

Board of Governors of the Federal Reserve System  
Division of Research and Statistics  
International Sections

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REVIEW OF FOREIGN DEVELOPMENTS

July 1, 1947

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LATIN AMERICAN STERLING BALANCES

FLORENCE NIXON

Britain at present is facing the task of settling the large sterling credit balances which accrued during the war to the supplier nations of the world. In relation to the amounts of sterling held by other nations, especially India and Egypt, total Latin American balances are small. The Latin American balances are nonetheless sufficiently large to constitute a current monetary problem for the British.

At present all of the twenty Latin American Republics may use war-accumulated sterling to settle current and capital account deficits with the sterling area under existing regulations. Only five countries--Bolivia, Paraguay, Uruguay, Chile, and Peru--are strictly limited to the use of sterling balances within the sterling area. All the other Republics are permitted a greater degree of freedom in the utilization of their accumulated sterling exchange. The past accumulated sterling holdings of thirteen Republics<sup>1/</sup> in July 1945 were designated as "American Accounts" and made available for settling current account transactions between themselves and with the dollar area. Beginning January 1, 1947, these Republics were allowed to use their sterling for current payments to Canada. When, in February 1947, the United Kingdom made agreements with certain European countries introducing the "Transferable Account" system, "American Accounts" were redefined as

<sup>1/</sup> Colombia, Costa Rica, Dominican Republic, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Venezuela.

"Transferable Accounts" and balances became available for current transactions with any other country under the "Transferable Account" system. The Anglo-Argentine agreement of September 17, 1946, made Argentina's current acquisitions of sterling "freely available for current transactions anywhere." The February 1947 Argentine-British Railway Agreement<sup>1/</sup> eliminated the Republic's war-accumulated sterling balances mainly in partial payment for British-owned railroads and other properties in Argentina. Brazil, in February 1946, was allowed to utilize accumulated sterling holdings in a limited way outside of the sterling area in settlement of transactions with the Belgian and Dutch monetary areas, the Scandinavian countries, Greece, Spain, and Turkey.

Under the provisions of the United States-United Kingdom Financial Agreement, on July 15, 1947, all sterling currently accruing to the Latin American Republics will become freely available for payment on current transactions anywhere. In addition, on the same date under Article 10, section 2 of the Agreement, unless the United Kingdom specifically blocks all or part of the sterling owned by Latin American countries, past accumulated balances will become freely available for current transactions in any currency area without discrimination.

If all these Latin American sterling holdings are to be freely available for current transactions, what then is the magnitude of this debt which the United Kingdom must be prepared to meet within the near future? How might the British satisfactorily settle the war-accumulated sterling problem within the framework of the United States-United Kingdom Financial Agreement if the total liability vis-a-vis Latin America were too great to meet immediately? These sterling balances amounted to approximately £84.8 million<sup>2/</sup> at the end of the first quarter of 1947. The thirteen countries allowed to make payments in sterling under the "Transferable Accounts" arrangements owned only £128 thousand of that total amount. If, after July 15, all remaining sterling balances were to be used for current transactions with all countries, the amount of the additional liability involved would be approximately £84.7 million. Of this total, Paraguay, Chile, Peru, and Bolivia held only £2.7 million between them. Brazil and Uruguay owned the remaining £82 million.

Since the total balances held by Paraguay, Chile, Peru, and Bolivia are small, the United Kingdom probably will make a settlement with these Republics similar to the "Transferable Account" regulations by offering the free availability of sterling balances if the creditor countries agree to cooperate in controlling sterling for capital transactions.

Britain's major problem in Latin America, however, is the final settlement of Brazilian and Uruguayan balances where the total amount involved is quite large. A part of Uruguay's estimated £17 million balance and Brazil's holdings of £65 million may be liquidated, it is believed, in a manner similar to that employed in the case of Argentina. It has been suggested that for the remainder of the balances the two countries may make arrangements similar to those adopted in the European Agreements, already in effect or under negotiation, which comply with the United States-United Kingdom

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<sup>1/</sup> Effective upon ratification of the Agreement by both governments.

<sup>2/</sup> The £125 million still held by Argentina is excluded from this figure as this balance will be liquidated about July 1, 1947, when payment under the Railway Agreement is expected.

Financial Agreement. The Republics would agree to hold a stipulated "minimum balance" of sterling for a specified period of years. The rest of the balances would be free for current transactions with "Transferable Account" areas. Agreements on the disposal of this war-accumulated sterling are expected very shortly. Meanwhile, a "partial" settlement of the Brazilian problem has been announced. Balances accruing to Brazil since April 1, 1947, became available on June 2 for current transactions with "Transferable Account" countries.

The immediate burden to the United Kingdom in liquidating accumulated balances will be in their use for purchases of British exports and for drawings on dollar balances when sterling reaches the United States under "Transferable Account" provisions. The major demand will consist in those portions of Brazil's and Uruguay's present sterling holdings of £65 million and £17 million, respectively, which are finally released for current transactions.

ECONOMIC INFORMATION FROM RUSSIA

A.G.

The scope of economic information published in Russia was considerably diminished during the 'thirties. While data on the First Five Year Plan were presented in four large volumes which included a very detailed picture of economic conditions, the disclosed information on the Third Five Year Plan (1939) required only a single volume. Between the dates of publication of the two plans, important types of information, such as data on gold holdings, monetary circulation, and prices, were suppressed altogether. During the war, virtually no information was made available. Yet when the Fourth Five Year Plan was published early in 1946 in the form of a pamphlet of 90-odd pages, the hope was expressed in the United States that information would become more plentiful as the rehabilitation of the economy proceeded.

The recent decree of the Council of Ministers concerning information to be regarded as State secrets<sup>1/</sup> may be taken as an indication that no such relaxation of the information policy is contemplated. This decree replaces a 1926 decree on the same subject.<sup>2/</sup> Those parts of the recent decree dealing with economic information are reproduced below; the portions which are entirely new are underlined:

The following types of information are to be regarded as State secrets.

1. Data on industry as a whole and its individual branches, agriculture, trade, and transportation, to the extent that the Council of Ministers consider that such information should be held secret.

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<sup>1/</sup> Pravda, June 10, 1947.

<sup>2/</sup> Cf. Osnovnye direktivy i zakonodatel'stvo o pechati (Basic Regulations and Law concerning the Press), ed. L. G. Fogelevich, Moscow, 1935, p. 113.

2. Data on size of foreign exchange reserves, current balance of payments, and the operational-financial plans of the U.S.S.R. in the field of foreign trade - A.G.7; information concerning location, mode of storage, and transportation of precious metals of the State fund, foreign exchange assets, and notes.
3. Data on plans and planned expectations concerning imports and exports of individual commodities; magnitude of export availabilities of individual commodities.
4. Data on geological reserves and output of non-ferrous and rare metals and earths.
5. Data on discoveries, inventions, technological improvements, research and experimental work in all fields of science, technology, and national economy prior to completion and issuance of publication permits.

Even the portions which largely duplicate the previous decree contain a number of minor changes, and one significant revision. The section on discoveries, inventions, and technological improvements has been rendered much more strict. Under the old decree, such information was available unless expressly declared secret by the highest authorities. This alteration is important in view of the frequently expressed interest in this country in arrangements concerning free exchange of technological information.

As far as the innovations of the decree are concerned, it has been noted that they cover reserves and output of "atomic" materials. For the first time data on output and holdings of gold are declared secret. While this information has not been divulged for years, it may now be inferred that decision has been made to avoid any relaxation in this respect. It will be remembered that members of the International Monetary Fund must supply information on output of gold and holdings of gold and foreign exchange under Article VIII, Section 5, of the Fund Agreement. It is unlikely that the Russians would have formalized their policy in this respect if still contemplating adherence to the Bretton Woods institutions in the foreseeable future. Finally, the added paragraph on secrecy of information pertaining to the main branches of the economy must be taken to mean that in the future, students of the Soviet economy must continue to proceed by the uncertain and laborious method of "guestimation".

THE FOREIGN TRADE OF THE AMERICAN AND BRITISH  
ZONES OF OCCUPATION

J. HERBERT FURTH

The character of the foreign trade of the American and British zones of occupation in Germany differs fundamentally from that of other areas.

Imports include six types: (1) Imports of basic necessities financed by the occupying powers, up to the end of 1946 under the Army program

for the prevention of disease and unrest, and after that date as "Category A" imports under the bi-zonal agreement of December 2, 1946;<sup>1/</sup>(2) Imports of raw materials for processing and at least in part for re-export under credit arrangements with public finance institutions of the occupying powers; (3) Commercial imports; (4) Imports to be traded through Army "barter marts" for German goods; (5) Illegal imports, mainly through parcels sent to members of the occupation forces, to be sold on the black market; (6) Imports of private relief shipments.

Exports include five categories: (1) Shipment of commodities under the restitution and reparation programs; (2) Exports of commodities manufactured with the aid of raw materials imported under the processing programs; (3) Commercial exports; (4) Sale of German goods to members of the occupation forces through post exchange and barter marts; (5) Sale of goods to members of the occupation forces on the black market. The categories 2, 3, 4, and 5 correspond to the similar types of imports.

Official data are available only for imports of categories 1, 2, and 3, and for exports of categories 2 and 3. Even these data are not exact, mainly because of the peculiarities of Army accounting. Imports of categories 4 and 6 and exports of categories 1 and 4 may be roughly estimated, but figures for black market transactions are unavailable, and even if available would be of little use because of the difficulties in reducing the prices paid on the black market to levels comparable with legal prices.

Available export and import data for 1946 and for the first four months of 1947 are presented in Table I.

Table I  
Foreign Trade of U.S. and U.K. Zones of Germany  
(In millions of dollars)

	<u>U.S. Zone</u>	<u>1946</u> <u>U.K. Zone</u>	<u>January-</u> <u>April 1947</u>
<u>Imports</u>			
Foodstuffs	305.3	291.1	163.0
Oil, fertilizer, medical	11.1	18.3	10.0 <sup>a/</sup>
Textiles	28.0	36.5	21.0
Others	36.0	4.2	3.3
Relief shipments	<u>20.0<sup>a/</sup></u>	<u>10.0<sup>a/</sup></u>	<u>18.0<sup>a/</sup></u>
Total <sup>a/</sup>	<u>400.4<sup>a/</sup></u>	<u>360.1<sup>a/</sup></u>	<u>215.3<sup>a/</sup></u>
<u>Exports</u>			
Coal	0.0	116.9	26.3
Others	<u>8.1</u>	<u>28.4</u>	<u>15.9</u>
Total	8.1	145.3	42.2

Note: Figures exclude sales through post exchanges and barter marts, black market transactions, and reparations.

a/ Rough estimate.

1/ See this Review, January 28, 1947, supplement, p. 11.

Imports of foodstuffs, as well as of oil products, fertilizers, and medical supplies, constitute basic necessities and are financed almost exclusively through appropriated funds ("Category A imports"). Textiles are being imported mainly, but not exclusively, under processing arrangements. Other goods are imported largely, but not exclusively, through the use of funds other than those appropriated for "Category A" imports or negotiated under processing arrangements. Thus these items correspond largely but not exactly to the types 1, 2, and 3, discussed above. Exports include ordinary sales as well as re-exports under the processing arrangements. Data on barter transactions, black market activities, and restitution and reparation shipments are too vague to be included in the table.

#### Trade in 1946

U.S. Zone. Imports under the "disease and unrest" program totaled \$316.4 million of which \$305.3 million were food and feeds, and the remainder mineral oils, fertilizers, and medical supplies.

Processing credit arrangements concluded in 1946 provided for the importation of \$32 million of cotton and \$8.75 million of other raw materials. Under these arrangements, \$21.1 million of cotton and \$0.2 million of other raw materials were actually imported. In addition, \$6.9 million of cotton was imported under an Army processing program. Imports other than those under the "disease and unrest" program and the processing arrangements totaled \$36.0 million. Apparently, however, this figure includes mainly materials made available to the German economy out of Army surplus and similar sources rather than commercial transactions, which were negligible in the period under consideration.

The importation of relief commodities through legal channels has been estimated at \$20 million annually for all of Germany, of which probably half went to the U.S. zone. It may be estimated that illegal shipments to the U.S. zone through Army mail were as large as legal relief shipments since for part of the year illegal shipments represented the only possibility for the American public to take care of German relatives or friends and the Army mail service was cheaper, faster, and safer than legal channels.

Imports of goods to be sold through barter marts probably were very small. The importance of black market activities, however, can be gauged from recent reports that in a period of approximately 16 months (May 1945 to September 1946) American occupation forces sent to the United States \$250 million worth of allied military marks in excess of the amount issued to them by the American authorities. Virtually this entire amount represented proceeds of black market transactions.

The value of goods restituted to allied countries is not known. Some very rough figures are available for plants and equipment shipped abroad under the reparation plans: the value of all reparation allocations from the U.S. zone up to June 13, 1947, was stated as 100 million reichsmarks at 1938 purchasing power or \$40 million at the prewar rate of exchange. This figure is extremely vague, however, since reparation creditors allege that reparation values are inflated while German sources complain that they represent only a fraction of the actual value.

Commercial exports of \$8.1 million consisted primarily of hops and timber. In 1946 there were no re-exports of goods produced under the processing arrangements. Sales of German goods by the post exchanges and barter marts were estimated unofficially at \$80 million annually.

British Zone. As in the case of the U.S. zone, food imports (\$291.1 million) constituted the bulk of all shipments while textiles (\$36.5 million) ranked next, and oil products, fertilizers, and medical supplies third in importance. All other imports (\$4.2 million) were negligible.

Relief imports probably equalled the amount of such deliveries legally sent to the U.S. zone (around \$10 million); Army mail was not available to American shippers into the British zone. Trading comparable to that of the American post exchanges probably did not take place in the British zone; if it did, the amount in question would have been small since the British soldier, in contrast to the American, had only very limited supplies of goods at his own disposal. Black market operations also were smaller than in the American zone; the total loss sustained by the British Treasury from such transactions in Germany has been announced as \$165 million.

Allocations under the reparation program were about twice as large, in terms of tonnage, as those from the U.S. zone, and it may be estimated that the value also was twice as great. Normal exports from the British zone included mainly coal (\$116.9 million) and other raw materials (timber, salt, and potash).

#### Trade in January-April 1947

In the first four months of 1947 the combined American and British zones imported as "Category A" shipments foodstuffs valued at \$163 million. At the same time, cotton shipments under the processing arrangements with the Commercial Credit Corporation amounted to \$10.9 million, and shipments of other raw materials under arrangement with the U.S. Commercial Company to \$0.1 million. Similar shipments perhaps took place under arrangement with British agencies but no data are available in this respect. "Category A" shipments other than foodstuffs were received in "substantial quantities" but the exact value has not been made public. Commercial imports amounted to \$14.4 million, consisting mainly of cotton and other textiles. Relief imports reached almost twice the 1946 rate. Black market transactions probably declined substantially in view of various measures taken by the occupation authorities.

Exports included coal valued at \$26.3 million. The annual rate of coal exports was substantially smaller than in 1946 despite an increase in coal production. This decline was necessitated by the threatened collapse of the German economy which could be averted only through an increase in the allocation of coal for domestic consumption. Other exports (\$15.9 million) included mainly timber and hops, and smaller quantities of iron goods and machinery.

Commercial import contracts concluded in that period reached only \$3.2 million. This low level is explained by the fact that the foreign trade organization established under the bi-zonal agreement was not completed, and

that in the meantime the occupation authorities did not feel free to spend the foreign exchange funds accumulated for the use of that organization.

Commercial export contracts (excluding coal) amounted to \$25.2 million. They included mainly cotton products, machinery, iron goods, ceramics, optical goods, and hops. The shift in exports from raw materials to finished goods indicated definite progress in the rehabilitation of the economy of the combined zones.

The geographical distribution of export deliveries and export contracts in the first four months of 1947 is shown in Table II.

Table II  
Geographical Distribution of Exports, January-April 1947  
(In millions of dollars)

<u>Destination</u>	<u>Export Deliveries</u>	<u>Export Contracts<sup>a/</sup></u>
United States	1.6	6.4
United Kingdom	7.5	1.9
Australia	-	0.8
Austria	5.3	0.2
Belgium-Luxembourg	8.8	4.1
Czechoslovakia	0.2	1.0
Denmark	3.5	0.5
France	6.9	3.3
Italy	1.6	-
Netherlands	3.8	2.2
Norway	1.3	1.3
Sweden	0.5	1.6
Switzerland	0.6	1.6
All others	<u>0.6</u>	<u>0.3</u>
Total	42.2	25.2

a/ Excluding coal.

### Outlook

Comparing the foreign trade of the combined zones during the first four months of 1947 with the program announced at the time of the bi-zonal agreement,<sup>1/</sup> it is obvious that very little progress has been made toward realizing the plans made in December 1946. The program provided for imports of foodstuffs of around \$550 million and of other goods of around \$450 million, as well as for exports of coal of around \$125 million and of other goods of around \$225 million. The import program for foodstuffs and the export program for coal did not differ much from the actual figures of 1946 and probably will be fulfilled. Other imports, however, in the first four months of 1947 reached an annual rate less than one-fourth of the plan, and other exports an annual rate of one-fifth of the plan. It is particularly disquieting that contract figures for the first four months of 1947 were smaller than actual shipments in the case of imports other than foodstuffs, and only slightly

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<sup>1/</sup> See this Review, op. cit., pp. 12 ff.

larger in the case of exports other than coal. This means that in the coming months no substantial increase in actual shipments can be expected. Even if contracts should rapidly expand from now on, most effects of such a development would not make themselves felt before 1948. Therefore, it appears unlikely that in the entire year 1947 imports other than foodstuffs would total more than \$150 million, or one-third of the planned amount, and exports other than coal more than \$90 million, or two-fifths of the planned amount.

PROGRESS OF NATIONALIZATION OF CENTRAL BANKS

BEATRICE BULLA

A roll call of the principal changes in central bank ownership, status, and powers in the months since nationalization of the Argentine central bank<sup>1/</sup> (March 1946) suggests that the idea of nationalization has attained wide acceptance and is not necessarily associated with any failure of banks in private ownership to cooperate with governments. The precedent created by the change in status of the Bank of England and the Bank of France, both of which, when their capital was in private hands, were for all practical purposes fully responsive to the policies of the respective governments, apparently has silenced the more vigorous objections to government ownership in Europe. Three outright nationalizations have taken place since March 1946-- that of the National Bank of Yugoslavia on September 25, 1946, that of the National Bank of Rumania, effective at the beginning of 1947, and that of the Bank of Algeria, effective May 18, 1946--and bills for nationalization are awaiting legislative action in Czechoslovakia, Hungary, and the Netherlands. Other proposals or projects, farther removed from realization, are reported and certain changes not involving government ownership but affecting the banks' operations have occurred in other countries.

Yugoslavia

A sweeping reorganization of the banking system of Yugoslavia was effected in the fall of 1946 in the course of the progressive nationalization of the country's economic life. This program created a control over money, prices, and wages which, according to the Bank of International Settlements, is probably the most stringent in Europe. The public credit institutions were merged by the regulation of September 25, 1946, into two institutions, the National Bank of the Federated People's Republic of Yugoslavia and the State Investment Bank of the F.P.R.Y. The first will grant short-term credit, the second long-term credit. The National Bank retains the name given by the Statute of January 15, 1946, which reorganized the National Bank of the Kingdom of Yugoslavia. The latter institution had the sole right of issue of bank notes but after the liberation the power of issue was apparently taken over by the Government itself. Under the Statute of 1946, the bank performed few duties other than those of fiscal agent for the Government. With partial ownership of the Bank's capital, the Government was able to exercise complete control of its activities. Privately owned shares of the National Bank and the other merged institutions became government property upon publication of the regulation of September 25, 1946, and compensation was to be paid according to later decisions as to the conditions of the banks' business.

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<sup>1/</sup> See this Review, April 8, 1946, pp. 1 and 10.

The new National Bank is a bank of issue, according to the statement in the regulation:

"The provisions of the law of the National Bank of the F.P.R.Y. and the statutes of the National Bank of the F.P.R.Y., as bank of issue, remain in force."

In exchange for government notes of 1,000 dinars withdrawn on the ground that counterfeits were being circulated, the Bank issued its own notes of 1,000 dinars, as well as notes of other unspecified denominations.

### Rumania

The Rumanian Parliament elected on November 19, 1946, hastened to adopt legislation for the nationalization of the National Bank of Rumania. The law became effective on January 1, 1947. Established in 1880, the Bank held the privilege of note issue lasting until 1960. Government holding of stock, if any, was limited according to the Statutes of 1937 to 10 per cent of the capital, the remainder being in private hands. Just prior to the nationalization, attacks were made on the Bratianu family as "owners of the National Bank" and despoilers of the Rumanian people. The new law provided for compensation to the private stockholders based on the average prices of the shares on the stock exchange during the past year, but the shares passed to the State immediately upon publication of the law. In form the Bank remains a joint-stock company with the same capital, 600 million lei.

Under the former bank law and statutes the Governor of the Bank was appointed by Royal decree and the institution was closely supervised by a Government commissioner who wielded a fairly broad veto power for the Government. The Bank's authority to buy government securities was limited to the amount of its capital and surplus but advances to the Government might be granted up to a maximum of two billion lei, which had to be paid off in full during the year.

The new law creates a completely integrated credit and banking system in which policy is framed by the Supreme Economic Council for the guidance of the Bank, and the latter as the mandatary of the State shares with the Council the direction and control of credit. Its authority extends to all banks and credit institutions, public and private, which must furnish to the National Bank any information demanded and must follow all instructions given "in the interests of the national economy." Penalties, extending to direct control of offending institutions, are provided for non-compliance.

Grave assurances were given by the Minister of Finance that nationalization could not affect the independence of the National Bank, the sole function of which was to defend the currency and to assist production by a suitable credit policy.

Each of the four government parties has two representatives on the new Board of Directors to which the management of the Bank is entrusted. This body consists of a Governor, Vice Governor, and nine directors, all selected by the Minister of Finance, approved by the Council of Ministers, and appointed by Royal decree.

Transactions in which the Bank may engage include (a) discounting Treasury vouchers for private individuals or companies, to the amount of the Bank's capital plus reserve (surplus); (b) granting loans on securities of State or State-controlled institutions, to an amount not exceeding 30 per cent of the discount portfolio of the Bank; (c) purchasing bonds of the State or State-controlled and State-guaranteed institutions to the amount of the Bank's capital and reserve, "and beyond this limit, in exceptional circumstances, with the authorization of the Council of Ministers, given on the advice of the Ministry of Finance." Obviously this last provision is capable of very broad interpretation. Temporary advances without interest may be granted to the Treasury not exceeding 10 per cent of the amount of bank notes in circulation; these must be paid off in full during the second half of each year. The Bank retains the monopoly of issue of bank notes, with no limit on its duration.

### Algeria

The law of May 17, 1946, for the transfer to the State of ownership of the Bank of Algeria is a brief document providing for compensation to the shareholders on the same basis as in the case of the Bank of France a few months earlier,<sup>1/</sup> setting up a temporary administrative council composed of government officials and representatives of non-government economic bodies, and authorizing reorganization at a later date of the regime of note issue. Until the adoption of new measures, the issue privilege of the bank is continued. Formerly the Bank was a private corporation, originally chartered in 1851. Its issue privilege was extended to December 31, 1945, by a law of 1918 and probably further extended by later legislation although definite information is not available. The Bank paid a royalty to the Government on its note circulation and made **advances** to the Government without interest. In case of distribution of dividends above a certain rate, the Government received half of the excess.

### Czechoslovakia

The proposed law for the National Bank of Czechoslovakia would combine two existing institutions of which the larger, the National Bank of Czechoslovakia, is about half government-owned and the smaller, the Slovak National Bank, entirely so. The Government's participation in the National Bank of Czechoslovakia dates from the establishment of the Bank under the law of 1920. The Bank opened in 1926 with one-third of the capital government-owned. Since the decree of the President of Czechoslovakia establishing the temporary postwar central banking regime, the Slovak Bank has served as a branch of the larger institution. That decree, dated October 19, 1945, restored the effectiveness of the law of 1920 governing the Bank's activities, and it is assumed for the present that the new law will not introduce any radical change in method of operation.

Under the proposed legislation, the Bank will continue to hold a monopoly of issue of bank notes, will regulate the money and capital market according to the requirements of the Czechoslovak economy, and will manage the granting of credits. To this end, it may make requirements as to the use of the credit furnished. Unrestricted power is granted to the Bank to obtain information on business transactions, local or foreign, to be used for its own purposes with due regard for freedom of persons and secrecy of correspondence.

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<sup>1/</sup> Federal Reserve Bulletin, May 1946.

With the consent of the Minister of Finance the Bank can designate the banking institutions which are required to maintain with it a "blocked creditors' deposit," the amount of which will be a percentage of the assets held by these banks for depositors. Administration of the Bank will be in the hands of a Banking Board consisting of a Governor, Vice Governor, and seven Bank Counselors.

Compensation to be paid to the private shareholders remains to be determined later by the Minister of Finance but the Bank will become government property immediately upon publication of the law.

### Hungary

The bill which has just been introduced with government backing into the Hungarian Parliament providing that the National Bank<sup>1/</sup> shall become the property of the State as of August 1, 1947, is the culmination of a process which began in the spring of 1945 to subject the entire credit mechanism of the country to the Government. From the signing of the Armistice on January 20, 1945, until May of that year, the National Bank was inactive. As a consequence of the flight of the Nyilas government and the siege of Budapest, the Bank's records had been removed or lost, officials had disappeared, and old regulations no longer covered the existing situation. On August 24, 1945, an Order in Council terminated the mandate of the Board of Directors of the Bank, and modified several of its Statutes. To reorganize the Board it was provided that the Prime Minister should appoint three vice-presidents on the proposal of the Minister of Finance. The other ten members of the Board were either specified officials or delegated representatives of various organizations like the Central Corporation of Banking Companies and the Trades Union Council. In January 1946, two Russian officers appeared at the National Bank to supervise its operations under the order of the head of the Allied Control Commission. A limit was placed on the amount of credit which the National Bank might make available each day, and it was stipulated that all credit applications should be passed upon by the Executive Secretary of the Supreme Economic Council. This body had been set up earlier in the year ostensibly to advise the Cabinet in economic matters; actually it assumed wide executive functions. The ACC control was little more than nominal and that for a short time only, but the authority of the Supreme Economic Council over the Bank continued.

More formal action to subordinate the National Bank to the Government was taken on May 3, 1946, when a decree was passed "temporarily suspending" Articles 45 to 49, inclusive, of the Bank's Statutes. These articles had provided that "The Government shall take care that the Bank proceeds in conformity with the laws and its Statutes," and that the Government Commissioner appointed to supervise the Bank for this purpose should attend the meetings of the General Assembly of the Bank "but in a consultative capacity only." The new decree required the Minister of Finance to see, not only that the Bank proceeded in conformity with the laws and Statutes, but that "the conduct of the business of the Bank conforms to the general economic interests of the country and, especially, to the policy in credit and foreign exchange which the Government considers should be pursued." It was stipulated further that

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<sup>1/</sup> The bill also provides for the nationalization of all the large Budapest banks, the only ones of importance in the country.

the Government Commissioner must attend meetings of the General Assembly, the Board of Directors, the Executive Committee, and the Board of Management, and that the latter body "may only make a decision in agreement with him." Any objection raised by the Commissioner to actions of the other bodies had the effect of postponement. In practice, the Commissioner became the dictator of the Bank. The extension of credit by the Bank continued subject to the direction of the Supreme Economic Council, although limitations were reimposed at the time of the stabilization of the currency on August 1, 1946, upon the amounts of National Bank credit which might be made available directly to the Government.

The only step needed to complete the nationalization of the Bank, i.e., to transfer ownership to the State, is covered by the legislation now in process of being enacted. Expropriated shareholders are to be compensated. According to reports, the bill does not apply to shares held by foreigners. Although it is not known definitely whether there is any foreign participation in the National Bank, it is not considered likely. The exclusion clause probably was inserted to take care of the situation of foreign shareholders in the other banks which are covered by the bill.

#### Netherlands

A bill for the nationalization of the Netherlands Bank was published about the middle of June 1947. The adoption of a new law was anticipated in the decree of October 1945 reinstating the Netherlands Bank Act of 1937 after the war. In that decree, authorization was given for the withdrawal of the Bank's note issue privilege at any time after January 1, 1946. The decree also granted to the Bank powers to buy and sell bonds of the Kingdom of the Netherlands and its overseas territories, as well as Netherlands Treasury paper even if such paper had not been in the possession of third parties before the purchase. The appointment of the Bank's President has at all times been a prerogative of the Government. There is also a Royal Bank Commissioner who supervises the affairs of the Bank and acts as chairman of the Banking Council which advises the Minister of Finance on banking policy.

The new bill (the text of which is not yet available) has as its object the regulation of monetary policy for the benefit of the country, and is reported to show some similarity to the law nationalizing the Bank of England. The authority for the Finance Minister to issue directions to the Managing Director of the Bank is stated, with the proviso that the advisory council of the Bank must be consulted in advance. Proposed terms of compensation to present stockholders, specified in the law, are described as reasonable. None of the stock has hitherto been held by the Government.

#### Egypt

It was recently stated in a radio broadcast, with no press confirmation as yet, that the Egyptian Government had decided on the nationalization of the National Bank of Egypt, in which the Government has hitherto held no proprietary interest. It is possible that the broadcast referred to a proposal for buying out the British-held shares in exchange for blocked sterling balances. Nationalization of the Bank was mentioned as one of the subjects considered by M. Van Zeeland in his confidential report to the Egyptian Government last year on recovery measures. The question of the

Bank's cooperation with the State and of advances to the Treasury was dealt with in 1939 when the Bank's statutes were modified in accordance with the Government's wishes. From that time the board of directors became predominantly Egyptian and the Bank was required to recruit its personnel exclusively from Egyptians. Following these arrangements, the Egyptian Parliament extended to 1980 the issue privilege which was due to expire in 1948. At present the Governor of the Bank is an Englishman and the President of the board of directors is Egyptian.

Nevertheless, the matter of "Egyptianization" of the staff was the subject of a published complaint of the Minister of Finance against the Bank in November 1946, which also revealed strong disagreement on the subject of the accumulation of sterling balances. Whatever the weight of the differences between the Government and the Bank, the high tide of Egyptian nationalism and the revolt against foreign influence give a strong impetus to the idea of government ownership of the Bank.

#### Other Countries

In Norway, where the State's participation in the ownership of the central bank represents about one-sixth of the capital stock, the idea of nationalization has been endorsed by the Finance Minister, but no detailed proposals for legislation have been made public.

A non-official resolution for nationalization of the privately owned Reserve Bank of India was discussed in the Legislative Assembly of India early in 1947. Reports of the Interim Government's attitude toward the proposal are somewhat conflicting, but it would appear that the Finance Member merely expressed the Government's sympathetic interest without promising definite efforts toward adoption of the proposal. The status and scope of the Reserve Bank is one of the problems which will have to be determined by the new governments after the anticipated division of the country and after the political settlement has been outlined.

The question of central bank reform has come up in Belgium in connection with the current contest between the Government and private business interests for control of the national credit policy.<sup>1/</sup> Prime Minister Spaak has confirmed the necessity of reforming the Bank to insure the predominance of government policy over private interests but he stated that complete government ownership was not taken for granted and that the Bank would not be reduced to subservience to the Government. This assurance is in harmony with Belgium's present trend away from controls.

The status of the Bank of Indo-China is to be radically changed following recent negotiations between representatives of the French Government and of the Indochinese States. Agreement has been announced on the proposal to withdraw the issue privilege of the Bank, which nominally has ten years to run, and to create a new note issuing agency, the Institut Indochinoise d'Emission. The new institution would be administered by a joint French and Indochinese board of directors. The Bank of Indo-China would thus be restricted to the business of banking and to the financing of private enterprises. The agreement reached at the economic conference at Dalat will presumably require legislative action to become effective.

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<sup>1/</sup> See this Review, June 3, 1947.

Three regional central banks were established in the American zone of occupation in Germany in December 1946, replacing former regional offices of the Reichsbank. Original capital for the banks was supplied by the governments of the respective Länder, but their stock is to be taken over within two years by the credit institutions, public and private, in the Länder. The new banks hold the required reserves against deposits of the local credit institutions, are charged with the regulation of the supply of credit and the circulation of currency, possess open market powers, and serve as bankers to the governments, but they do not issue notes and thus lack one of the chief central bank powers. A similar institution was established in Bremen after that area became a separate Land of the American zone in 1947.

In the French zone of occupation, four independent Land Central Banks took the place of Reichsbank branches from March 1, 1947, and similar institutions were set up in the five regions of the Soviet zone. Consideration is at present being given to the reform of banking in the British zone corresponding to the system established in the American zone.