

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

May 31, 1967

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21 pages

The Soviet Bank for Foreign Trade and
Soviet Banks Abroad: A Note

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The Soviet Bank for Foreign Trade and Soviet Banks Abroad: A Note

Balance sheet data for the Soviet Bank for Foreign Trade (Vneshtorgbank) have recently been published in the monthly journal of the State Bank of the USSR.^{1/} This marks the first publication of such statistics on the activities of any Soviet banking institution in over thirty years. Hopefully, the appearance in print of statistical material of this sort is a prelude to disclosure of other domestic banking and monetary data, which would serve to increase understanding of many interesting facets of the Soviet economic system. For example, no balance sheet for the State Bank of the USSR, the Soviet central bank, has been published since well before World War II, a situation which seems oddly incompatible with the position of the Soviet Union as the world's second leading industrial power. The practice is also somewhat at variance with the generally more liberal policy followed in the past decade in providing statistics relating to many economic activities more significant than domestic banking, a sphere usually considered of secondary importance in the centrally planned Soviet economy. Nevertheless, the recent publication of data on the Soviet Foreign Trade Bank is a welcome sign, and one sufficiently curious to merit some tentative appraisal of the new data.

^{1/} Den'gi i kredit, XXIV:8 (August 1966), page 92.

Table 1. Bank for Foreign Trade of the USSR

	<u>Outstanding on January 1:</u>	
	<u>1965</u>	<u>1966</u>
	(millions of dollars)	
<u>Assets</u>		
Cash, current accounts, etc.	736	874
Advances	2,930	3,294
Securities	8	8
Other assets	4	2
Total assets	3,677	4,178
<u>Liabilities</u>		
Capital and reserves	355	371
Deposits	2,132	2,534
Credits received, etc.	1,162	1,249
Net profit	20	20
Other liabilities	9	4
Total liabilities	3,677	4,178

Note: Details may not add to totals, due to rounding.

Source: Den'gi i kredit, XXIV:8 (August 1966), page 92.

For convenience, the new statistics, shown in Table 1, have been converted from rubles to U.S. dollars at the official rate of exchange (ruble = \$1.11). In accordance with what appears to be standard Soviet usage, the data refer to January 1 in 1965 and 1966; but they may equally apply, it would seem, to the final business day of the preceding years and might, consequently, be thought of as illustrating the development of the Bank's activities in calendar year 1965.

In the absence of comparable figures for earlier years, or for some series of years, it would seem impossible to say very much about the balance sheet totals which have unexpectedly become available for one isolated, albeit recent, twelve-month period. However, it seems useful to make the effort to build some sort of picture of the real-life bank that is mirrored, however indistinctly, in the numbers shown in Table 1.

The lack of balance sheet totals for earlier years may well be less of an obstacle to understanding than one might suppose. It is a matter of record that the Bank for Foreign Trade was reorganized at the beginning of 1961 and given greatly expanded operating responsibilities for the financing of Soviet foreign trade. Prior to 1961 the Bank for Foreign Trade, operating under powers delegated to it by the State Bank, was responsible for only a limited range of foreign exchange operations of a non-commercial character--tourism, dealings with foreign diplomatic missions, remittances and some others.^{2/} All other banking activities connected with foreign operations were regularly carried out by the

^{2/} From April 1957 to the end of 1960 a special "tourist" ruble, convertible for non-commercial transactions at a premium rate of 10 rubles per U.S. dollar (compared to the official rate of 4 rubles) was in effect; corresponding special premium rates were also applied to other Western currencies. These premium exchange rates were eliminated at the beginning of 1961, when the Foreign Trade Bank's operating functions were expanded. See Morris Bornstein, "The Reform and Revaluation of the Ruble," The American Economic Review, LI:1 (March 1961).

Foreign Department of the State Bank, which was legally vested with the exclusive right to deal in foreign exchange. Prior to 1961, therefore, the Bank for Foreign Trade operated virtually as a special department of the State Bank.

The 1961 change, giving the Bank for Foreign Trade responsibility for the conduct of banking operations connected with foreign trade, was a move probably dictated by considerations of operating convenience. The expansion of Soviet foreign trade that began in the mid-1950's, and the accompanying increase in the volume of banking operations, had perhaps placed an unmanageable burden on the Foreign Department of the State Bank, which certainly cannot have been one of the more important operating divisions of the central bank. However, despite the Foreign Trade Bank's wider operating responsibilities it remains subordinate, in the policy sphere, to the State Bank of the USSR.^{3/}

The expansion in recent years in Soviet foreign trade, which forms the background for the Bank's more important role, can be shown by a few simple figures. Between 1960 and 1965 the value of total Soviet foreign trade (exports plus imports, with the latter valued on

^{3/} Finansovo-kreditnyi slovar' (Moscow, 1961), Vol. I, p.97; and George Garvy, Money, Banking, and Credit in Eastern Europe (New York: Federal Reserve Bank of New York, 1966), Chapter 7 (pp.94-108, passim) and page 123, where Garvy writes: ". . . the Foreign Trade Bank is actually only a headquarters organization"

The statutes of the Bank for Foreign Trade of the USSR have been published in Den'gi i kredit, XXI:1 (January 1963), pp.45-54.

an f.o.b. basis) increased from \$11.2 to \$16.2 billion, or by 45 per cent.^{4/} Somewhat less than three-fourths of total Soviet foreign trade is conducted with other Socialist countries, but in this six-year period commodity exchanges with the rest of the world rose by somewhat more-- 67 per cent--than total trade turnover. The share of Soviet trade with Socialist countries therefore declined slightly, from 73 per cent in 1960 to 69 per cent in 1965.

On the perfectly reasonable assumption that operations of the Foreign Trade Bank bear some relation to the development of Soviet foreign trade, what can the balance sheet data in Table 1 tell us? In 1965, the value of total Soviet foreign trade increased from \$15.4 to \$16.2 billion, or by 5.2 per cent--roughly in line with the annual average increase in 1960-65. In 1965, though, total loans and discounts of the Bank for Foreign Trade rose by 12.4 per cent.^{5/} But there are at least two specific reasons to question whether these magnitudes--foreign trade and foreign trade financing--should move in parallel fashion, quite apart from the general proposition that monetary values need not match the "real" activities to which they are related.

^{4/} The calculations are based on data shown in International Monetary Fund, International Financial Statistics, April 1967, and Direction of Trade, Annual 1961-65.

^{5/} The reader is reminded of the assumption that the balance sheet data can correspond to the Bank's statement of accounts as of December 31, 1964 and December 31, 1965. The assumption surely does little violence to the facts because if such end-of-year accounts differ from the statements on January 1 of the following year, the differences probably reflect some such account as the distribution of profits, which is not germane to the illustration.

In the first place, the balance sheets of the Foreign Trade Bank represent an unknown mixture, in ruble equivalents, of assets originally denominated in foreign currencies--with a good part in convertible currencies--and of ruble-denominated transactions with Soviet state foreign trading organizations (and occasionally with individual Soviet enterprises). In other words, the balance sheets combine values representing convertible foreign exchange expressed in rubles, and ruble values which reflect the complete separation of Soviet domestic prices and costs from prices and costs in the world outside; and the balance sheets therefore reflect some degree of artificiality.^{6/}

The second reason why the lending activities of the Foreign Trade Bank in 1965 need not mirror the development of foreign trade is that the Foreign Trade Bank is not the only institution engaged in this banking business. Some part of Soviet foreign trade is financed by the two Soviet-owned banks located abroad--the Moscow Narodny Bank Limited, in London, and the Banque Commerciale pour l'Europe du Nord S.A., in Paris.^{7/}

^{6/} Comparable problems of valuation bedevil the analysis of Soviet foreign trade statistics which, analogously, combine ruble equivalents of goods traded with convertible currency trading partners (and, therefore, by and large on the basis of world market prices) and trade with other Socialist countries. We cannot go into these knotty problems at this point. Conceivably, the degree of artificiality in the balance sheets of the Foreign Trade Bank is the same as for Soviet foreign trade as a whole. But we do not know what these coefficients of constant artificiality are, naturally

^{7/} A third Soviet-owned bank, Wosschod Handelsbank A.G., located in Zurich, was established in 1966. It is not organizationally connected with the banks in London and Paris. However, newspaper accounts have reported that the Moscow Narodny Bank--which already has an overseas branch, established in 1963, in Beirut, Lebanon--is interested in opening a branch in Frankfurt.

What else, if anything, do the numbers in Table 1 say? For one thing, they say that the Bank for Foreign Trade is indeed a large bank. With deposits totaling \$2,534 million at the end of 1965 (January 1, 1966, as in Table 1), the Bank would rank as No. 49 in the American Banker's annual compilation--"500 Largest Banks in Free World"--classified by size of deposits.^{8/}

The Bank for Foreign Trade is of course dwarfed by the State Bank of the USSR. We do not know how large the Soviet central bank is, but there seems little reason to question the Soviet claim that it is the largest bank in the world--a "monobank," to borrow Garvy's designation, which combines a huge central and commercial banking institution under one roof.^{9/}

^{8/} The American Banker, August 1, 1966. This ranking seems to confirm the recent statement by Mr. A. I. Doubonossov, Chairman of the Moscow Narodny Bank: "In view of the size of the Soviet Union, and the scope and volume of its foreign trade . . . the Bank for Foreign Trade is certainly one of the largest commercial banks in the world." "Interview," The Banker (London), March 1967, page 191.

On the basis of balance sheet data published in The Bankers' Almanac and Year Book 1966-67, the Moscow Narodny Bank--with correspondents' balances (deposits) of £197 million (\$552 million) at the end of 1965--would rank as No. 210 on the list of 500 largest banks. We cannot make the same computation for the Soviet-owned bank in Paris, but its balance sheet total makes it only a little less large than the Moscow Narodny.

^{9/} Some years back, Mr. T. M. Rybczynski, economist with the London banking house of Lazard Brothers, estimated that deposits of the State Bank might have amounted to \$50 billion in 1961, on the assumption that total deposits more or less equaled total short-term credit outstanding. Mr. Rybczynski's figures, which he put together for the purposes of making some inter-country comparisons, implied that Soviet bank deposits of \$50 billion were about double the total amount of deposits in England and Wales (\$28 billion), and equal to one-fifth of bank deposits of \$250 billion in the United States in 1961. T. M. Rybczynski, "Banking in the U.S.S.R.," in H. W. Auburn, editor. Comparative Banking. Second edition (London: Waterlow and Sons Limited, 1963), pp.134-35.

In any event, this admittedly fanciful line of speculation would seem to exhaust the research potential of the data in Table 1, unless one were to imagine that the recital of additional facts--for example, that the ratio of cash to total deposits was unchanged, at 34.5 per cent, on the two reporting dates shown, or that the Bank's advances increased by 12.5 per cent over the year--could possibly throw any light on these summary statistics. Instead, it might be more interesting to assemble any available statistics on the Foreign Trade Bank, the Moscow Narodny and the Banque Commerciale, in order to point up any similarities or contrasts among these three specialized institutions. The Voskhod Bank, in Switzerland, is obviously too new to treat in this note.^{10/}

We note the existence of one other Soviet bank abroad, with which this note will not deal, primarily because no data are published and because other information is rather scanty. This is the Russo-Iranian Bank, successor to an older, partly Iranian-owned institution, and now entirely Soviet-owned. At the present time, 84 per cent of the Russo-Iranian Bank's shares are owned by the Bank for Foreign Trade of the USSR, and the remainder by the State Bank of the USSR. The

^{10/} The reader alert enough to suspect a typographical slip is assured that the differences between Voskhod and Wosschod (above, footnote 7) simply reflect differences in transliteration from Russian into English and into German. The Soviet bank in Zurich bears the name of a Soviet space vehicle. The word means "Sunrise," which seems a curious choice for a financial institution.

Russo-Iranian Bank is said to conduct financing operations connected with trade between Iran and the Soviet Union and, in some cases, the trade of other Socialist countries with Iran.^{11/}

Clearly, the single most important piece of evidence in Table 2 is not the difference in size among the three institutions but the unique position of the Banque Commerciale, shown by the fact that cash comprises the overwhelming portion--just under 90 per cent--of the Paris bank's total assets. Earning assets, either in securities or advances, are distinctly minor components of the accounts. The Bank's cash position consists almost entirely of balances with banks and correspondents, with till money accounting for less than 1/2 of 1 per cent of total cash. The dominant position of cash on the assets side of the Banque Commerciale's books is matched, on the liabilities side, by the entry "banks and correspondents," which has averaged just over 90 per cent of total liabilities in the past several years.

^{11/} Finansovo-kreditnyi slovar', Vol. II, page 311. According to a British source, the Russo-Iranian Bank, "with its head office in Moscow, is the only foreign bank of importance in Persia," and is "chiefly concerned with financing and controlling trade between Persia and the Soviet Union." The Middle East. A Political and Economic Survey. Issued under the auspices of the Royal Institute of International Affairs. (Oxford University Press, 1958), page 409.

We have not been able to find other references to the Russo-Iranian Bank or its activities in the Western literature. It does not seem to make much sense to have a separate financial unit in one of the Soviet Union's trading partners when, under typical trade and payments agreements, these financial matters are handled between the central banks of the two countries. On the Soviet side this is either the State Bank of the USSR or--more frequently since 1961, probably--the Bank for Foreign Trade. See Marshall I. Goldman, Soviet Foreign Aid. (New York: Frederick A. Praeger, Inc., 1967), pp. 78-79.

Table 2. Soviet Foreign Trade Banks, 1965

	<u>Balance Sheet Totals, December 31, 1965:</u> (millions of dollars)		
	<u>Foreign Trade Bank (Moscow)</u>	<u>Moscow Narodny Bank (London)</u>	<u>Banque Commerciale du Nord (Paris)</u>
<u>Assets</u>			
Cash	874	72	559 ^{a/}
Advances, loans and discounts	3,294	552	64
Securities	8	17	3
Other assets	2	11	5
Total assets	4,178	652	632
<u>Liabilities</u>			
Capital and reserves	371	14	13
Deposits	2,534	552 ^{b/}	(617)
Credits received, etc.	1,249	83 ^{c/}	()
Net profit	20	--	2
Other liabilities	4	3	d/
Total liabilities	4,178	652	632

a/ Cash and banks.

b/ Correspondent balances.

c/ Bills rediscounted, current a/c, etc.

d/ Evidently combined with deposit totals.

Note: Details may not add to totals, due to rounding.

Source: Table 1 and Bankers' Almanac and Year Book 1966-67. Sterling and French franc totals converted at par of exchange.

This curiously unbalanced structure of the Banque Commerciale's assets and liabilities suggests that the Soviet-owned bank in Paris has a very special role, that it is a financial institution engaged primarily in transfer functions rather than in the direct financing of foreign trade or, for that matter, other ordinary business lending

on any meaningful scale. As a transfer institution, the Banque Commerciale is undoubtedly an active participant in Euro-currency markets, both as a borrower and a lender.

The role played by banks in various communist countries in the initial development of the Euro-dollar market in the late 1950's is fairly well documented.^{12/} It is also generally accepted that the motivation for placement by Eastern banks of surplus working balances in Paris, London and other European financial centers was the desire for safety, prompted by the fear that balances left on deposit in U.S. banks might very well have been subject to some official restriction. In the beginning, Soviet and Eastern European banks supplied dollars and other convertible currencies to the market, but nowadays these banks are probably borrowers as frequently as lenders, and through their agents--the Moscow Narodny and the Banque Commerciale--actively bid for funds in this highly competitive international money market. As Mr. Altman writes: "The Moscow Narodny Bank and the Banque Commerciale du Nord are regarded in

^{12/} See Alan R. Holmes and Fred H. Klopstock, "The Market for Dollar Deposits in Europe," Federal Reserve Bank of New York Monthly Review, November 1960; two articles by Oscar L. Altman, "Foreign Markets for Dollars, Sterling and Other Currencies," and "Recent Developments in Foreign Markets for Dollars and Other Currencies," International Monetary Fund Staff Papers, December 1961 and March 1963; and Fred H. Klopstock, "The International Money Market: Structure, Scope and Instruments," The Journal of Finance, XX:2 (May 1965).

Some readers may wish to consult the article on Euro-dollars in a recent issue of the State Bank's journal. See L. Serebryakova, "Rynok evro-dollarov," Den'gi i kredit, XXV:3 (March 1967), pp. 70-80. Her piece is a well written, non-polemical, generally factual account of the institutional and operational aspects of Euro-currency markets. She does not, however, mention the role of communist banks in this market, currently or in the past.

Europe as prime commercial names, good for large deposits of dollars and other currencies at competitive rates.^{13/} It is a two-way business. "Many countries in the communist bloc, including the U.S.S.R., Hungary, and Bulgaria," Altman writes elsewhere, "actively solicit deposits of dollars and European currencies from banks in Western Europe; in addition, they borrow from the Moscow Narodny Bank and the Banque Commerciale pour l'Europe du Nord, which are themselves in the Euro-money market."^{14/} There is some evidence that banks in communist countries have accepted lower than going interest rates on deposits placed with Western banks, and that they have also paid higher rates in order to attract deposits from Western banks.^{15/}

This note is not the place for a general review of Euro-currency markets, which is amply provided in the excellent sources cited. To be sure, the importance of Euro-currency operations conducted by and on behalf of the Soviet Union and the Eastern European countries cannot be shown statistically, but it is very likely that their share of this business has diminished with the expansion in recent years in volume of operations and numbers of participants in this new international money market. Whatever the position of the communist-owned institutions, the advantages of this involvement

^{13/} International Monetary Fund Staff Papers, December 1961, page 343.

^{14/} Ibid., March 1963, page 60.

^{15/} Altman gives some examples (loc. cit., pp.69, 71). He suggests that interest rates paid by communist banks are apparently less closely arbitrated than those in Western Europe, but notes that this is not true for the Soviet-owned banks in London and Paris.

for the Soviet Union and the other communist countries are very clear. Funds obtained in the Euro-currency markets constitute a source of import financing additional to loans obtained in the West; and these funds may replace other credit or sales of gold, at least temporarily.^{16/}

The data presented in Table 2 were interpreted as showing that the Soviet-owned bank in Paris is essentially a financial intermediary, a way-station engaged primarily in channeling funds from lenders to borrowers in order to finance East-West trade, but that it does not seem to be active as a direct lending institution. By contrast, the Moscow Narodny Bank appears to employ a large share of its funds in direct advances. However, an examination of the accounts of these two institutions over a number of years shows that this was not always the case.

The selected balance sheet totals shown in Table 3 throw some light on the development of the two banks over the past fifteen years. First, both banks have experienced phenomenal rates of growth since 1950, when they were very small. Secondly, it is interesting that the bank in Paris developed somewhat more rapidly than the bank

^{16/} Altman, IMF Staff Papers, December 1961, pp.343-44. Paul Einzig, a prominent writer on financial topics, takes a decidedly alarmist view of this participation by communist banks in Western financial markets. He regards this activity, which permits communist governments to borrow "on a large scale," as providing them with a means for "causing or aggravating any crisis." See Paul Einzig, The Euro-Dollar System (New York: St. Martin's Press, Inc., 1964), pp.30-31, 71-73, 134. Despite his uneasiness, it is not clear how Einzig would go about limiting all East-West trade to "a strictly cash basis," as he puts it. Einzig has expressed these views elsewhere; see "Communist Borrowing in the Euro-Dollar Market," The Commercial and Financial Chronicle, April 18, 1963, and "Dangerous Credit Turn Strengthening Soviet," Ibid., February 20, 1964.

in London, over the period as a whole. At the end of 1950 the Banque Commerciale, with total assets of \$16.2 million, was just half the size of Moscow Narodny, whose balance sheet then totaled \$32.8 million. At the end of 1965 the two institutions were roughly comparable in size.

In the third place, until 1958-59 it was the Banque Commerciale which showed any growth, whereas the Moscow Narodny was apparently dormant. Between 1950 and 1958, the Paris bank's balance sheet total increased more than ten times. But the Moscow Narodny's balance sheet was actually smaller at the end of 1958 than it had been eight years earlier, and although the small total shows some fluctuation over this period, the accounts of the London bank are hardly those of a dynamic institution. They seem to bear witness to the recent statement of Mr. Doubonossov, the Moscow Narodny's chairman, to the effect that his bank was "little more than a paying agent for the State Bank of the Soviet Union."^{17/} The expansion of the Moscow Narodny dates from 1959, but the figures in Table 3 show that the Banque Commerciale also continued to grow at a respectable pace in the past six years.

^{17/} The Banker, March 1967, pp.192-193. "This was the position," said Doubonossov in his interview, "when I became chairman of the Bank in 1959." He also said that the balance sheet total for the end of 1966 was "over" £245 million (\$686 million), implying an increase on the order of 5 per cent last year.

According to a recent newspaper report, Doubonossov will soon resign as chairman of Moscow Narodny, and be succeeded by N. V. Nikitkin. The paper noted that Doubonossov had recently been awarded a high Soviet decoration in recognition of his services in promoting the expansion of Anglo-Soviet trade. See The Times, London, April 27, 1967. Doubonossov's successor, Nikitkin, was elected a member of the Foreign Trade Bank's Board of Directors at the last annual shareholders' meeting. See Den'gi i kredit, XXIV:8 (August 1966), page 92.

Table 3. Soviet Banks Abroad: Selected Balance Sheet Totals, 1950-65
(millions of dollars)

End of Year	Moscow Narodny Bank				Banque Commerciale du Nord			
	Assets			Liab.	Assets			Liab.
	Total	Cash	Loans	De- posits	Total	Due from Banks a/	Loans	De- posits
1950	32.8	27.7	1.1	28.8	16.2	10.1	6.1	16.0
1951	31.9	26.0	2.8	27.7	23.5	16.5	7.0	23.3
1952	16.8	12.3	b/	12.3	33.4	26.5	6.8	33.1
1953	25.8	18.8	0.6	21.0	103.9	94.9	8.7	103.2
1954	22.4	16.8	0.6	17.6	85.6	65.6	19.6	84.9
1955	36.1	24.9	8.4	23.5	116.0	84.2	31.4	115.1
1956	49.8	44.8	1.1	44.2	143.7	127.9	15.5	142.3
1957	53.5	23.2	2.5	45.6	217.1	183.4	33.5	215.3
1958	24.1	19.0	3.6	20.2	198.4	152.7	45.4	196.3
1959	151.2	29.4	89.6	143.1	380.3	329.0	51.0	377.5
1960	155.7	28.3	101.6	143.9	360.1	317.3	42.5	357.0
1961	218.7	47.3	152.3	178.1	426.0	386.6	37.3	422.4
1962	291.2	64.7	181.2	214.5	502.8	453.5	45.8	495.5
1963	520.2	92.1	393.7	443.2	550.2	496.4	48.2	538.8
1964	572.9	134.1	377.7	483.8	569.5	505.4	58.5	557.1
1965	652.7	43.4	553.0	551.9	631.5	559.4	64.5	617.2

a/ Includes small amounts of cash.

b/ Less than \$500,000.

Source: The Bankers' Almanac and Year Book.

Finally, the data in Table 3 show that the present-day distinction between the two institutions--assuming it is a valid one--was not always so clear-cut. In the early part of the period, before the Moscow Narodny Bank was at all active, the Banque Commerciale was very much less the financial intermediary that it has become in recent years. In 1950, for example, 37 per cent of the Banque Commerciale's

assets was in loans, and in 1955 the proportion was still as high as 27 per cent. But in 1956-60 the ratio of loans to total assets averaged just under 15 per cent, while for the past five years it has hovered around 9-10 per cent as the Paris bank has evidently settled into the practice of placing the bulk of its funds with banks and correspondents. The Moscow Narodny Bank shows a more consistent pattern of operations in the period since 1959. In these years the ratio of loans to total assets has not been less than 60 per cent, and the share was 85 per cent at the end of 1965.

In addition to the comparisons that can be derived from the data in Table 3, there is an interesting contrast in the public behavior of the two Soviet-owned institutions. Whatever the explanation for the contrast--which may be attributable in part to differences between British and French banks--it is a fact that the activities of the Moscow Narodny Bank receive fairly frequent press coverage, whereas the newspapers rarely mention the Banque Commerciale du Nord.

As far as the Moscow Narodny Bank is concerned, the attention it receives is apparently now unwelcome, for the Bank seems to work at promoting an image of a respectable British bank under solid management. Since 1960 the Moscow Narodny has published a periodical--the Quarterly Review--which is perhaps patterned on similar publications issued by a number of leading British banks, and which is a model of lucid exposition. In addition to an informative "Quarterly Commentary" which covers developments in the foreign exchange and gold markets, each issue features

articles, invariably well written, dealing with such topics as some aspect of the London money market, banking or foreign trade financing in individual communist countries and, most frequently, reviews of East-West trade developments.^{18/}

The Moscow Narodny Bank's presence seems sufficiently well advertised by its periodical, but the Bank does not appear averse to other occasional publicity about its operations. In 1961, for example, Moscow Narodny advanced funds to the British municipality of Chorleywood, and the attendant publicity undoubtedly served to enhance the Bank's business standing.^{19/} Another example illustrating the Bank's competitive zeal was the recent decision to take on the business of issuing dollar certificates of deposit in London, following the example set by a leading American bank.^{20/} In his recent press interview,

^{18/} For example, the Spring 1967 issue of the Bank's journal contains an article entitled "The Course of World Interest Rates," part of which is devoted to a very good account of monetary and economic policy controversies in the United States; the article specifically cites the views of the President of the Federal Reserve Bank of New York on the current cyclical position. Moscow Narodny Bank Quarterly Review, Spring 1967, pp.23-29.

^{19/} "The council was in the red," one Chorleywood councilman is quoted as saying, "so we decided to borrow from the Reds." "Communist Bankers," Forbes Magazine, February 15, 1967.

^{20/} Paul Einzig, "London Dollar Certificates of Deposit," Banca Nazionale del Lavoro Quarterly Review, No. 79 (December 1966), page 333. In an earlier article, Einzig reacted with enthusiasm to the introduction of these CD's. See "Euro-Deposit Certificates Issued by Citibank," The Commercial and Financial Chronicle, June 2, 1966. Einzig's views were cited, with approval, by the author of the Russian article on Euro-dollars (above, footnote 12).

the Moscow Narodny's chairman confirmed, with evident pride, a newspaper account which ranked his Bank "among the big four Euro-currency operators in London."^{21/}

Fortunately, the public relations policy followed by the Moscow Narodny Bank provides us with a fairly well-rounded picture of its activities--beyond the tid-bits already noted--and a few general comments regarding Moscow Narodny's resources as well as the way in which it employs its funds seem in order. By far the most important source of the Moscow Narodny's funds are deposits held with it by other banks, with which the Bank has built up widespread correspondent relations. As Doubonossov puts it, "the importance of Socialist and non-Socialist banks as a source of funds is roughly equal," implying that something on the order of \$275 million of the Bank's deposit liabilities to correspondents at the end of 1965 (see Table 3) comprised balances due to non-Communist banks.^{22/}

^{21/} Loc. cit., page 195. "In our opinion," said Doubonossov, "we believe that this assessment is correct."

Doubonossov pointed to several aspects of the Bank's growth since 1958--the expansion (by about 30 times) in the balance sheet total, the ten-fold increase in staff, the move to larger business quarters--but he did not touch on another intriguing side of the Moscow Narodny's activities and image. It is a matter of well-founded intelligence that the Moscow Narodny is close to leading the competitive field in cuisine, choice of wines, table decor and other marks of civilized living. See "The Capitalistic Russian Banks," Dun's Review, October 1963.

^{22/} The Bankers' Almanac and Year Book lists some of the Moscow Narodny's correspondents, which include many of the leading financial institutions in Western money centers.

In addition to deposits from correspondent banks, the Moscow Narodny obtains funds from three other sources, all far less important in absolute terms but nonetheless fast growing. First, the Bank has been successful in attracting deposits from non-banking customers, chiefly in the United Kingdom; and although these deposits comprise a rather small share of total liabilities, this balance sheet item has shown highly satisfactory growth. Secondly, the Bank rediscunts bills in the London discount market, in which it operates on apparently equal terms with the leading banking firms in the City. Finally, the Bank's resources have been built up as a result of successive additions to paid-up capital by its shareholders--the State Bank of the USSR, the Bank for Foreign Trade, and others. Between the end of 1958 and the end of 1965 Moscow Narodny's capital and reserves increased from \$1.5 to \$14.3 million, or by a bit less than ten times.

As a specialized institution, the Bank employs the bulk of its funds, directly or indirectly, in financing East-West trade. In addition, of course, the Moscow Narodny Bank performs the extremely important function of agency for the sale of gold, as does the Soviet-owned bank in Paris. "We can both act as agents for the sale of Soviet gold," said Doubonossov, "but in so far as we are located in London--the most important bar gold market in the world and the centre for the operations of the Gold Pool--we are obviously in a better position to act for the sale of Soviet gold."^{23/}

^{23/} Loc. cit., page 196. When the Moscow Narodny opened its Beirut branch in 1963, the press speculated that the move reflected the need for an additional outlet for gold sales. This seems unlikely; but it may well be the case that the Soviet-owned bank in Zurich (the Voskhod Bank) would act as agent for sales of Soviet gold. At this writing, however, the USSR does not appear to be offering gold, and no sales have been reported for quite some time. It may be noted that, in its regular surveys of developments in foreign exchange and gold markets, the Bank's Quarterly Review never mentions its own activities or Soviet gold sales.

In addition to the Bank's principal line of business of providing East-West finance, the Moscow Narodny is an active institution in the London market, in which it keeps a substantial share of its funds in various liquid forms. It seeks outlets for funds temporarily idle or otherwise not needed for trade finance in lending to the discount market, placing funds on deposit with other banks, and investing in Treasury bills and longer-term securities. In these respects it is guided, in the words of one of its advertisements of a few years ago, "by the usual considerations of liquidity and relative yields."

These excursions into the affairs of the two Soviet banks abroad have diverted us from the topic that originally prompted this note, but we may revert to the matter of the Soviet Foreign Trade Bank for a final question. What can have prompted the Soviet authorities to publish a balance sheet for one of their banks after so many years of statistical blackout? This sort of question is not nowadays put so frequently as during the statistical renaissance of the early post-Stalin years but it never ceases to be relevant, or at least intriguing. With respect to the Foreign Trade Bank any answer must necessarily be speculative, but one possible explanation for the appearance in print of these balance sheet totals does not seem altogether fanciful.

As Garvy notes, foreign trade payments are now channeled through special foreign trade banks in all Eastern European countries except Romania, where such transactions continue to be handled by the central bank.^{24/} The special foreign trade banks in Eastern

^{24/} Garvy, op.cit., page 96.

Europe are mostly new institutions created--somewhat on the pattern of the Soviet Foreign Trade Bank--to take over foreign trade financing functions from the central bank. However, it is interesting that balance sheet information, varying somewhat in detail and composition, is published for all of these institutions.^{25/} It does not seem entirely improbable, therefore, that in deciding to publish balance sheet data for the Foreign Trade Bank of the USSR, the Soviet authorities have been guided by the example of the Eastern European countries. If this is the case, we have another minute example of changing times, with the small nations of Eastern Europe showing the way, and the erstwhile leader of the European communist bloc seemingly the last to countenance innovation, sometimes even of the least consequential sort.^{26/}

^{25/} The communist banks for which balance sheet data are given in the Bankers' Almanac and Year Book 1966-67 are the Bulgarian Foreign Trade Bank Limited; the Commercial Bank of Czechoslovakia (Ceskoslovenska Obchodni Banka) and the Trade Bank (Zivnostenska Banka), also headquartered in Prague; the Hungarian Foreign Trade Bank Limited (Magyar Kulkereskedelmi Bank); and the Commercial Bank of Warsaw (Bank Handlowy w Warszawie). According to balance sheet data for the end of 1965, converted at official "commercial" rates of exchange, the Commercial Bank of Warsaw is the largest of these Eastern European banks, with total assets of \$4.1 billion. The Commercial Bank of Czechoslovakia had a balance sheet total of \$1.5 billion. The Trade Bank, the third institution for which fairly comprehensive balance sheet totals were given, had assets of \$118 million in December 1965. As for the other two banks, for which only summary data are cited, the Bulgarian Foreign Trade Bank showed a balance sheet total of \$34 million, and the Hungarian Foreign Trade Bank had total assets of \$134 million.

Interestingly, the Czechoslovak Trade Bank is the only one of these communist banks located abroad; it has an office in London, where it is a member of the Foreign Banks and Affiliates Association.

^{26/} "With the result," as Peter Wiles puts it, "that reform is more advanced after 16 years in Eastern Europe than after 38 in the USSR." P. J. de la F. Wiles, "The Political and Social Prerequisites for a Soviet-Type Economy," Economica, New Series, XXXIV:133, (February 1967), page 10.