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SAUDI ARABIA'S CURRENCY DILEMMA

Mary Maroney

The large commercial petroleum production in Saudi Arabia, which began during the war years has brought that otherwise poor and desert country much new income and the possibility of using it to develop a more modern civilization. However, because the monetary base has continued to be silver, there has also developed what one observer has called "that rare phenomenon of modern times, a bullion inflation". The introduction of a new industry has expanded employment and income but the new foreign exchange resources are being expended for bullion purchases, to feed the rising currency circulation and incidentally to meet a special drain from local hoarding and smuggling over the borders. The case history of this problem in the relation of monetary practice to economic development has so far shown not much prospect of solution. A change over to paper money is hindered by an age-long preference for coins. Further, there is a suggestion that the Government feels its inexperience with currency management, a field which is just now fraught with special technical difficulties

Prewar Situation

In the prewar years, which coincided roughly with the pre-oil period, the monetary medium consisted of British gold sovereigns, Maria Theresa silver thalers and Indian silver rupees, in addition to silver coins of local issue called riyals. The amount of the circulation was small because the nomadic population had only a small amount of goods to exchange. Living on the fringes of the large desert area of the country, they maintained themselves from their flocks and meager agriculture and got their clothing by subsidy from the Government. The country's only big business was the annual influx of pilgrims from all over the world to Mecca: this traffic brought in considerable foreign exchange and made the gold sovereign the practical standard of value. Legally, the monetary standard was bimetallic, with the silver riyal equal to 1/20th of the sovereign. ^{1/} Actually, however, the exchange value of the riyal varied in accordance with the sovereign supply. According to custom, foreign exchange transactions were made by converting riyals into sovereigns and sovereigns into the desired foreign currency.

Wartime Development

The war brought many changes into this nearly stagnant economy. One of the first was the reflection of the rising silver price in India. The isolation of Saudi Arabia from the West emphasized contacts with India, especially by increasing demand for Indian labor throughout the whole of the oil-producing Persian Gulf littoral. Appreciation of silver prices in Bombay (See Table I)

^{1/} The silver riyal, coined first in 1928, was of the same size as the Maria Theresa thaler and contained 19.965 grams of fine silver. The exchange value was set at 10 to the sovereign. This coin was replaced in 1936 by the riyal currently in use, which contains 10.692 grams of fine silver, the same weight, size, and fineness and the Indian silver rupee of that time. At the ratio of 20 to the sovereign, however, the riyal was worth 41 cents U. S., or considerably more than the rupee which was worth 1s.6d. or 36 cents.

resulted in a tendency for both the silver rupee and the silver riyal to disappear from circulation. The immediate consequence was the use of paper rupees as legal tender in Saudi Arabia. When, as a consequence of silver appreciation the silver rupee was debased in 1940, rupees went to a discount in Saudi Arabia and their legal tender status was formally revoked. However, the export smuggling of silver riyals for melting and sale on the Indian market remained highly profitable. In addition, the local addiction to hoarding and speculation in silver continued to take riyals out of circulation.

After the United States entered the war, its interest in petroleum injected a special element into the riyal coinage situation. The oil production was in the hands of an American company ("Aramco ") which needed coins for the payment of wages and other local expenditures. In order to make riyals available, the Saudi Arabian Government was given access to United States silver stocks under Lend-Lease arrangements; the amounts used were to be repaid within seven years after the end of the "emergency". In the meantime, 60 per cent of dollars received from the sale of the coined riyals to Aramco was to be deposited in the Federal Reserve Bank of New York as collateral.

It was agreed that the riyals coined from Lend-Lease silver would be available to the United States Government and United States companies, (including Aramco), at the rate of 30 United States cents per riyal. This rate had no direct reference to Saudi Arabia's own foreign exchange position: the country was by that time (1943) receiving all necessary imports through the Middle East Supply Center, under allied military arrangements, and these goods were given to the Saudi Arabian Government which distributed them for local currency. The 30 cent rate, however, corresponded to the official sterling parity of the rupee and it had the special virtue of fitting into the established wage position in Persian Gulf oil production. But there was an ambiguous relationship to world silver prices. It was less than the bullion value of the riyal at the Bombay price but considerably higher than the bullion value at the price of foreign silver in New York (See Table I).

The result of this arrangement, and of the increasing production of petroleum, was the release of large quantities of silver riyals onto Saudi Arabian markets, from which they gradually disappeared again because of hoarding and smuggling. While the prewar circulation of riyals was about 5 million, some 65 million riyals were coined from the 22.3 million ounces of lend-lease silver between 1943 and 1946. Since there was only a small supply of foreign exchange available, the value of the riyal in terms of other currencies reacted with severe fluctuations to the receipt and subsequent disappearance of these new mintings, but on the whole the trend of quotations was downward. From a high of 50 cents before the lend-lease silver coins came on the market, riyal quotations eventually went as low as 24 cents, at which figure they were about equal to the bullion value of the riyal on the basis of the New York silver price. The profit margin on export smuggling to India was, however, increased by the declining quotations in terms of dollars, and on that account the disappearance of the coin was stimulated (See Table II). Cheaper riyal prices also tempted local money brokers to buy up riyal supplies in anticipation of the Government's eventual inability to obtain new silver stocks at so low a price.

Postwar Development

When Lend-Lease was terminated the shortcomings of the policy of continuous issue became apparent. The burden of purchasing new mintings depleted the Government's funds and the search for means to induce the return of riyals into circulation got under way.

In 1948 an attempt was made to obtain riyals by offering to purchase them against gold. This offer was the consequence of Aramco's decision in 1948 to pay its royalty account in gold. The account had been carried over from the war years because of a dispute over the interpretation of the terms of the concession which specified a royalty of four gold shillings (or the equivalent in dollars or sterling) per ton of production. Aramco contended that the reference was to gold at \$35 per fine ounce, the price at which the Government could acquire gold from other governments. The Government contended that it meant gold at the price being realized on free markets, which was roughly twice as high. While the question remained undecided the royalty account was kept in suspense against dollars advanced by Aramco to the Government. Early in 1948 it was agreed that Aramco would pay either in gold sovereigns or in dollars at the rate of \$12 per sovereign. Aramco decided to settle the past account as well as the current royalty in sovereigns. From that time, therefore, the Government's main income consisted of gold rather than dollars or riyals, and in order to obtain dollars or riyals the Government had to sell sovereigns.

The difficulty with this development lay in the danger that attempts to market this gold would break the high price it was then bringing in Jidda and other Near Eastern centers. Anticipating that the oil royalty might continue to be paid in gold, the Government in June 1948 tried to meet the new situation by what it called "stabilizing the riyal" by offering to sell the King's Head sovereign, the most esteemed specie, at 65 riyals. This offer failed to return riyals and it continued to fail although the peg fell as low as 53 riyals per sovereign in November 1948.

Because of the failure of the plan to "stabilize" the riyal in gold, an attempt at stabilization in U. S. currency was made in the later months of 1948 by offering dollars at the rate of 4 riyals per dollar. Although this offer was slightly above the bullion value of the riyals on the New York base, it also failed to bring in riyals. Holders of the coins apparently speculated on the prospect that if the Government wanted riyals badly enough to make public offers, the price would eventually rise.

The Government had no recourse then but to fall back on further minting. According to the official announcement, the new order covered another 60 million riyals which began to arrive in the spring of 1949. These arrivals broke the market and holders now wanted to sell riyals. Having spent a considerable sum for new silver, however, the Government did not wish to make further outlays and abandoned the fixed rate of 4 riyals per dollar in favor of a fluctuating rate. Riyal quotations against gold and dollars began to fall and in recent months were 10 to 20 per cent below the bullion value (See Tables II and III).

The gyrations of this highly sensitive market suggest the presence of large hoards of silver in speculative hands. In this respect the Government seems to have weighted the situation against itself by creating a background peculiarly unfavorable to the development of orderly exchange procedures. With a near monopoly on foreign exchange receipts, because of the conditions and importance of the oil production, it appears to have followed the practice of making foreign exchange available only to its friends. Furthermore, commercial imports have been sequestered from time to time through the device of giving merchants chits for the resulting debt. These practices have probably encouraged resort to clandestine traffic which, in any event, has offered the incentive of special profits in this postwar years because of the abnormalities of the general currency situation and the scarcity of goods. Reports are that, until "cheap-sterling" trade through Egypt was prohibited early in 1949, the Saudi Arabian merchants, among others in the Near East, were buying goods for sovereigns traded in such roundabout transactions.

It may also be argued that what has happened is an inevitable consequence of the use of metallic circulation in a country in which wealth is so new and increasing so fast. Oil production is employing over 12,000 persons who were probably never employed so regularly before and the wage bill requires some 2.5 million riyals per month. The Crown has increased substantially the amounts paid out in the yearly bounty to the tribes and while some of this increase has been in goods, much of it has been in riyals. This income tends to remain in metallic form, in part because the standard of consumption is low, and in part because the Koran forbids the acceptance of interest on money. The few banks in the country probably should be considered foreign exchange brokers rather than deposit and credit institutions.

Present Situation and Outlook

It is impossible to come to any definite conclusions with respect to the main point in connection with riyal stabilization, namely, the actual position of the Government's foreign exchange holdings. Royalties from petroleum production are probably running at about 55 million dollars per year: payments in 1949 seem to have averaged slightly less than 400,000 sovereigns per month which the Government has presumably been able to sell on world markets at not less than \$12 per sovereign. In addition, the Government sells to Aramco and other local U. S. agencies about 2.5 million riyals per month at the 30 cent rate; these sales represent a gross annual return of about \$9 million. The Government also received in 1949 a payment of \$10.5 million from the grant of an oil concession in the Saudi Arabia - Kuwait neutral zone. The annual receipts from the pilgrimage are estimated at \$6 million. Exports of goods other than oil add slightly to the total but the non-petroleum production of the country is extremely small. Total receipts of foreign exchange could have thus amounted to \$80 million in 1949.

Against this income there was an outlay of around \$5.5 million to cover service on an Export-Import Bank loan of \$10 million made in 1946 and the Aramco loan of \$40 million for the construction of the railway from Riyadh, the country's capital, to Damman, a new port under construction on the Persian Gulf. Other public works and agricultural projects, in which foreign contractors

and technical assistants participate, may have amounted to another \$10 million per year. In addition, the Government spent \$15 million for new silver coins in 1949. Finally, there was a foreign exchange outlay for imports of commodities, impossible to estimate because of the absence of Saudi Arabian trade statistics. Since most of the large imports from the United States are for Aramco's account, however, there would seem to be a considerable surplus of foreign exchange income over expenditures.

Notwithstanding these indications, the foreign exchange position may not in fact be so good. The local community believes that the Government is at times hard pressed, not so much because of current expenditures as in consequence of past borrowing against future revenues. This borrowing began in the days when the pilgrimage was the chief source of revenue and it has continued through the lush wartime experience with foreign government assistance. The floating debt to merchants and others is apparently substantial but cannot be estimated in view of the primitive state of public accounting. Moreover, since the country is an absolute monarchy, an undefined amount of the revenue may be retained by the Crown for its own disposition.

The currency is also vulnerable to some external circumstances. The first of these is the changing Bombay silver price, the factor originally responsible for the outflow of riyals from circulation. Lately this price has been somewhat less favorable to the continuation of the outflow; as Table I shows, quotations fell in 1949 until the currency change in September and the rise since then has been very small, presumably because the Indian Government continues to sell silver from stocks taken over with the annexation of the native principalities. A further fall in silver prices, which this trend seems to presage, might have serious effects on the purchasing power of the riyal if it led to a rapid release of hoarded stocks.

Secondly, "dollar oil" appears to encounter marketing difficulties because of the sterling area's dollar shortage. As the largest producer of dollar oil in the Near East, Saudi Arabia is particularly vulnerable because the natural markets for its output are in areas in which sterling is the dominant currency.

The oil as well as the silver situation would therefore seem to point to some unfavorable future developments. If a greater degree of convertibility for sterling could be achieved, there might be good reason for tying the riyal to sterling in order to solve the currency dilemma: the country is flanked by sterling neighbors with whom it has strong commercial and cultural ties. For the time being, however, the limited usefulness of sterling balances in international transactions probably will discourage serious consideration of such a solution.

TABLE I. — BULLION VALUE OF RIYAL IN TERMS OF NEW YORK AND BOMBAY SILVER PRICES

Period	Price of silver in Bombay 1/(Dollars (Rupees per oz.) per 100 tolas) 2/ 3/		Price of (foreign) silver in NY (Dollars per oz.)	Bullion value of riyal in U. S. dollars		1a
	In terms of Bombay price	In terms of NY price				
<u>Yearly Av.</u>						
1939	55.31	\$.4731	\$.3908	\$.1626	\$.1343	
1940	62.50	.5027	.3477	.1728	.1195	
1941	66.69	.5360	.3478	.1843	.1196	
1942	94.12	.7560	.3833	.2599	.1318	
1943	120.50	.9677	.4475	.3326	.1538	
1944	128.69	1.0336	.4475	.3553	.1538	
1945	135.13	1.0853	.5193	.3731	.1785	
1946	162.31	1.3053	.8016	.4487	.2756	
1947	166.81	1.3416	.7182	.4612	.2469	
1948	177.56	1.4285	.7436	.4910	.2556	
<u>Monthly Av. 1949</u>						
Jan.	182.13	1.4653	.7000	.5037	.2406	
Feb.	187.75	1.5104	.7080	.5192	.2434	
March	185.06	1.4888	.7150	.5113	.2458	
April	178.56	1.4365	.7150	.4939	.2458	
May	183.69	1.4779	.7150	.5080	.2458	
June	186.63	1.5016	.7150	.5162	.2458	
July	165.56	1.3320	.7150	.4579	.2458	
August	162.38	1.3064	.7189	.4491	.2471	
Sept.	4/169.75	5/94240	.7325	5/.3240	.2518	
Oct.	4/167.75	.93360	.7325	.3209	.2518	
Nov.	4/171.63	.95520	.7325	.3284	.2518	
Dec.	4/171.13	.95227	.7325	.3273	.2518	

1/ Yearly figures refer to fiscal year ending March 31 of the following year.

2/ A tola contains 180 grains (.375 ounces).

3/ Rupees converted to dollars at the New York quotation for rupee.

4/ Monthly average not available. Quotation is for the last day of the month.

5/ Rupee devalued from 30.23 U. S. cents to 21.00 U. S. cents on September 18

TABLE II. -- RUPEE VALUE OF SILVER RIYAL IN SAUDI ARABIA AND INDIA

Last Monday of month	Rupees per 100 riyals in Jidda 1/	Rupees per 100 riyals in Bombay 2/
1948 - January	96.15	156.98
February	97.09	138.65
March	100.00	157.21
April	100.00	159.16
May	100.25	154.35
June	94.34	159.73
July	96.15	162.25
August	101.01	160.42
September	101.01	158.99
October	108.11	160.42
November	109.89	163.29
December	109.59	162.02
1949 - January	108.70	171.42
February	105.82	170.85
March	103.63	164.31
April	102.83	166.83
May	114.52	169.18
June	100.00	165.51
July	101.01	146.44
August	103.09	147.58
September	114.76	152.74
October	107.53	153.77
November	111.11	159.39
December	110.50	155.72

1/ Based on the average of buying and selling rates quoted in riyals per 100 rupees by the Jidda agency of the Netherlands Trading Society.

2/ Based on the average spot quotation per 100 tolas (37.5 ounces) of silver in Bombay. The fine silver content of 100 riyals is 34.375 ounces.

TABLE III. -- EXCHANGE QUOTATIONS ON DOLLARS AND SOVEREIGNS IN SAUDI ARABIA

Last Monday of month	Riyals per dollar <u>1/</u>	Dollar equivalent of column 1	Riyals per gold sovereign <u>1/</u>	Dollar equivalent of column 3 <u>2/</u>	Gold sovereign rate in dollars <u>3/</u>
	(1)	(2) (cents)	(3)	(4) \$	(5)
1948 - January	4.36	22.9	65.00	14.91	
February	4.25	23.5	64.50	15.16	not
March	4.32	23.1	64.00	14.81	
April	4.86	20.6	63.50	13.07	
May	4.75	21.1	61.75	13.00	
June	4.86	20.6	65.00	13.37	avail-
July	4.64	21.6	65.00	14.01	
August	4.50	22.2	61.00	13.56	
September	4.27	23.4	59.50	13.93	
October	4.14	24.2	57.00	13.77	
November	4.00	25.0	52.75	13.19	able
December	4.00	25.0	52.50	13.13	
1949 - January	4.00	25.0	51.25	12.81	12.80
February	4.00	25.0	47.75	11.94	11.80
March	4.00	25.0	48.75	12.19	12.20
April	4.00	25.0	52.50	13.13	13.00
May	4.45	22.5	56.75	12.75	12.70
June	4.45	22.5	56.25	12.64	12.30
July	4.82	20.8	60.00	12.45	12.10
August	4.75	21.1	59.00	12.42	12.40
September	4.45	22.5	57.00	12.81	12.80
October	4.75	21.1	61.00	12.84	12.88
November	4.68	21.4	58.00	12.39	12.50
December	4.73	21.1	58.75	12.42	11.80

1/ Average of buying and selling rates quoted by the Jidda agency of the Netherlands Trading Society.

2/ At the official price of \$35 an ounce, the gold sovereign has a value of \$8.24.

3/ Quotations by the Jidda agency of the Banque de l'Indochine.

SOVIET BANKING IN THE RECENT WAR 1/

Gregory Grossman

Function and Structure of Soviet Banking

By the beginning of the war the Soviet banking system had developed into an integral part of the Soviet system of planned economy. Its control functions, including supervision of the day-to-day activity of the multitude of economic units with the purpose of securing their compliance with the plan, had become at least as important as its purely financial functions. Taken by themselves, the latter functions by that time had assumed largely a routine administrative nature: the channeling of money flows and the creation of new money in accordance with the pre-determined requirements of the economic plan. At times administrative and economic developments, not anticipated by the plan, had to be met by the banking system, and in these cases it was guided by a set of rigid and detailed administrative directives. The problem of monetary management, as understood in more orthodox monetary systems i.e., of regulation of the money supply through the price and availability of credit, had disappeared. Rather, the banking system was expected to control the money supply by the direct enforcement of the financial plan of each enterprise. In as much as the aggregate of these individual financial plans represents the financial plan for the whole economy, currency circulation was accordingly expected to remain within its planned limits. Not that it always actually did. Compliance with plan has never been perfect and the plan itself was wont to be revised, as was the case during the sharp switch to rearmament in 1939-40.

In essence the organizational structure of the Soviet banking system is a simple one, paralleling closely the functional subdivision of financial tasks:

- a. Note issue, extension of short-term credit, the clearing of payments between enterprises, and fiscal operations are performed by the State Bank (Gosbank). It is the only commercial bank in the country.
- b. Long-term investment of funds is undertaken by the four so-called special banks, each serving its own sector of the economy; while
- c. Banking and similar services to individuals are furnished by the network of savings banks.

1/ General discussion of the subject may be found in the following Soviet sources: Voznesenski, N.: The Economy of the USSR During World War II, Washington, 1948, pp. 78-83, Atlas, M.: "Kreditnaya Sistema SSSR v Gody Velikoi Otechestvennoi Voiny", Sovetskie Finansy, No. 6 - 7, p. 12 -17, and Atlas, Z. and Bregel', E.: Denezhnoe Obrashchenie i Kredit SSSR, Moscow, 1947, Ch. VII.

From the economic point of view, the war years may be subdivided into three stages: (1) conversion of the economy from a war preparedness to a total war footing, from June 1941 to the first part of 1942; (2) conduct of the war economy; and (3) beginning with the first part of 1943, reconstruction in the liberated areas and, finally, reconversion from the war economy. The second stage, of course, overlapped with the first and third stages.

The Gosbank in Wartime

Consideration will be given first to the Gosbank. During the first stage -- that of conversion to an all-out war effort after the German attack -- the Bank stood ready to meet in full the extraordinary financial needs of the moment. Specifically, it extended large loans to various enterprises: (a) for purposes of making lump-sum payments to personnel called into the armed forces; (b) for the dismantling, transfer, re-installation and restocking of the hundreds of plants evacuated eastward; (c) for the redistribution of resources in favor of industries working for the war effort; (d) for the organization of local facilities of consumer supply, such as the so-called departments of workers' supply (ORS) at enterprises. The Bank's lending authority was unlimited with respect to (a) and (b), a very unusual latitude of action under the Soviet planning system. Furthermore, credit facilities were extended to enterprises in financial difficulties for reasons such as the loss of assets in occupied areas, misdirection of goods, declines in efficiency of operation, and the numerous other facets of the chaotic situation of that period. Although there was at the same time a substantial counter-tendency for the volume of credit to contract as physical inventories were drawn down and as the production of consumer goods declined sharply, it is surprising to encounter the claim that the Gosbank's outstanding credit to economic enterprises not only declined at first, but did not regain its prewar level until 1944.^{1/} This is the more surprising since the velocity of "clearing accounts"^{2/}, i.e., the ratio of total transactions to the average level of the accounts, declined to as little as one-half the prewar figure.^{3/} At the same time the Gosbank was experiencing considerable difficulties with respect to its payments clearing operations as a result of the confused situation. Another difficulty, peculiar to Soviet conditions, arose from the fact that enterprises and their respective branches of the Gosbank were frequently evacuated to different localities, causing a temporary rupture in the close supervision and control which the Gosbank exercises over enterprises under the Soviet system of "control by the ruble".

^{1/} Atlas, op. cit., p. 14. This statement may refer to the total after the writing off of credits which had become incollectible as a result of war and occupation; but even if this interpretation were accepted, war-induced credit expansion up to 1944 would seem quite modest in view of the magnitude of the requirements.

^{2/} "Clearing accounts" are the deposits maintained by economic enterprises at the Gosbank.

^{3/} Golev, Ya.: "Razvitie Sovetskogo Kredita", in Sovetskie Finansy za XXX Let, Moscow, 1947, p. 133.

After the initial period came to an end in the first part of 1942, financial activity of the Gosbank became primarily directed at extending liberal credit assistance to war industries and rendering services to the armed forces. A large network of field offices attached to units of the Army and Navy was established by the Gosbank; it acted as the "cashier" of the armed forces, and administered the savings of military personnel.

The third stage in the wartime activity of the Gosbank began in the early part of 1943 with the start of reconstruction in the liberated areas. The Bank extended large credits for the reconstitution of the working capital of reconstructing enterprises, including that part of working capital which (under Soviet practice) would have been ordinarily supplied from non-bank sources, e.g., out of the state budget. Collection of past indebtedness was greatly relaxed.

The machinery of control by the ruble was, of course, harnessed for the prosecution of the war effort. There are numerous explicit as well as indirect indications that the tightness of the Bank's controls was considerably relaxed during the war years. This was inevitable since cost considerations were subordinated to the all-important task of war production, and because the fluid and confused conditions prevailed for much of the time.

It is surmised that the rigid relationship between the Gosbank and its customers, and the reliance upon minute administrative directives, hindered the rapid adjustment to the wartime situation. The very fact that an enterprise was to deal with only one branch of the Gosbank created difficulties for evacuated enterprises. It seems, though, that new directives attempting to meet the wartime situation were not slow in being generated by the central authorities. Whether they were realistic and effective is another question. It is clear that the Gosbank was given very much greater latitude of action in meeting the extraordinary financial needs of enterprises than it enjoyed before or since in peacetime. This liberalization of Gosbank credit facilities took a corresponding burden off the treasury and, incidentally, made the budget accounts look much better balanced than they otherwise would have been.

Wartime Note Issue

Lastly, the wartime role of the Gosbank as the bank of issue should be reported. It is well known now that the Soviet war effort (and probably reconstruction too) was financed to a considerable extent by means of currency issue.^{1/} It is claimed that currency circulation increased 2.4 times during the first three years of the war^{2/} which

^{1/} Cf. Voznesenski, op. cit. pp. 79 and 82, and the Decree on the carrying out of the monetary reform of December 1947 (Pravda, December 15, 1947).

^{2/} Voznesenski, op. cit., p. 82. No circulation statistics have been published since 1937. Currency in circulation just before the German invasion has been reported at 25 billion rubles (oral information furnished to the author by A. Zagolo, former Soviet professor of finance); a calculation based on published Soviet data places the amount in circulation at about 18 billion rubles (see this Review, November 22, 1949, p. 30).

would bring it up to as much as 60 billion rubles by mid-1944. But the conversion of ten old rubles into one new ruble at the time of the monetary reform of December 1947 -- while the actual wage level had almost doubled in comparison with 1940 -- suggests a considerable further currency expansion by that date. However, it need not necessarily mean that the amount of currency in circulation immediately prior to the reform was excessive to the full extent of the 10 to 1 conversion ratio, as the Government might well have desired to err on the "safe" side.

It is not quite clear through what precise fiscal or financial channels the additional amounts of currency were thrown into circulation. Officially, budgetary receipts during the four and one-half years (mid-1941 - 1945) roughly corresponding to the duration of hostilities fell short of budgetary expenditures of from 33 to 36 billion rubles.^{1/} According to Soviet usage, receipts are inclusive of proceeds from borrowing, gifts, and foreign aid. But for the six and one-half years from the beginning of hostilities until the monetary reform (mid-1941 - 1947) total receipts slightly exceeded total expenditures, with receipts adding up to 1,732 billion rubles and total expenditures of 1,722 billion rubles. Unless the whole of the currency expansion during this period was accounted for by Gosbank credit to economic enterprises, which seems unlikely despite the temporary liberalization of credit policy, budgetary receipts as officially stated must have included inflationary sources of financing, such as borrowing from the Gosbank. We know of no explicit reference to such borrowing in Soviet sources. At the beginning of the war, however, the treasury drew on its large deposits with the Gosbank, which were accumulated as a result of budgetary surpluses over a number of previous years. Moreover, idle deposits of enterprises and special banks with the Gosbank were taken over by the treasury. These funds are said to have exceeded 20 billion rubles.^{2/} Their utilization undoubtedly resulted in a practically equivalent amount of currency being placed in circulation. It is not clear whether they appear, in whole or in part, under the budgetary receipts for the corresponding years.

Other Banks in Wartime

The role played by the other banks during the war is reported briefly below. The special banks, whose main function is disbursement of state funds going into investment in fixed capital, reduced the volume of their activity when military needs forced a sharp curtailment of investment, but they later resumed their importance as reconstruction took on large proportions. The savings banks faced the important task of attempting to absorb some of the swollen currency holdings of the population. Their sales of state bonds increased greatly, and they also administered the wartime state goods lotteries and collected voluntary gifts from the

^{1/} Receipts --- 1,023 billion rubles, expenditures --- 1,056 billion rubles, as may be computed from data in Zverev, A.: "Sovetskie Finansy i Stroitel'stvo Sotsializma v SSSR", in Sovetskie Finansy za XXX let, Moscow, 1947, pp. 66-73.

^{2/} Cf. Atlas, op. cit., p. 15; Atlas and Bregel', op. cit., pp. 241-2.

population. Much less successful were their attempts to attract savings deposits. Despite the fact that withdrawals of savings deposits extant before the war were limited to 200 rubles a month (withdrawals of war-time deposits not so restricted), the total of savings deposits fell sharply at the outset, possibly in part due to loss of the occupied areas, and did not recover to the prewar level (6.8 billion rubles) until the middle of 1945.^{1/} After that, the figure climbed rapidly, reaching about 14 billion rubles just before the monetary reform.

The savings banks were also assigned the task of administering the blocked accounts deposited by enterprises in favor of individual workers and employees as compensation for leave not taken during the war years.^{2/} The total of such accounts reached 10.3 billion rubles by the end of the war.^{3/} At the end of the war they were converted into special (3 per cent) certificates, one-fourth of the value of which was to be redeemable at annual intervals beginning April 1, 1946. However, only two annual payments were made before the monetary reform, when the residual amounts were converted, with loss of two-thirds of the face value, into bonds of the new (two per cent) Conversion Loan of 1948.

^{1/} Plotnikov, N.: Byudzhët Sotsialisticheskogo Gosudarstva, Moscow, 1948, pp. 294-9; Valler, L. B.: Sberegatel'nye Kassy v SSSR, Moscow, 1946, pp. 28-31.

^{2/} Valler, op. cit., pp. 76-81.

^{3/} Zverev, op. cit., p. 73.