1947	1948		
Belgium-Luxembourg	1947	2	10	57	1947	1948	47-48	1947
Denmark								59
France				139		314		10
Italy	166			120	88	205	31	139
Netherlands		25						405
Norway								25
Sweden								
U.K.								
Total		27	10	316	88	519	31	638
Selected countries	166			71			46	603

1/ "Canadian Post UNRRA", Int. Children Fund, etc.

Table III. Net-Use of Credits in Western-Hemisphere currency by Western European Governments  
(excl. Germany)  
1947 and 1948  
(millions of dollars)

Borrowing countries	U.S.		Canada		S. America		IBRD		IMF		Other		Total	
	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948
Belgium-Luxembourg	8	50	15	1	29	64	5	4	11	22			68	13
Denmark	1	5	-	-	-	-	1	32	3	7			6	43
France	748	303	55	48	65	9	227	23	125		2		1222	365
Italy	123	102	-	-	35	50							158	152
Netherlands	187 <sup>1/</sup>	-	44	10			67	128	46	17			344	155
Norway	47 <sup>2/</sup>	22	4							5			51	27
Sweden														-
U.K.	2850	300	425	50					240	128		320 <sup>3/</sup>	3515	798
Total selected countries	4025	647	543	80	129	23	300	187	425	179	2	320	5364	1553

<sup>1/</sup> Of which \$20 million from non-Government sources  
<sup>2/</sup> Of which \$23 million from non-Government sources  
<sup>3/</sup> South African gold loan

Table IV. ECA-Programs and Authorizations and Disbursements in 1948.  
(millions of dollars)

ECA-Programs	1/ ECA Illustrative Aid Program		Procurement Authorizations (excl. freight) up to Dec. 31, 1948	Disbursements by ECA up to Dec. 31, 1948
	April 3, 1948 - July 1, 1948	July 1, 1949 June 30, 1950		
Belgium-Luxembourg	216.0	247.9	129	57
Denmark	100.0	109.1	91	36
France	1058.5	980.9	817	456
Italy	580.7	555.5	429	179
Netherlands (incl. Indonesia)	483.0	469.6	364	151
Norway	81.8	83.3	68	30
Sweden	40.4	46.6	10	1
U.K.	1319.1	1239.0	1043	722
Total selected countries	3879.5	3731.9	2951	1632
Other ECA-countries	1060.0	1010.8	758	283
Commodity reserve	13.5	13.5		
Total program funds	4953.0	4756.2	3708	1916 <u>2/</u>
Other ECA-expenditures	57.0	67.3		
Total ECA-funds	5010.0	4823.5		

1/ Drawn up by ECA for illustrative purposes only : Source: Report to Congress on Recovery Progress and U.S. Aid, ECA, Feb. 14, 1949

2/ Excludes \$ 55 million not yet distributed (accounts payable etc.)

2/ Presumably excluding Indonesia

Annex I. Note on the construction of Table I: Financing of payments in gold and Western Hemisphere currencies by Western Europe (excluding Germany) in 1947 and 1948

1. Current transactions with the Western Hemisphere

Covers all current transactions (trade, invisibles), including private donations but excluding official donations.

2. Private capital transactions with the Western Hemisphere

Covers direct private investment. All known movements in private balances (changes in prepayments of imports, "franco-valuta imports," etc.) have been included in the financing. (No. 6).

3. Special official transactions with the Western Hemisphere

Covers repayment of Western Hemisphere loans and credits, net of repayment of loans and credits by the Western Hemisphere, and in the case of Italy: compensation to U. S. owners of war-damaged property. Not included are the gold-subscriptions to the I.F., which have also been excluded in the financing. (No. 6).

4. Multilateral settlements in gold and dollars.

Covers known net-gold and dollar payments and receipts to and from non Western Hemisphere-Countries. For the United Kingdom the multilateral settlements include:

- (a) net-gold and dollar payments made as a result of deficits with the dollar-area incurred by sterling area countries outside the United Kingdom, and
- (b) net-gold and dollar payments to non-Western Hemisphere, non-sterling area countries as a result of deficits incurred by the sterling area as a whole.

5. Total to be financed.

Covers Items 1, 2, 3 and 4.

6. Financing

- (a) Grants: UNRRA and U. S. grants such as Reverse Lend-Lease, Compensation for war-time shipping losses, payments for goods and services to Allied Troops, "Post-UNRRA-aid," and "Interim Aid." Not included are grants under ECA.

- (b) Credits: Use of loans and credits in Western Hemisphere currencies, including payments agreements credits and net of loans and credits and net of loans and credits to the Western Hemisphere. Not included are credits under ECA.
- (c) ECA-aid: Covers ECA-disbursements up to December 31, 1948.
- (d) Liquidation of Western Hemisphere assets: Covers net liquidation of all, originally non-official, holdings of Western Hemisphere securities, balances and other assets, whether voluntary or forced. Includes changes in prepayment of imports, "franco-valuta imports," overdue income, etc.
- (e) Use of official gold and dollar holdings: Excludes subscriptions to IMF.
- (f) Changes in Western Hemisphere holdings of domestic currency: Covers changes in sterling balances, held by the Western Hemisphere.

The difference between 5 and 6 suggests an item Errors and Omissions (net), the main sources of which are incomplete information (especially on private investment multilateral settlements, the movement of private balances and of official gold and dollar holdings), the usual time discrepancy between trade, as reported by trade statistics, and payments, and the necessity to use ECA-disbursement-figures instead of figures on ECA-financed shipments included in trade as the latter are not available in most cases.