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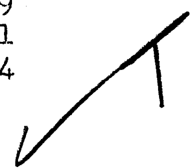

REVIEW OF FOREIGN DEVELOPMENTS

April 22, 1947

Argentine-Bolivian Economic and Financial Agreement... 1
Foreign Trade of Northwest Europe: 1946 and 1947..... 8
Prospective Norwegian Bond Issue..................... 9
Financial Developments in Turkey.....................11
Hungarian Foreign Trade in 1946......................14
SUPPLEMENT
Exchange Controls and Quantitative Restrictions in the International Monetary Fund and the International Trade Organization

This review is intended primarily for internal circulation, and should in no case be cited or quoted. It consists of personal and informal contributions by the authors, which in many cases represent very tentative analyses of the subjects considered.

Argentine-Bolivian Economic and Financial Agreement

Ernest C. Olson

An important agreement on economic and financial cooperation was signed in La Paz on March 8 by representatives of Argentina and Bolivia. It provides for closer relations between the two economies in a manner which generally parallels that of the agreement recently negotiated by Argentina and Chile.1/

Argentina is to lend Bolivia 250 million Argentine pesos (approximately $62.5 million). Of this amount, 50 million pesos ($12.5 million) are allocated as a revolving credit to cover Bolivian trade deficits with Argentina for a period of three years. A sum of 100 million pesos ($25 million) is to be used as a capital contribution to a joint Argentine-Bolivian Financial Association with a life of 50 years, which is to finance the expansion of Bolivian industrial output for the purpose of increasing exports to Argentina. The remaining 100 million pesos are to take the form of a 50-year loan to be used for financing public works projects in Bolivia, consisting largely of railroads and highways designed to facilitate trade between the two countries. In addition, both parties grant each other broad customs concessions, transit and depository rights, and certain privileges in the fields of banking and insurance. Also included in the Agreement

1/ See this Review, January 14, 1947, p. 1.

is the pledge of both signatory Governments to "stimulate cultural exchange through every available means". This clause specifies that the means employed shall include the exchange of professional people, skilled workers and students, and such cultural materials as motion pictures, recordings, and books.

Under the terms of the Agreement, Bolivia will be able to develop certain mineral and agricultural resources and transportation facilities at a more rapid rate than probably would be possible without the funds provided by Argentina. Bolivia's economy will be influenced more decisively than heretofore by Argentina's requirements. This orientation of Bolivia's economic development is not necessarily undesirable in terms of Bolivia's economic welfare but it may imply political orientation in the future quite beyond the apparent objectives of this Agreement.

Financial Provisions

Revolving Credit. The Government of Argentina, through the Argentine Institute for the Promotion of Trade, accords to the Government of Bolivia a revolving credit of 50 million pesos to be used exclusively for the purpose of adjusting any unfavorable balance of trade which Bolivia may have with Argentina during the next three years. Beginning six months after the expiration of this period, sums utilized are to be repaid in 10 equal semi-annual installments. The maximum amount which Bolivia may use in any one year is 25 million pesos. Annual interest on funds drawn is to be at the rate of 3.5 per cent, payable semi-annually, with the first interest payment due 180 days after the initial use of credit. Repayment of funds used may be made at any time before the expiration date, but each payment may not be less than 500,000 Argentine pesos. Amortization and interest payments may be made in Argentine pesos, in gold coin or bullion, or in readily negotiable foreign exchange.

The repayment of this credit is expected to be made with funds obtained from two sources: (1) Increased exports as a result of the operations of the Argentine-Bolivian Financial Association; and (2) accrual of Argentine pesos to the account of the Central Bank of Bolivia as the proceeds of the peso loans are converted into bolivianos for expenditures in Bolivia.

Argentine-Bolivian Financial Association Loan. The Argentine Government, through the Argentine Institute for the Promotion of Trade, and the Bolivian Government are to establish a joint Financial Association. The Association will be governed by a Board consisting of a president and six directors. Three of the directors are to be of Argentine nationality and are to represent the Argentine Institute for the Promotion of Trade. The other three directors are to be of Bolivian nationality and are to represent Bolivian mining interests, industry, and the Government. The president of the Board is to be of Bolivian nationality and will be elected by unanimous vote of the Board of Directors. In case of disagreement, the president will be appointed by the President of Bolivia. The financial operations of the Association must be approved by unanimous vote of the full Board of Directors. Both parties are thus afforded the power of veto.

The Argentine Government, through the Argentine Institute for the Promotion of Trade, will provide the Financial Association with a capital of 100 million Argentine pesos ($25 million). Bolivia will subscribe additional capital in the amount of 42 million bolivianos ($1 million). The purpose of the Association is declared to be to create new industries and extend existing ones through capital contributions and loans, for the purpose of increasing exports to Argentina, especially tin, antimony, lead, copper, iron, petroleum, rubber, coca leaves, lumber, Brazil nuts, and other natural products. The Association will have preference in purchasing from enterprises which it finances all output not required to meet Bolivian domestic needs. Bolivia promises to permit the exportation of these products to Argentina.

An important provision of the Agreement assures Bolivia that when necessary for fulfillment of the Agreement, foreign exchange required for machinery, equipment, or other expenses in third countries will be provided by Argentina with the approval of the Association. Argentina promises to sell to the Government of Bolivia, or the agency which it designates, the foreign exchange necessary for such purchases at the free rate of exchange in effect on the date of each purchase.

The Association is to continue for 50 years from the date of its formation. The Government of Bolivia guarantees at the termination of the Association to refund the total capital contributed by the Argentine Institute for the Promotion of Trade. The Government of Bolivia also guarantees the payment of interest at the annual rate of 4 per cent on that portion of the loan utilized in financing Bolivian enterprises. If the profits of the Association exceed 4 per cent per annum, the surplus is to be used to restore to the Bolivian Government such sums as it may have had to advance to the Argentine Institute for the Promotion of Trade for the payment of the 4 per cent interest on funds previously used. Any balance after such reimbursements shall be accumulated in a reserve fund to cover possible subsequent losses or for reinvestment in other industrial enterprises in Bolivia. Bolivia's profit participation is to be calculated on the basis of individual operations and not on the basis of total operations financed by the Association. Apparently profits of successful enterprises will not be used to defray losses in unsuccessful ventures before computing Bolivia's share of profits.

The industries to be established or expanded should provide the foreign exchange resources with which to meet interest payments. Bolivia is not required to make amortization payments although it guarantees the total refund of capital contributed by the Argentine Institute at the termination of the Association.

In view of the fact that the Association will finance only those projects approved by unanimous vote of the Board of Directors, it may be surmised that some projects desirable from Bolivia's point of view may not be approved because they do not appear to serve Argentina's purposes. While the Agreement clearly states that the funds shall be used for purposes approved by the Association and, further, that Argentina will provide dollars or pounds sterling for purchases which have to be made in third countries, it makes no reference to the possible indirect acquisition of dollars or other foreign exchange by Bolivia as a by-product of the Argentine credit.

To the extent that Bolivia does not finance all domestic expenditures made by the Association or the Public Works Commission, Argentine pesos will have to be used to obtain Bolivian currency. If Argentine pesos are used, the Central Bank of Bolivia would thus acquire Argentine pesos in exchange for bolivianos.1/ Since peso balances of foreign central banks are generally convertible into foreign currencies at the Argentine free market exchange rate, there appears to be no reason why peso balances acquired in the above manner could not be converted into dollars, pounds, or other currencies which could then be used by Bolivia for its own purposes without restraint by the Association. The Argentine Central Bank might be in a position to block the convertibility of peso balances of the Bolivian Bank in amounts equivalent to the Association's boliviano disbursements but to do so would place the Bolivian Bank in the position of supplying bolivianos to the Association in exchange for frozen, **or** at least non-convertible, assets in Argentina. In effect, Bolivia, and not Argentina, under such circumstances would be the creditor of the Association to the extent that such operations were carried out. The Agreement thus does not preclude the acquisition and free use of foreign exchange by Bolivia as a result of the Association's operations. Argentina may therefore choose to observe the Agreement notwithstanding the prospect of additional loss of foreign exchange and the loss of some measure of control over the direction of Bolivia's economic development. Insistance upon terms not specifically provided for in the Agreement might well inspire considerably less than a full measure of cooperation on the part of Bolivia.

Although the provisions of the Agreement do not disclose specific projects to be financed by the Association, Argentina's desire for increased imports of rubber, iron, and coal is likely to assure early consideration by the Association of projects directed toward the development of these industries. Argentina is committed to purchase part of the exportable surplus of these industries and may be forced to do so in excess of their requirements if adverse economic conditions prevent Bolivia from servicing the other financial obligations assumed under the present Agreement.

The fulfillment of this part of the Agreement should enable Bolivia to produce a larger proportion of its domestic requirements and to increase its exports to Argentina. This should prove to be advantageous to both countries and would appear not to involve any serious financial burden for Bolivia during the period in which the new industries are being established.

Loan for Bolivian Public Works Program. The Argentine Institute for the Promotion of Trade through the Central Bank of Argentina will purchase Bolivian Government bonds in the maximum amount of 100 million Argentine pesos. The conditions of the purchase and price of the bonds are to be determined in subsequent negotiations and will be incorporated in the present Agreement. The bonds will bear 3-3/4 per cent interest annually, payable semi-annually, and are to mature in 50 years. Amortization of the loan is to begin ten years from the

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1/ The actual operation would take the form of a debit to the Association's account in the Central Bank of Argentina and a credit to the Bolivian Central Bank's account in the Central Bank of Argentina.

date the bonds are issued and is to be effected through semi-annual payments presumably in Argentine pesos. While the loan is evidently a direct obligation of the Government of Bolivia, no guarantee is mentioned, nor are specific revenues or the output of any industries pledged as security.

The loan is to be used to carry out a program of public works in Bolivia for the development and coordination of Argentine-Bolivian trade. The projects to be financed by this loan must be approved by unanimous vote of a commission of three Argentine and three Bolivian members. Argentina agrees to construct such public works in its own territory as may be necessary to complement those undertaken in Bolivia.

Bolivia must purchase from the Argentine Institute for the Promotion of Trade all imported machinery and implements required for the fulfillment of this program unless lower prices or better quality can be obtained elsewhere. If the Argentine Institute for the Promotion of Trade is not able to meet the competition of third countries, Bolivia will be permitted to convert part of the Argentine peso loan into pounds sterling or dollars for such purchases. As in the case of the industrial development program of the Financial Association, foreign exchange transactions are to be effected at the Argentine free market rate prevailing on the date of each operation. Since the Central Bank of Argentina in practice controls the free market rate, there would appear to be some possibility that the international value of the loan may in practice be less than anticipated. Recent loan commitments by Argentina which provide for conversion of the proceeds to pounds sterling and dollars under conditions similar to those in this Agreement may cause Argentina to lose reserves and to increase the free market rate in order to discourage the purchase of foreign exchange. If for these or other reasons the rate should be high at a time when Bolivia needed exchange, Bolivia might be obliged to pay an unexpectedly high price for the dollars or pounds needed to finance imports for industrial development projects and public works.

The Agreement mentions several public works projects but does not reveal any description or estimate of costs. A portion of the loan is to be specifically earmarked for the study, initiation or undertaking of four railroad, three highway, and two irrigation projects in Bolivia.

Bolivia should be benefited greatly by this program of public works. The eastern and western areas of the country will be brought closer together with some enlargement of the domestic market for Bolivian products, a wider distribution of imports, a lowering of prices for imported products and of costs for Bolivian exports not only to Argentina but to other countries as well. Tourist trade in Bolivia can be expected to increase with the improvement of transportation facilities. These public works may not yield enough foreign exchange to service the loan, but they will lead to closer economic relations between the two countries.

Trade Provisions

With the exception of certain commodities to be listed by each country within 180 days from the effective date of the Agreement, all goods imported by each country from the other are to be free of customs duties and other taxes. While no provision is made for adding items to the lists,

provision is made for their removal. Bolivia agrees to eliminate immediately upon ratification of the Agreement all general and special customs duties on non-competitive food products imported from Argentina. This provision is designed to improve the food situation in Bolivia. Such duties on other Argentine products and merchandise will be eliminated when economic conditions in Bolivia permit. The reciprocal elimination of customs duties will become effective upon the exchange of lists of excepted commodities.

Such customs concessions are not likely to increase Argentine-Bolivian trade substantially in the near future. Trade between the two countries in the past has amounted to only a small proportion of the total trade of each. As in the case of the Argentine-Chilean Agreement, the ultimate objective appears to be the creation of a preferred position in the markets of the two countries for each other's products. Any advantage accruing from such a relationship will become increasingly important as production of new industries expands and as competition of larger industrial countries increases.

While the United States does not have a trade agreement with Bolivia, it does have such an agreement with Argentina. The Department of State did not protest the trade provisions of the Argentine-Chilean Agreement, which are virtually identical with those in this Agreement.

The parties are committed to accord each other preferential treatment in the allocation of exportable surpluses, such surpluses to be determined by the respective official organizations of both countries without affecting the minimum quotas or allotments of commodities specified in the Agreement.

The protocol on the exchange of products requires each party to supply the other with specified quantities of a number of commodities. Argentina will provide Bolivia with several agricultural products including wheat, lard, sugar, tallow, cattle, hogs, beef, pork and lamb, raw cotton, washed wool, and wool yarns. Bolivia will supply Argentina with rubber, lead, asbestos, lumber, quinine sulphate, ammonia, calcium arsenate, wolfram, sulphur, coca leaves, and hides and skins of wild animals.

All purchases of Argentine products by Bolivia must be made through the Argentine Institute for the Promotion of Trade. Deliveries of the foregoing commodities are to be made in quarterly quotas to be determined at least 30 days before the beginning of each period. It is agreed that each party shall be allowed to import such products from third countries if better quality or lower prices can be obtained. The country desiring to invoke this provision is to notify the other party to the Agreement. If the price quoted is not met within five days, the importing country may obtain the specified goods from the alternate source. The quantity thus purchased will be deducted from the quantity contracted for under this Agreement. The exporting country is at liberty to dispose of the quota elsewhere.

A separate chapter of the Agreement establishes the conditions under which Bolivia will export tin to Argentina. During the period 1947-1951, Argentina will import from Bolivia annually 8,000 tons of fine tin

to be supplied from mines controlled by the Banco Minero and other sources. The effective price for the current year will be 76 United States cents per pound of fine tin, f.a.s. Pacific port. The price in subsequent years shall be established semi-annually on the basis of the highest price Bolivia is able to obtain in other contracts, provided that at least one such contract is a commitment for a minimum of 4,000 tons of tin per semester. Argentina agrees to purchase from Bolivia an additional annual quantity of up to 12,000 tons of fine tin which might be uncommitted by standing contracts. Tin is excepted from those commodities which Argentina may procure in other markets if prices there are lower than those quoted by Bolivia. The same conditions regarding price, referred to above, apply to this commitment. Payment for tin exports to Argentina are to be made in United States dollars by the Argentine Institute for the Promotion of Trade.

Other Provisions

Land, river, and air communications of both countries are to enjoy most-favored-nation treatment in each other's territory. Both countries accord each other free transit for imports and exports involving trade with third countries. The signatories also grant each other rights for free storage facilities in river or inland ports of the other, subject to prevailing laws in each country. Commercial airlines are to be encouraged to operate between the two countries. Both countries will grant each other free passage, landing rights, and airport services for passenger traffic, mail and merchandise transported by air from one country to the other.

Each country reserves the right to insure with its own insurance companies products imported from the other for the account of the buyer or exported to the other for the account of the seller. Both Governments will adopt measures providing that reinsurance operations negotiated abroad by firms in either of the two countries will be undertaken preferentially in the other.

The Agreement provides that the Governments of Argentina and Bolivia shall facilitate within their borders the establishment of branches or agencies of each other's banks and official economic organizations within the framework of existing legislation.

The orientation of the two economies is paralleled by mutual commitments to facilitate and encourage the free exchange of ideas. Both signatories agree to declare free from any obstacle, restriction or obligation whatsoever the interchange of books, pamphlets, publications, musical compositions, and works of art. Both Governments also agree to adopt necessary measures to assure and increase the exchange of motion pictures and phonograph recordings.

The Agreement is to remain in force for five years from the date it becomes effective except where otherwise expressly stated in the text, and it shall afterwards be continued from year to year, unless cancelled upon six month's notice. Both Governments agree to place the Agreement in effect simultaneously as soon as ratifications are exchanged.

Foreign Trade of Northwest Europe: 1946 and 1947 R.W.B.

Most European countries by now already have planned or made official estimates of their imports and exports for 1947. The purpose of this note is to set down some of these figures for future reference and for comparison with the past year.

The five countries included here--the nations of Scandinavia and the Low Countries--together envisage total imports of about the same magnitude in 1947 as in 1946, that is, in the neighborhood of $4,000 million. Together, they hope to raise their exports from $2,200 million in 1946 to better than $3,100 million in 1947.

Table I
Foreign Trade of Northwest Europe in 1946 and Official Targets or Forecasts for 1947
(In millions of dollars)1/

Country	Imports			Exports		
	1946		1947	1946		1947
	Planned or forecast	Actual	Planned or forecast	Planned or forecast	Actual	Planned or forecast
Belgium-Luxembourg	1,140a/	1,201	1,480b/	515a/	676	1,255b/
Sweden	n.a.	873	790c/	n.a.	655	720c/
Netherlands	1,135d/	829	980e/	380d/	297	490e/
Denmark	n.a.	590	495f/	n.a.	335	405f/
Norway	345g/	392h/	435i/	140g/	242	270i/
Total		3,886	4,180		2,205	3,140

1/ "Planned or forecast" figures are rounded to nearest 5 million after being converted into dollars.
a/ Forecast by Belgian Ministry of Economic Affairs, March 1946. Median figure is given for exports; actual forecast was $456-570 million.
b/ Official forecast reported in press, April 1947.
c/ Official targets announced March 1947. Median figure is given for exports; target is $710-725 million.
d/ Targets announced by Netherlands Ministry of Commerce and Industry, February 1946. In May 1946, import figure revised to $870 million and export figure to "less than $300 million".
e/ Targets set by Netherlands Central Planning Office, January 1947. An earlier figure of $380 million for exports appears to have been discarded as pessimistic.
f/ Targets set by Danish Ministry of Commerce, January 1947. Figures are based on assumption that credit of $50 million will be obtained from International Bank.
g/ Import target, excluding ship purchases, set by Norwegian Ministry of Supply, July 1946. Export target announced by Minister of Finance, February 1946; revised to $200 million in July 1946.
h/ Excluding ship purchases, amounting to $51 million.
i/ Targets announced by Minister of Finance, January 1947. Median figures are given; actual import target is $423-444 million (excluding ship purchases); export target, $262-282 million.

The distinction between plans and forecasts is, of course, significant. The liberal import policies followed by Belgium, Denmark, and Sweden during 1946 made their total volume of trade scarcely susceptible to planning. In 1947, however, only Belgium continues to permit a wide range of imports without licences, and with this exception, all the 1947 figures may be called targets rather than forecasts. The rise of world prices helps explain the extent to which imports and exports of both Belgium and Norway surpassed expectations and hopes in 1946. Likewise, it tends to conceal the extent to which foreign trade of the Netherlands in 1946 fell short of the original targets.

The most sanguine of the five countries with respect to the 1947 figures in Belgium, which looks for an increase of 86 per cent in exports. The Netherlands also hopes for a very substantial increase of exports, having restored its stocks of many raw materials in 1946 and rebuilt much of its industrial plant and transportation system. Denmark's export goal for 1947 is to be achieved partly on the basis of higher prices won from the British for Danish butter, bacon, and eggs. Sweden, already producing at capacity, also expects to obtain higher prices in 1947 for its most important export to the West, woodpulp. Both Sweden and Denmark have found it necessary to plan diminished imports in 1947.

Table II
1947 Foreign Trade Targets or Forecasts
As a Per Cent of 1946 Trade

	Imports	Exports
Belgium	123	186
Sweden	90	110
Netherlands	118	165
Denmark	84	121
Norway	111	112

The five countries together are counting on exports 42 per cent greater in 1947 than in 1946, but on imports only 7 per cent greater than last year. It is evident that their expanding markets must be found not among themselves but elsewhere. This has some significance because in 1946 fully 30 per cent of these five countries' exports were sold to each other.

Prospective Norwegian Bond Issue L.N.D.

The Norwegian Government has filed an S.E.C. registration statement covering an issue of $10 million of 10-year, 3-1/2 per cent bonds, which are intended to be offered by underwriters in this country during the latter part of April. This would constitute the first public offering of European securities in this country since before the war. American underwriting firms have naturally taken a cautious attitude toward trying to sell European bonds to investors here, but once the ice has been broken by this Norwegian issue, that fact may be expected to expedite underwriters' consideration of other bond issues, in larger amounts, for those other European countries whose credit standings are at all comparable with that of Norway.

It is understood also that the International Bank for Reconstruction and Development is being approached to act as a possible co-underwriter for such issues.

Existing Norwegian dollar bonds are quoted at prices above par on the New York Stock Exchange. The existing 4 per cent issue has been selling at prices to yield around 3-1/2 per cent to maturity, notwithstanding the unfavorable feature that the issuer can call these bonds at any time for redemption at par. A yield of 3-1/2 per cent on a new 10-year issue would be much higher than the yields obtainable on 10-year bonds of well-rated domestic corporations, and many investors may conclude that it represents a generous yield in view of Norway's excellent credit record and its present international financial position.

The Norwegian balance of payments position has been kept in equilibrium without recourse to borrowing abroad in any large amount. Contributing to this result has been the high level of steamship freight rates which has permitted the Norwegian merchant marine, though not yet restored to pre-war tonnage, to earn considerable sums in foreign exchange. This has helped to close the gap in the foreign trade position of the country.1/ Thus a substantial volume of gold, and dollar and sterling exchange, remains at the disposal of the Norwegian Government. Although part of this is earmarked for the reconstruction of the merchant marine, an expenditure of this nature has a direct and immediately favorable influence upon the international position of Norway. Finally, it is worth noting that the Government during 1946 converted a large share of its internal debt, lowering the average rate of interest from more than 3.5 per cent to about 2.5 per cent.

An earlier credit to a European country from private sources in the United States was arranged in 1946 involving the participation by a group of commercial banks in an Export-Import Bank loan to the Netherlands, in which the banks assumed the full risk on their shares of the credit. Total bank participation is expected to reach about $98 million. This credit differs from the proposed Norwegian issue also because of its much shorter term; half of this Dutch credit has a maturity of one year and the balance two years.

In July 1946, the Netherlands Government planned to bring out an issue of long-term bonds, but the issue was postponed because the underwriters considered market conditions at the time to be unfavorable. Recently there have been discussions of a possible $25 million 10-year Dutch issue and, assuming that the Norwegian issue is offered and successfully sold, a Dutch issue of this kind may well follow. Denmark and Belgium also have been mentioned as possible borrowers in this market. In addition, there are outstanding more than $50 million of pre-war Norwegian bonds bearing 4 to 4-1/2 per cent interest which are all currently redeemable at par. The proceeds of the present Norwegian issue, it is stated, are to be used to augment Norway's foreign exchange reserves, which are being drawn upon to meet current needs, but there may be later Norwegian issues to refund the pre-war bonds at lower rates.

1/ See infra, p. 8.

Financial Developments in Turkey

J. Herbert Furth

The most important event in Turkey's recent financial history was the devaluation of the Turkish pound in September 1946.1/ The devaluation gave a tremendous impetus to exports and at the same time raised domestic prices and money incomes. These changes in turn stimulated domestic economic activity and thus resulted also in a substantial increase in imports. Insufficient data make it hard to judge the extent to which devaluation has led to a rise in real national income, but it probably has helped Turkey to overcome the danger of a deflationary slump which otherwise might have followed the end of the war and of the preclusive buying program of the United Nations.2/

Currency and Banking

The devaluation of the currency raised the official gold parity from 1.40 to 3.15 Turkish pounds per gram of fine gold. In the free market,3/ gold was traded at around 5.30 pounds per gram at the end of 1945, and paradoxically the price dropped instead of rising after devaluation. The Government authorized the government-owned Agricultural Bank to sell gold freely at a rate of 4.545 pounds per gram, and very small sales sufficed to stabilize the free market quotation at the same level. The gold premium in the free market was thus cut from around 280 per cent to less than 50 per cent of the official price.

The official dollar rate, which a system of premiums raised during the war from the gold parity of around 1.30 to around 1.80 pounds,4/ was increased by the devaluation to 2.80 pounds. The black market rate for telegraphic transfers, however, rose only from 2.70 to 3.20 pounds per dollar. The premium dropped thus from more than 100 per cent to less than 15 per cent of the official rate. Dollar notes and sterling exchange were available in the black market at approximately the official quotations. Only the Swiss franc retained a premium of more than 30 per cent of the official rate.

As the result of the devaluation, most import and export prices almost immediately rose substantially, many of them more or less in proportion to the change in the official dollar rate (54 per cent). Domestic wholesale prices, which had shown a downward movement since the spring of 1946, rose by 12 per cent, and the cost of living by 6 per cent. In terms of dollars, domestic prices now are much closer to the American level than before devaluation. At the end of 1946, Turkish wholesale prices averaged 435 per cent of 1938 and the cost of living in Istanbul around 346 per cent. Assuming that in 1938 the relation of Turkish and American prices corresponded to the official exchange rate, and considering the changes in both the exchange rate and in American prices, the Turkish levels now would be only 13 per cent above American wholesale prices and 6 per cent above the American cost of living respectively. In view of the flexibility of the Turkish price system, this disparity would not represent a serious obstacle to a more thorough adjustment when world market conditions return to normal.

1/ See this Review, September 23, 1946, p. 15.
2/ See this Review, April 2, 1945, p. 4.
3/ See this Review, June 11, 1945, p. 11.
4/ See this Review, January 8, 1945, p. 4.

Turkish bank note circulation decreased from its war-time peak of 994 million pounds, reached on June 2, 1945, to 821 million on June 29, 1946. After devaluation, it rose again and amounted to 931 million at the end of the year and to 970 million on March 15, 1947 (latest date available). Central Bank deposits rose between June 2, 1945, and March 15, 1947, from 98 million to 145 million pounds. During the same period, gold holdings rose in terms of volume from 208 to 212 metric tons, but in terms of Turkish currency from 292 million to 668 million pounds. Part of that gold, amounting to 61 tons or 86 million Turkish pounds in 1945 and 58 tons or 183 million Turkish pounds in 1947, was held by the Central Bank on deposit for other government agencies. Net foreign exchange holdings increased from the equivalent of $22 million to $40 million, but in terms of Turkish currency from 29 million to 113 million pounds. The Bank's own net holdings of gold and foreign exchange covered its demand liabilities (notes and deposits in Turkish currency) to the extent of 29.5 per cent in June 1945 and of 53.5 per cent in March 1947.

The government debt to the Central Bank was reduced from 369 million to 121 million pounds by using the "profit" from the revaluation of the Bank's gold holdings. Between June 1945 and March 1947, the Bank's holdings of "commercial bills" decreased from 591 million to 525 million pounds; since that item also includes an unspecified amount of Treasury bills, the reduction may reflect a further curtailment of Treasury financing by means of central bank credits.

Only fragmentary data are available on the development of commercial banking after devaluation. Presumably, banks continued the expansion which they experienced even in the less active period preceding the currency reform. Between the end of December 1945 and October 1946 (latest date available), commercial bank deposits rose from 528 million pounds to 608 million, and discounts and advances to the "private" economy--which however includes the important system of government-controlled enterprises--from 482 million pounds to 605 million. The Sumer Bank and the Eti Bank, two large government-owned holding companies, increased their authorized capital to 200 million pounds each in order to prepare for the Government's five-year plan of industrialization, and the Treasury, in cooperation with a number of government-controlled financial institutions, established a new real estate credit bank in Istanbul.

Public Finance

The Turkish budget for 1947[1] provided for revenues of 1,021 million, expenditures of 1,136 million, and thus a deficit of only 115 million pounds. Available data on actual expenditures and receipts for 1946 seem to indicate that the estimate was not unduly optimistic. Receipts during 1946 amounted to 951 million, and expenditures during the first four months of the year (latest data available) corresponded to an annual total of only 800 million pounds. It is quite likely, however, that the published figures exclude not only expenditures for investments but also part of the cost of keeping the Turkish armed forces at a high degree of preparedness, and that actually the deficit is larger than the budget estimate.

1/ See this Review, November 4, 1946, p. 22.

The domestic public debt was increased by the issue of 50 million pounds of "recovery bonds", forming the first installment of a development loan totalling 150 million, and of 10 million pounds of railroad bonds. The increase, however, was more than offset by the reduction in the floating debt to the Central Bank (see above). In consequence, the domestic public debt has fallen somewhat below the billion pound mark.

International Finance

In the years from 1940 through 1945, Turkey had an export surplus averaging 54 million pounds annually. In the period from January through August 1946, imports averaged 12 million per month and exports 18 million pounds, close to the 1945 figures. During the last four months of the year (i.e., after devaluation), imports reached a monthly average of 32 million and exports an average of 71 million pounds. In terms of dollars, imports thus rose from a monthly average of $6.5 million to $11.5 million, exports from $10 million to $25.5 million, and the export surplus from $3.5 million to $14 million. Part of this development may have been due to seasonal factors and to speculative restraint in the months preceding the devaluation. Discounting all such influences, however, the result certainly shows a substantial improvement in the country's international trade. Since receipts and expenditures on non-trade account play a minor role in Turkey's balance of current payments, the country should have acquired during 1946 gold and foreign exchange approximating $85 million. The increase in holdings reported by the Central Bank falls far short of that figure, either because of the accumulation of hidden reserves or because of payments for imports (e.g., for rearmament purposes) excluded from official statistics.

The gold and foreign exchange holdings disclosed by the Central Bank (see above) total $278.5 million. The country's foreign public debt, excluding post-war credits, approximates $268 million and represents mainly sterling credits granted by the British Government in 1938-40. Turkey was able in 1943 to repay in devalued French francs most of its pre-war foreign debt, which was expressed in that currency. Furthermore, during the war the country received extensive help from the United States and the United Kingdom, including lend-lease shipments valued at $95 million, for which Turkey paid less than $8 million, and the preclusive buying program, to which the United States contributed $68.5 million. Post-war credits granted by the United States through the Export-Import Bank, the Foreign Liquidation Commissioner, and the Maritime Commission, total $41 million, of which only 20 per cent so far has been utilized. Both the American and the British credits bear very low rates of interest.

All in all, Turkey's international financial position now is stronger than that of most other foreign nations.

Hungarian Foreign Trade in 1946

C. B. Rose, Jr.

Due to the war and its immediate aftermath--the disruption of production and distribution--Hungarian foreign trade shrank to a mere trickle in 1945. Last year, though far below pre-war levels, both imports and exports made substantial recovery. Available data, although raising questions as to the reliability of the statistics, reflect the impact of the country's reorientation from West to East, and the various alterations which have occurred in its economic structure. However, no firm answer can be given to the question of whether Hungary had a favorable or an unfavorable balance of commercial trade in 1946. Several sets of statistics purporting to cover this trade have been published. No two of them agree either in magnitude or in the net results shown.

Table I
Hungarian Foreign Trade, 1946[a/]

	Millions of forint			
	A-1	A-2	B	C
Imports	370.5	608.5	370.6	256.8
Exports	366.7	365.8	420.4	395.3
Total	737.2	974.3	791.0	652.1
Balance	-3.8	-242.7	+49.8	+38.5

A-1 = Albert Molnar in semi-official Közgazdasag, February 2, 1947.
A-2 = Ibid, adjusted (see text below).
B = Supreme Economic Council, reported by American Legation, Budapest.
C = Hungarian Statistical Bulletin.
a/ Excluding reparations.

That such widely different data can purport to cover the same subject is a consequence of the disorganization of the currency and its subsequent stabilization in 1946. During the first seven months of that year, when the inflation was rushing to its climax, values expressed in the current pengo were meaningless. In many instances, therefore, values were stated in "1938 pengo". The results, of course, were not realistic since price structures, both in world markets and in Hungary, no longer corresponded to those existing in 1938, and currency relationships likewise had altered. Further confusion resulted from the introduction of the new currency in Hungary on August 1, 1946. At that time not only a new monetary unit, the forint, was created but the Hungarian price structure was re-organized by decree.

The gold parity of the forint is 13,210 forint per kilogram of fine gold; accordingly, the rate of exchange for the dollar (the basis for the establishment of exchange rates for all other currencies) became $1 = 11.74 forint. In 1938, the official price of gold in Hungary was 5,700 pengo per

kilogram, and the rate for the dollar was 5.10 pengo. The ratio between the gold or dollar value of the 1938 pengo and that of the forint was thus 2.3 to 1.

In establishing the new price structure in the summer of 1946, 1938 prices were taken as a starting point and various multipliers applied to reach forint prices. A uniform multiplier was not used, as one objective was to take account of supply conditions and attempt to regulate demand by the relative levels at which prices for various goods were fixed. The new level of Hungarian domestic wholesale prices (as expressed in forint) averaged 3.6 times[1/] the 1938 level (as expressed in pengo) although there are wide differences as between various commodities, and between agricultural and industrial prices. To allow for an increase of 50 per cent in American prices since the beginning of the war, the multiplier used in setting the gold par was two-thirds that for wholesale prices or, as indicated above, 2.3.[2/] It was believed that this would reflect the change in the relationship between the new level of Hungarian wholesale prices to be established and world market prices. It may be pointed out that actually the general rise in world market wholesale prices had been more than 50 per cent between 1938 and August 1, 1946. A distortion in the opposite direction arises, however, from the use of 5.10 pengo as the 1938 price for the dollar whereas exporters, by various means, actually received more (about 7 pengo) for their dollars at that time.

Because the relation established between the gold values of the forint and the 1938 pengo corresponds neither to the over-all relationship between domestic prices nor to prices of goods entering into foreign trade, compilers of statistics on Hungarian foreign trade in 1946 have made various adjustments in order to get a meaningful series for the year expressed in a single currency.

In Table I, Series A-1 is based upon data described as official without further explanation. Series A-2 is based upon the same data, corrected for an alleged understatement of imports from the Soviet Union and a small adjustment in conversion factors. Both series were originally computed in pengo at 1938 purchasing power and converted into forint by using a multiplier of 6.5 forint per pengo for imports and of 4.2 forint per pengo for exports. These multipliers are asserted to be based upon a comparison of average 1938 pengo prices and forint prices (in the latter half of 1946) for import and export commodities. Thus this series indicates a very serious deterioration in the Hungarian terms of trade.

Series B was reported by the American Legation in Budapest and is based upon data published in the Economic Statistical Bulletin, the organ of the Supreme Economic Council. For the period before the establishment of the forint currency, it is also based upon pengo at 1938 prices. These prices, however, were converted into forint by using individual prices rather than uniform conversion factors. A comparison of the resulting forint and pengo totals indicates an average relation of around 5.7 per pengo for imports and of around 5.4 forint per pengo for exports; these

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1/ Subsequent changes probably have altered this average slightly but not enough to invalidate the argument.

2/ Actually two-thirds would be 2.4, the difference presumably being in the method of calculation which the Hungarian authorities did not explain.

figures suggest that the adjustment in Series A greatly exaggerates the difference between import and export prices. The fact that none of these relationships correspond to the average domestic wholesale price ratio mentioned above is attributable to the great variation in the multipliers used in the prices of individual commodities and the fact that only a limited range of goods entered into foreign trade. Thus wheat, the price of which in forint was only twice that in pengo, was not exported in 1946, while the forint price of cotton cloth was more than five times the pengo price, and of salt, twenty times.

Series C is currently published by the Central Statistical Bureau. For the period before the establishment of the forint currency, it is also based upon pengo at 1938 purchasing power, but these figures are converted into forint at a uniform rate of 3.48 forint per pengo. This conversion factor corresponds more closely to relative prices than the figure of 2.3 forint per pengo used in computing the exchange rate of the forint but comparison with Series B suggests that it is still somewhat too low.

So far as the record for 1946 is concerned, the conclusion must be reached that little reliance can be placed upon any of the figures available. The confusion consequent upon the disorganization of the currency required, for coherence' sake, that figures on Hungarian foreign trade in 1946 be subjected to some treatment. It is impossible to judge which of the various adjustments described results in the most accurate statement of the facts. It appears likely, however, that Series B will be adopted as the official statistics. For this reason, and for the practical consideration that this series is available in the greatest detail, it is used as the basis for further discussion here. One further qualification, in addition to those mentioned above, which applies to all series derives from the fact that not all trade was reported. Some estimates place as high as 50 per cent the proportion of the total which moved through black market channels. While this may be extreme, it is certain that a large volume did escape official reporting machinery.

Table II
Hungarian Foreign Trade,a/ 1946, By Months

	Exports	Imports
	(In millions of forint)	
January	5.6	2.0
February	7.7	3.6
March	12.5	6.0
April	21.8	6.4
May	19.5	8.2
June	22.4	9.7
July	32.9	17.0
August	27.7	9.4
September	36.1	25.9
October	58.9	56.5
November	81.5	53.1
December	93.8	59.0
Total	420.4	370.6

a/ Series B of Table I.

The return to more normal economic conditions after the stabilization was reflected in the foreign trade figures from whatever source derived. Table II gives figures by months for 1946; the improvement after August is obvious. One circumstance contributing to this result was that work had been completed and goods shipped out in the latter part of the year under some of the processing arrangements, notably that with the U.S.S.R. Raw cotton imported from Russia was paid for by the export to Russia of finished cotton goods and thread.

Throughout 1946 almost all Hungarian foreign trade moved under barter agreements with a limited number of countries. Total values of reciprocal trade were specified and in general a balance was aimed at. During all or part of the year such agreements were in effect with: Czechoslovakia, Romania, Poland, U.S.S.R., Switzerland, Denmark, Sweden, and Norway. Agreements signed with France in October, Italy in November, and Austria and Yugoslavia toward the end of December probably did not affect trade in 1946 to any great extent.

The term of these agreements in most cases extends beyond 1946. Nevertheless, is is rather surprising to observe the degree of unbalance in trade with specific countries as shown in Table III.

Table III
Distribution of Hungarian Foreign Trade by Countries a/

	Imports			Exports			
	1946 Value		1938	1946 Value		1938	1946
Country	(Million forint)	% of total	% of total value	(Million forint)	% of total	% of total value	Balance (Million forint)
U.S.S.R.	104.3	28.2	-	133.9	31.9	-	+29.6
Czechoslovakia	93.9	25.3	6.6	72.1	17.2	4.1	-21.8
Switzerland	30.3	8.2	2.5	88.7	21.1	3.2	+58.4
United States	45.8	12.4	5.3	6.5	1.5	2.4	-39.3
Poland	28.0	7.6	1.4	17.1	4.1	1.0	-10.9
Romania	30.6	8.2	9.8	10.9	2.6	4.0	-19.7
Sweden	9.3	2.5	.9	25.5	6.1	1.9	+16.2
United Kingdom	2.4	.6	6.3	28.7	6.8	8.1	+26.3
Austria	9.1	2.5	11.5	12.8	3.0	18.3	+ 3.7
Yugoslavia	4.9	1.3	4.5	3.1	.7	3.0	- 1.8
Italy	3.0	.8	6.3	.2	.1	8.5	- 2.8
Denmark	1.5	.4	.5	9.6	2.3	.9	+ 8.1
Norway	-	-	n.a.	2.5	.6	n.a.	+ 2.5
Bulgaria	2.6	.7	n.a.	4.1	1.0	n.a.	+ 1.5
Germany	.5	-	30.1	-	-	27.4	- .5
All others	4.4	1.3	14.3 b/	4.7	1.0	17.2 b/	+ .3
Total	370.6	100.0	100.0	420.4	100.0	100.0	+49.8
Total value 1938 c/			1,456.7			1,817.6	

n.a. = not available. Presumably insignificant.
a/ Series B, Table I.
b/ Including Norway and Bulgaria.
c/ 1938 pengo figures: Imports, 418.6; exports, 522.3 million; multiplied by 3.48.
Source: 1946, American Legation Budapest; 1938, Ungarns Handel u. Industrie im Jahre 1938, Budapest, 1939.

It is worth noting that in many of the trade agreements, total volumes as well as the prices of individual commodities have been expressed in dollars. For example, the agreement with Austria sees trade equaling about $3.7 million moving in each direction. The agreement with Poland provides for the export by Hungary of 40,000 tons of crude petroleum at $19.50 a ton, and the export by Poland to Hungary of 100,000 tons of coke at $13.40 a ton. It is not known at what rate these values were converted into pengo or forint for the purposes of inclusion in the trade statistics.

As might be expected, the Soviet Union, which did not figure in Hungarian foreign trade in 1938, now occupies the most prominent place, providing over 28 per cent of Hungarian imports and taking almost 32 per cent of that country's exports. At the same time, Germany, which in the pre-war period was Hungary's most important trade partner, now has dropped out almost entirely. Some of the shifts in relative importance of other countries are worth noting. Austria has fallen from second place to one far down the scale, while Czechoslovakia has become much more prominent, taking second place as a supplier and following Switzerland as a market. The relatively large volume of imports from the United States is due to the fact that the flow of goods bought under the United States Surplus Property credit of $15 million granted in 1946 began to reach Hungary toward the end of last year.

It is of considerable interest that Hungary was able to build up a credit balance of 58 million forint (approximately 21.4 million Swiss francs) in its trade with Switzerland. By the end of 1946 other sizable credit balances had been created with Russia, the United Kingdom, and Sweden. Had Hungary been able to satisfy its import requirements in full, this development would not have taken place. Two circumstances intervened: many of the goods which Hungary needs are in short world supply and Hungary has a weak bargaining position in international markets; and the shortage of working capital combined with the internal policy of credit restriction prevents Hungarians from importing even when the National Bank has foreign exchange and goods are available.

One noticeable effect of the shift in Hungarian markets and sources of supply has been the change in the composition of foreign trade. Table IV gives the principal import and export commodities, actual quantities of which fell far below pre-war volumes. Those goods which accounted for the greatest part of the limited imports in 1946--cotton, sugar, coke, and salt--although large in volume, were of minor importance in Hungarian imports in 1938. The relatively small quantities of other raw materials brought in in 1946, particularly coal, wood, leather, ores, and metals, were far from satisfying requirements, reduced though they were through destruction of productive capacity. In one respect the change from 1938 is favorable. Since that year, due to the exploitation of domestic oil wells, Hungary no longer needs to import petroleum (except for special types of lubricating oils) and has an export surplus. Although wheat and cattle disappeared from the list of exports in 1946, shipments of agricultural products, though small, bulk relatively large in the total. This can be attributed more to a diversion of industrial goods to the satisfaction of reparations obligations (and hence their unavailability for export) than to the existence of surplus agricultural production capacity.

Table IV
Distribution of Hungarian Foreign Trade by Commodities, 1946 and 1938

	Quantity (Metric tons)		Value (Million forint)	Value (Per cent of total)	
	1938	1946	1946	1938	1946
A. Imports					
Raw cotton	26,720	12,059	63.4	5.4	17.1
Refined sugar	n.g.s.	5,572	33.4	-	9.0
Coke	n.g.s.	206,698	30.1	-	8.1
Salt	88,542	52,805	21.3	.6	5.7
Coal	523,691	118,751	21.3	3.5	5.7
Lumber (sawn) }	934,784	23,170	15.1	12.1	4.1
Timber }		23,561	5.2		1.4
Clothing	n.g.s.	365	13.9	-	3.8
Raw leather	15,809	983	13.0	4.8	3.5
Iron ore	419,316	124,824	13.0	1.7	3.5
Automobiles	3,568	2,140	12.4	2.1	3.3
Raw metals	33,833	2,806	11.2	5.5	3.0
Knitted cotton wear	n.g.s.	318	9.6	-	2.6
Paper and paper goods	62,495	717	3.4	5.2	.9
Petroleum a/	209,562	3,857	3.4	3.9	.9
B. Exports					
Cotton cloth	1,066	2,610	59.9	.6	14.3
Wine	40,242	12,438	38.6	1.6	9.2
Refined petroleum	n.g.s.	159,652	29.6	-	7.0
Dressed poultry products	25,138	1,858	23.5	5.1	5.6
Electric machinery and appliances	2,676	2,561	17.4	4.9	4.1
Canned fruit	n.g.s. b/	5,097	16.1	-	3.8
Fruit pulp	n.g.s. b/	7,196	14.7	-	3.5
Iron goods	33,665	1,887	13.1	3.0	3.1
Feathers	2,558	732	11.3	2.5	2.7
Crude oil	n.g.s.	45,542	11.1	-	2.6
Clover and lucerne seed	12,024	881	9.8	1.8	2.3
Fats and oils	15,511 c/	736	8.7	.7	2.1
Eggs	14,083	1,019	8.5	2.0	2.0
Brown coal	286,841	79,421	5.9	.8	1.4
Wheat	436,115	-	n.g.s.	13.1	-
Cattle	31,921 d/	-	n.g.s.	12.4	-

n.g.s. = not given separately. Imports or exports insignificant.
a/ 1938 imports, chiefly crude. 1946, refined products.
b/ Canned fruit and fruit pulp not reported separately in 1938. 30,663 tons of fresh fruit exported representing 1.9 per cent of total value.
c/ Oil seeds. In 1938 exports included 18,527 tons of lard and bacon accounting for 3.2 per cent of total value.
d/ Numbers.

In part, the situation indicated by the table above is transitory. It is a consequence of the lowered production level of Hungarian agriculture and the necessity for paying reparations in kind. To some extent, however, it may represent a permanent change. The land reform which did away with the large estates will change the structure of Hungarian agriculture and result in shifts in production. Germany was interested in Hungary as a source of supply of agricultural produce and only a limited variety of finished goods. Russia is more likely to need Hungarian finished and semi-finished articles. In this connection arrangements such as the cotton-processing agreement with Russia referred to earlier, are typical of the sort of operation which is likely to assume greater prominence in Hungarian trade.

Exchange rates and relative price levels, of course, are of small consequence in trade with the U.S.S.R. or countries within its orbit where state trading is the rule and prices are agreed upon independently for each separate transaction without regard to world prices or their local equivalents. It may be noted in passing that exchange rates preserve their importance inasmuch as an over-valued forint may facilitate increasing absorption of Hungarian trade by Russia. At the present time the rate of 11.74 forint to the dollar, taken together with the prevailing controlled levels of Hungarian prices, makes export to the West difficult.

In connection with the prospects for Hungarian foreign trade, it may be noted that the Three Year Plan now being projected (to start on August 1, 1947, the beginning of the new fiscal year) foresees the following development:

Table V
Hungarian Foreign Trade Program, 1947-50

	Imports		Exports	
	Million 1938 pengo	Per cent of 1938	Million 1938 pengó	Per cent of 1938
1938	411	100	522	100
1946 a/	65	16	77	15
1947/48	380	92	379	73
1948/49	461	112	492	96
1949/50	547	133	580	111

a/ Estimate of Supreme Economic Council, corresponding to Series B of Table I.

Within this over-all framework, it is intended that about 80 per cent of imports will consist of raw materials and semi-manufactured goods, and that about 40 per cent of exports will be agricultural products. The plan contemplates an increase of trade with the Soviet Union, Czechoslovakia, Yugoslavia, Romania, Bulgaria, and Poland. So far as western countries are concerned, it is foreseen that trade with Switzerland will be of greater importance than that with Great Britain and the United States.