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Restoration of Franc Currencies in Territories      Hans J. Dernburg  
Formerly Annexed by Germany

In 1940, the Germans incorporated Alsace and Lorraine, Luxembourg, and Eupen-Malmedy into the Reich, and the different currencies (the French, Luxembourg, and Belgian francs) were exchanged for reichsmark currency. With the liberation of these regions through the Allied armies, the respective Governments have reintroduced the national currencies in the three different areas, thus reversing the conversion carried out by the Germans five years ago.

In Alsace-Lorraine, the French franc had been exchanged by the Germans at the rate of 20 French francs = 1 reichsmark or a devaluation of the French franc of about 11 per cent. Since the rate at which the reichsmark was introduced was considerably above the "equilibrium rate", the price and wage structure had to be adjusted. It is known, for example, that in 1940 wages in Alsace were raised by 80 per cent and rents by 50 per cent in order to bring local prices into line with those in Germany. In the meantime, European price levels have undergone considerable change and the rate of 15 francs to the reichsmark at which the French have recently reintroduced the franc currency in Alsace-Lorraine probably undervalues the reichsmark, although considerably less than the Allied rate for reichsmark (10 to the dollar).

The conversion rate set by the French (15 francs to the reichsmark) is far out of line with the rates fixed by Allied authorities for francs and reichsmark that give a cross-rate for the reichsmark of 5 francs. The motives of the French authorities in giving the reichsmark a purchasing power three times as high as

the allied rate can be easily understood. They did not want to penalize too severely their nationals who had had reichsmark currency forced on them after 1940. Even so, the saving public in Alsace and Lorraine stands to lose not only because fewer francs will now be secured for each reichsmark turned in than had to be given up for each reichsmark obtained in the 1940 exchange but also because prices in France have risen more than in the Reich.

In Luxembourg, where before the war both the Luxembourg and the Belgian francs had been circulating at the rate of 1 Luxembourg franc = 1.25 Belgian francs, the Germans had introduced Reichsmark currency at the ratio of 10 Luxembourg francs = 12.50 Belgian francs = 1 reichsmark. To arrive at round figures both currencies had been devalued by about 5 per cent. An upward revision of prices and wages in Luxembourg as well as in Alsace and Lorraine was probably necessary because of the general overvaluation of the reichsmark.

After the liberation of the countries, both the Luxembourg and the Belgian francs were reintroduced but in contrast to the pre-war situation they now circulate at par. The exchange of reichsmark into the new franc currency (in conjunction with deflationary measures on the Belgian pattern) took place at the rate of 1 reichsmark = 5 new Belgian or new Luxembourg francs. However, to avoid hardships every individual (for himself, and, as a head of a family, also for each member of that family) was authorized to exchange the first 100 reichsmark at 10 francs to the reichsmark, while the rest was exchanged at the general rate of 5 francs. The amount to be paid out in cash was limited to 2,000 francs, and the excess was credited to a special account, where it will remain blocked until a further decision of the Minister of Finance has been reached. Since the population had hoarded sizable amounts of Luxembourg and Belgian currencies, provisions were made for the exchange of these currencies into the new money along with the exchange of reichsmark.<sup>1/</sup> Debts (including deposit liabilities of all categories) were converted at the rate of 5 francs to the reichsmark, except those originally expressed in francs which had been incurred before February 5, 1941. The latter will be converted into francs on the basis of the rate of exchange of their conversion of francs into reichsmark (10 Luxembourg francs or 12.5 Belgian francs = 1 reichsmark). Bank balances after conversion into francs were frozen to a substantial degree, as in Belgium. Prices and wages were generally converted at the rate of 10 francs to the reichsmark.

The rate of conversion for cash holdings and post-1940 bank balances of 5 francs to the reichsmark is almost in line with the rates fixed by the Allied authorities. These rates for the reichsmark on the one hand and the Belgian and Luxembourg francs on the other give a cross-rate of 4.38 francs to the reichsmark. It will have been noted that the rate of conversion for prices and wages is twice as high as for cash holdings and post-1940 bank balances, a circumstance which favors those who hold goods against those who hold money or monetary claims. To understand the discrepancy, it should be realized that Luxembourg--which had been

<sup>1/</sup> The rates were 1.25 new francs for one old Luxembourg franc and one new franc for one old Belgian franc.

integrated under the German rule with the German money and credit system--had shared with the "Alt Reich" the so-called "stable inflation" in which currency and deposits had greatly expanded without corresponding effects on the price and wage structure.

In Eupen-Malmody, annexed from Belgium, the Germans introduced the reichsmark at the rate of 12.50 Belgian francs = 1 reichsmark. From the little information that has been made available, it is known that the Belgians have carried out the new exchange at 10 francs for the first 100 reichsmark and at 5 francs for the next, while the remainder, after being converted into francs (presumably at the rate of 5 francs to the reichsmark), was temporarily frozen. Comparing the treatment of an individual in Luxembourg and Belgium, we find the following situation: in Luxembourg an individual having 400 reichsmark would receive 2,000 francs in cash, namely, 1,000 francs for 100 reichsmark and another 1,000 francs for a further 200 reichsmark, while the remainder, or 100 reichsmark, would be exchanged for a frozen balance of 500 francs. In Belgium the individual would receive only 1,500 francs in cash, namely, 1,000 francs for the first 100 reichsmark and 500 francs for the second 100 reichsmark, while the rest, 200 reichsmark, would be exchanged for a frozen balance of 1,000 francs. The treatment of an individual in Belgium is thus a little more unfavorable than in Luxembourg. Much will, of course, depend on the fate of the frozen balances.

As a result of the conversion operations, the Treasuries of the three Allied countries now hold Reichsbank and Rentenbank notes, both of which are almost exclusively backed by claims against the Reich. These claims will probably become part of a general repatriation scheme in the final reckoning.

Exchange Control in the Near East

J.H.F.

Egypt and Saudi Arabia have tightened their foreign exchange regulations. An Egyptian proclamation of January 11, 1945, ordered residents of Egypt, regardless of citizenship, to surrender all foreign currency to the Government at the official rate of exchange. A few days later, a decree issued by the King of Saudi Arabia forbade the exportation of foreign currency. These measures threaten seriously to affect the foreign commerce of the countries concerned, since both in Egypt and in Saudi Arabia practically all international trade is conducted in dollars or pounds sterling. American businessmen in Egypt, who in 1941 had been exempted from the general duty of registering dollar assets, are attempting to secure a similar exemption this time. In Saudi Arabia the foreign interests affected include British firms and the Nederlandsche Handel Maatschappij. In recent months, the National City Bank of New York and the Eastern Bank of London have considered the establishment of branches in Saudi Arabia, but the recent decree, emphasizing the unpredictable difficulties to be encountered in Near Eastern countries, may mean the abandonment of these plans.

(The official exchange rate of the Egyptian pound is \$4.18, that of the Saudi Arabian riyal, equal to the Indian rupee, \$0.30.)

The Repatriation of the Argentine Public Debt

Paul Vinelli

The Argentine Government has announced its intention of repatriating another bloc of its external public debt. This continues a policy inaugurated some years ago. Two export trade booms, resulting in large favorable balances of payments, have permitted Argentina to repatriate and refund a large share of its public debt held abroad. The United States and Great Britain were by far the most important creditors, holding well over nine-tenths of Argentine national foreign debt which, in June 1936, was roughly equivalent to \$500 millions denominated in foreign currencies:

£ sterling	39,157,370
Dollars, U.S.A.	257,546,545
French francs	9,000,000
Swiss francs	100,191,700
Pesetas	100,595,800
Lira	27,225,100

A sudden spurt in exports to the United States in 1937, gave Argentina the opportunity to repatriate about half of its dollar debt, 114.3 million dollars. This operation was accomplished by three measures: (1) floating a bond issue internally (Emprestito de Repatriacion 4%), netting 181 million pesos; (2) freeing 107 million pesos of frozen dollar exchange; and (3) utilizing 85 million pesos of the Argentine Exchange Fund. The annual interest saving on the redeemed American-owned bonds was approximately 9.6 million dollars. However, this cannot be considered a net gain because the internally floated repatriation bond issue cost the Argentine Government the peso equivalent of over 2 million dollars in yearly interest payments. Another purpose, however, was accomplished by this "Emprestito de Repatriacion". The acquisition of large means of international payments had been creating an undesirable credit expansion, which, in turn, was reflected in excessive speculation on the Buenos-Aires exchange. By the timely flotation of this repatriation issue, the twin purposes of nationalizing the public debt and of absorbing these undesirable liquid funds was accomplished.

The Argentine Government, desiring further to lighten the dollar burden, next undertook refunding operations. Three dollar loans, amounting to 23.5, 70, and 35 million dollars respectively and bearing interest from 4 to 4½ per cent, were issued in the United States. This operation was carried out with marked success. Thanks to the excellent condition of this Latin country's finances, the bonds found a ready market in the United States, and were oversubscribed. Three of Argentina's high interest-bearing issues (6 per cent) were retired with the proceeds. The annual saving in services affected by this conversion amounted to some 3.5 million dollars.

Thus, of the 236 million dollars of Argentine 5½ and 6 per cent bonds in circulation in the United States in November of 1936, 121.7 million dollars were converted and the remaining 114.3 million dollars repatriated. The Argentine Government's annual requirements for dollar exchange as a result was reduced by approximately 13 million dollars.

Not until the war boom had made itself felt in the Argentine Republic was that country able to engage in large-scale repatriation of the British-held debt estimated at £ 40 million in 1939. By supplying Great Britain with large quantities of meats and other food-stuffs, Argentina has been accumulating large frozen sterling balances in London. Nevertheless until 1943 Argentina had retired very little of her sterling debt. During 1941-42, 74 million pesos were retired while blocked balances in London increased 228 million pesos. The reason for such limited reduction of the debt was the unfavorable market situation at home. In order to utilize these frozen funds, the Treasury must furnish the Central Bank with pesos, which the latter in turn uses to purchase pounds. Since the Argentine market apparently could not absorb a Treasury issue during this time, the repatriation of the external public debt was limited to small scale operations.

On September 17, 1943, the Finance Minister announced the Argentine Government's intention to redeem 500 million pesos (£ 25 million) of foreign debt obligations held in Great Britain. The funds for this operation were to be raised through the sale of Treasury Bonds (400 million pesos) and a loan by the Banco de la Provincia of Buenos Aires (100 million pesos). Since the market still could not have absorbed this bond issue, it is clear that the Central Bank agreed to purchase the 400 million peso Treasury obligation. Special legislation was necessary to accomplish this. Previously, the Central Bank had been prohibited from lending the Government an amount in excess of 15 per cent of its capital and surplus. While the reduction of interest payments abroad is certainly within the scope of the Argentine national desire to reduce all foreign obligations, still the loading of the Central Bank with government paper cannot be considered very wise if banking standards are to be maintained.

The issues repatriated under this government announcement were:

	<u>In millions of £</u>	
Conversion Loan of 1934	4 <sup>1</sup> / <sub>2</sub>	12.9
Mixed Fours 1897	4	3.0
Argentine State Railways 1939	4	9.1
		<u>25.0</u>

On December 21, 1944, the Argentine Finance Minister indicated that this plan had been successfully accomplished during 1943-1944, the sterling debt, as a result, being reduced from £ 37.8 million to £ 12.8 million. The original plan is to be amplified for 1945 with the redemption of three additional issues:

	<u>In millions of £</u>
Prolongation Loan of the Argentine Northeastern Railways	.3*
Argentine Northeastern Railways--Union with the Paraguayan Central Railway	.2
Supplementary Roca Convention Loan of 1933 - 4%	.9*
	<u>1.5</u>

After repatriating these loans, the Argentine Government's total external sterling debt will be reduced to £ 11.3 million, while its frozen sterling balances in London are still rising (estimates run as high as £ 70 million sterling). Were the bond issue comprising the remainder of the sterling debt not irredeemable before maturity, the sterling debt could be easily erased during 1945. To the extent that repatriation has already been achieved, however, it is bringing Argentina's aspiration to nationalize all foreign obligations closer to realization.

"De-penetration" in Balkan Countries

J.H.A.

Recent reports indicate that the network of commercial banks in Balkan countries which had been brought under the control of German banking interests is being rapidly reorganized and that the former controls and connections are being re-established. The close political ties between the Soviet Union and the Czechoslovak Government-in-exile may be in part responsible for the fact that two Balkan branches of the Prague Credit Bank (formerly Anglo-Czechoslovak and Prague Credit Bank) have been rehabilitated and are said to be working normally. The Sofia branch of the Prague bank which had been merged with the Kreditna Banka (Credit Bank) to form the Deutsch-Bulgarische Kreditbank (German-Bulgarian Credit Bank, controlled by the Deutsche Bank, Berlin) was reopened in November 1944. The banking operations of the branch were never of major importance; its significance arose from the fact that it administered the financial transactions of two Czech-owned sugar mills and refineries in Cupria and Gorna Crechovitza. Presumably the branch has resumed control of this important industrial property.

In January it was reported that the Bucharest branch of the Prague Credit Bank had re-established communication with the London and New York branches. The report stated that the Bucharest branch which, according to Axis sources, had been absorbed by the Societatea Bancara Romana (a subsidiary of the Dresdner Bank, Berlin), had managed to maintain its administrative independence during the period of German domination, and that its delaying tactics, to prevent complete absorption, had been supported by the Romanian National Bank and other authorities. The branch, which was formally organized as an independent institution with a share capital of 60 million lei, showed a profit of 26 million lei for 1943. Its financial position is reported as satisfactory because it had been reluctant to finance transactions with Germany and consequently did not suffer any losses on account of German commitments.

The present status of the Prague Credit Bank is unusual. The office in Prague and the branches in the Protectorate of Bohemia-Moravia were closed in 1943 when under German pressure the business of the institution was divided among three other Protectorate banks. However, the London and the New York branches, which had broken off relations with the head office after the outbreak of the war, continued to operate. The London branch (which has retained the "Anglo-Czechoslovak" in its name) apparently is now acting as a temporary head office and supervises the branches in Sofia and Bucharest. It also maintains close though unofficial connections with the Czechoslovak Government-in-exile.

New Zealand Price Policy

C.R.H.

A recent news dispatch from New Zealand reveals that subsidy payments have become necessary to prevent an increase in the price of meat to domestic consumers. The dispatch indicates that payments of "slightly more than 6 per cent" will be made to retailers to compensate for the higher prices they have been charged since November.

The announcement reveals that the Government has been unable to prevent domestic selling prices from rising as a result of the increased price paid by the United Kingdom in its most recent bulk purchase contract for New Zealand meat. When these prices were revealed in November 1944, the hope was expressed that the entire amount of the increase might be placed in the Meat Industry Stabilization Account. Apparently a part (at least) of the increase in price has been passed on to the producers. It is not known whether the subsidy now introduced will be paid from this same Stabilization Account or whether it will constitute a burden on the domestic budget.

Given the rise in price at the producer level, the general stabilization policy of the Government requires that the increase be intercepted before reaching the consumer. In December 1942 a comprehensive stabilization program was instituted covering prices, wages, and rents. Wage stabilization was tied to price stabilization by the provision that the (Wage) Arbitration Courts would be permitted to order increases of wage rates if a  $2\frac{1}{2}$  per cent rise should occur in a newly-created wartime price index designed to include a complete range of cost of living articles. Subsequent increases of 5 per cent in prices would reopen the question of wage rates. The latest data available show that the price index, computed quarterly, has been kept remarkably stable. On the basis of December 15, 1942 = 1,000, the index for September 15, 1944, stood at 1,003, having reached a high point of 1,011 in March 1943 and a low point of 996 in September of that year.

New Depreciation of the Greek Currency<sup>1/</sup>

J.H.F.

The Greek civil war, by preventing an improvement of the supply situation and the execution of fiscal reforms, has endangered the stability of the drachma. According to the Greek-American press, the amount of money in circulation, including an undisclosed sum in British Military Currency, reached 7 billion drachmas by the end of January. This figure is equal to the circulation at the end of 1938, but it represents a tremendous rate of expansion for the short period since the stabilization on November 11, 1944, when the drachma circulation was only about 0.1 billion. The Bank of Greece selling price for the gold sovereign, fixed at 2,400 drachmas on November 11 and raised to 2,750 drachmas ten days later, has reached 4,300 drachmas. This increase corresponds to a depreciation of the drachma of about 18 per cent per month, in terms of gold.

(The official value of the drachma is 0.67 U.S. cent.)

<sup>1/</sup> See Current Comments, December 5, 1944.