

INTERNATIONAL MONETARY FUND

December 23, 1947

To: Members of the Executive Board
From: The Secretary
Subject: Survey of the Economy of Czechoslovakia

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INTERNATIONAL MONETARY FUND

Research Department

Survey of the Economy of Czechoslovakia

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Population

At present, Czechoslovakia has slightly more than 12 million inhabitants.

Since the 1930 census, there has been a considerable shift in the population. The Munich awards caused thousands of democratic-minded citizens to emigrate overseas from the border regions of the country (Sudeten) which were outrightly attached to Germany. Later (after March 15, 1939) many people, particularly those to whom the Nuremberg legislation applied had to emigrate and still others who could not do so found their ill fate in the gas chambers of the German Concentration Camps. Of some 300,000 citizens of Jewish religion, only 45,000 survived in the country. Moreover, because of political persecution, an additional 30,000 to 50,000 people were killed in the so-called Heydrich terror (Reinhardt Heydrich, S.S. General, Deputy to Himmler and Reich-protector of the Protectorate Bohemia and Moravia, killed by Czechoslovak patriots on June 12, 1942). To a large extent, people thus killed were the leading figures in Czechoslovak political, economic and cultural life.

After the war, in agreement with the decisions of the Potsdam Conference, the German minority of Czechoslovakia, insofar as it was not anti-Nazi during the war, was transferred from the territory of Czechoslovakia to Germany. Up to June 1947, over 1,900,000 Germans left the country, besides those who left before the transfer action started with the retreating German Armed Forces. Of the 3,150,000 Germans living in Czechoslovakia, according to the 1930 census, only 300,000 to 350,000 were permitted to remain, partly because they were essential industrial technicians, partly because of their anti-Fascist activities, and partly also because of marriage to persons of Czechoslovak nationality.

In accordance with the decisions of the Paris Peace Conference (Summer of 1946), Czechoslovakia signed an agreement with Hungary for an exchange of the Hungarian minority in Czechoslovakia for the Slovak minority in Hungary at the ratio of head for head. The plan was to exchange 200,000 people from each side. Until now, little has been accomplished in this regard.

Because of these changes the population of Czechoslovakia decreased from 14,000,000 in 1930 to 12,000,000 in 1947, or by 14.7 per cent; and the density of population decreased from 110 persons per square kilometer to 95 persons per square kilometer. (One square kilometer equals 0.386 square miles).

Population of Czechoslovakia and its density at the end of 1946 compared with 1930, 1938 and 1945.

<u>End of Year</u>	<u>No. of Population</u>	<u>Decrease since 1930</u>		<u>Decrease since 1938</u>		<u>Density</u>
		<u>Absolute</u>	<u>%</u>	<u>Absolute</u>	<u>%</u>	
1930*	14,004,000	-	-	-	-	110
1938*	14,618,000	-	-	-	-	114
1945	13,888,000	116,000	0.8	730,000	5.1	109
1946	12,090,000	1,914,000	14.7	2,528,000	18.9	95

*Figures do not include the population of the Province of Carpatho-Ukraine which was ceded to the USSR in the summer of 1945.

As a result of these changes, a considerable shift of population has been in process within the country since liberation (May 8, 1945) which is not yet completed.

The border regions which were mainly inhabited by the Germans had to be repopulated by Czechs and Slovaks from the interior, partly by industrial workers and partly by farmers. The repopulation involved the resettlement of farmers on 800,000 ha of land (1 hectare = 2.471 acres) formerly operated by Germans and the replacement of 200,000 German industrial workers. According to Government decision, no more than 59,000 German workers and industrial specialists were to remain in the country after the transfer action was completed in July 1947. By June 1947, 1,700,000 Czechs and Slovaks moved from inland to the border regions,

Before the war, about 34.6 per cent of the population derived their income from agriculture, 47.9 from industry and commerce, while 17.5 earned their living as public servants and other personal services.

Because of the transfer of part of the German population and the Government's policy of industrialization of the Province of Slovakia, there will be a noticeable shift in occupation from agriculture and personal services to industry. This shift of gainfully employed people from agriculture to industry along with the Government's strife to maintain agricultural production of the country at the prewar level, seems to be at present the basic problem of Czechoslovak economy since it is causing difficult manpower bottlenecks in agriculture as well as in industry,

Principle Features of the Economy

Czechoslovakia is the most industrialized country East of Germany. At the same time, it has a well-developed agricultural and forest economy from which nearly 35 per cent of the population derive their income and which before the war made the country nearly self-sufficient in foodstuffs and also one of the largest exporters of beet sugar, hops, and malt.

While the Western provinces (Bohemia and Moravia) are predominantly industrial, Slovakia (which before 1918 was part of Hungary), even though large strides toward industrialization were made during the past two decades, is still largely an agricultural region. In accordance with the two-year plan, the Government is speeding up the industrialization of Slovakia by transferring to this province textile plants from border regions formerly inhabited by Germans.

Even though the country is endowed with a great many health resorts, some like Karlove Vary (Carlsbad) and Piestany which are world famous, and also beautiful natural scenery, the tourist trade is still in its infancy.

Agriculture

In contrast to the neighboring countries, even before the war, Czechoslovakia was a country of small land holdings where farms were operated by the owner and members of his family. Of the people gainfully employed in agriculture, 60 per cent were independent farmers owning their land on which they worked and only one-half of 1 per cent were tenants. In 1920, the total agricultural area (excluding forests) of 8,650,000 hectares, was made up of farms of the following group of sizes stated as percentages of the total area:

	<u>Percentage</u>
Up to 2 hectares	7.3
From 2 to 5 hectares	15.6
From 5 to 20 hectares	47.6
From 20 to 100 hectares	18.8
Over 100 hectares	<u>10.7</u>
Total	100.0

Small-and medium-sized farms (up to 20 hectares) represent more than 70 per cent of the total agricultural area.

This spring a new law was enacted which provides that no farm can be split below 10 hectares and that no farmer can own more than 50 hectares. The intention of the law is to prevent the division of

farm land to a degree at which the owner working on it cannot make a self-sufficient living. The 50 hectares limitation, on the other hand, was enacted to enable the small landowner and landless farmhands to acquire more land and thus make Czechoslovakia even more a country of small self-sufficient farms than it was before the occupation.

The table below is depicting the variety of crops raised in Czechoslovakia in comparison with neighboring countries. In the postwar years the sowing rotation system did not change appreciably.

Prewar crops raised on arable land in Czechoslovakia
as compared with other European countries

<u>Crop</u>	<u>Czecho-</u> <u>slovakia</u>	<u>Germany</u>	<u>Austria</u>	<u>Hungary</u>	<u>Poland</u>	<u>Rum-</u> <u>ania</u>
	(in percentages)					
Wheat	13.3	7.8	10.8	27.6	7.9	21.0
Rye	17.6	23.1	19.5	11.9	32.0	2.4
Barley	12.1	7.5	8.2	8.6	6.9	15.8
Oats	14.1	17.2	15.4	5.4	12.1	9.3
Maize	2.2	--	2.9	20.2	0.5	36.9
Other cereal and leguminous crops	0.8	4.5	1.4	4.3	5.0	1.7
Cereal and legumi- mous crops, total	60.1	60.1	58.2	78.0	64.4	87.1
Potatoes	12.4	13.8	9.9	5.1	14.5	1.6
Sugar beets	4.-	2.2	0.2	1.4	1.3	0.4
Fodder root crops	1.9	5.1	3.7	2.0	0.8	0.2
Root crops in general	18.3	21.1	13.8	8.5	16.6	2.2
Field fodder crops	14.7	12.3	14.6	8.4	5.5	4.8
Other crops	4.3	4.4	10.6	1.9	2.7	3.2
Fallow land	<u>2.6</u>	<u>2.1</u>	<u>2.8</u>	<u>3.2</u>	<u>10.8</u>	<u>2.7</u>
	100.-	100.-	100.-	100.-	100.-	100.-

In the inter-war period, the Government strongly supported the intensification of agricultural production. By introducing modern production methods, by subsidizing the acquisition of agricultural machinery by small farmers, and by supporting the cooperative movement among them (on Danish model), it succeeded in the last decade before the war to raise the per capita cash income of the farmers

above that enjoyed by the same occupational groups of people in all other countries of Central Eastern Europe. The table below shows the yield per acre of the principle agricultural products in Czechoslovakia compared with the other countries of that region.

Annual Yield Per Acre (Average 1933-37)
(In cwts.)

<u>Country</u>	<u>Wheat</u>	<u>Rye</u>	<u>Maize</u>	<u>Potatoes</u>
Poland	9.6	8.9	8.2	94.0
Czechoslovakia	14.8	12.9	13.5	103.3
Hungary	10.9	8.9	14.9	56.2
Rumania	7.3	7.4	7.8	63.7
Yugoslavia	8.9	6.6	13.6	48.9
Bulgaria	10.7	8.5	10.0	53.0
Greece	7.7	6.4	7.2	43.9
Germany	17.7	13.6	25.3	117.9
United Kingdom	17.3	12.9	---	134.1

One of the characteristic features of the Czechoslovak agriculture is the highly-developed agricultural industry. Before the war (since then the Germans dismantled during the occupation a great many sugar factories and breweries), there were in Czechoslovakia 148 beet-sugar factories manufacturing 12 million metric quintals of sugar, 450 breweries with a manufacturing capacity of more than 12 million hectoliters beer, 897 distilleries with manufacturing capacity of 700,000 hectoliters alcohol; 80 starch factories, 13 yeast plants, 103 independent malthouses and 396 malthouses connected with breweries, 380 plants for industrial utilization of fruit and vegetables, more than 600 dairy plants, nearly 10,000 mills that could utilize, in addition to inland crops, imported grain, and 50 chicory and coffee substitute plants.

During the war, agriculture was considerably depopulated. The Germans drafted a larger percentage of rural population than that from the cities for slave labor. They depleted the livestock and decreased the allotment of fertilizer and thus contributed greatly to the neglect of cultivation and to the exhaustion of land. After the war, people so detached from farms did not return to the villages but, rather, accepted employment in industries. In addition, in the immediate postwar years, fertilizer was not forthcoming in sufficient quantities from the Czechoslovak factories. These factors combined with two successive crop failures, made the task of rehabilitation of agriculture very difficult. Yet, because of these factors, the Czechoslovak agriculture is now in a crisis and it will take at least 2 years of good crops to overcome it.

Industry

Czechoslovak manufacturing is highly dependent upon imports of raw materials. An average of about 60-65 per cent of its imports consists of raw materials which are processed in Czechoslovak diversified industries. Except for coal, timber, clay, and some iron ore, Czechoslovakia has no significant raw material sources.

Having a small domestic market it must rely upon exports, but because it is a land-locked country distant from the sea, it cannot concentrate on mass production of some standardized industrial products but, rather, on high quality goods which can stand even high transportation costs. Besides textile, glass and ceramic industries, which are widely known, Czechoslovakia has also highly developed tool and machine industries capable of producing from a simple needle to the most complicated machinery.

During the war, the machine tool industry, but above all the electromotor producing plants, and of course those producing armaments, were considerably expanded, while on the other hand, textile and glass producing plants were partly scrapped and what was left were badly worn and needing a great deal of replacement and repairs.

Nationalization

By the nationalization decrees of October 1945, as a general rule, industrial enterprises employing more than 300 to 500 persons were nationalized. The actual limit is different in various industries. In certain key industries, such as, mining, iron and steel, electric power, etc., nationalization covers all units regardless of the number employed. In some other branches the scope of nationalization is defined in terms of technical capacity, rather than employment. Two industries are not covered by the decrees, namely, printing and building. No periodical, however, may be published except by political parties, trade unions, cultural and professional organizations.

As a result of the diversity of regulations, there are wide fluctuations of the extent of nationalization between different industries. While nationalization is complete in some sectors, there are others, such as food processing industries, or certain branches of textile industries, where private firms account for more than 50 per cent of total employment. The table below gives the size of nationalized sectors in each industry.

Number of persons employed in nationalized firms
as a percentage of total employment in each industry.

<u>Industry</u>	<u>Percentage</u>
Mining	100
Iron and Steel, Engineering	75
Chemical	74
Woodworking	23
Building Materials and Pottery	59

<u>Industry - continued</u>	<u>Percentage</u>
Building	10
Glass	68
Textile and Clothing	46
Leather	60
Paper and Printing	28
Food	39
Electricity, Gas, and Water	<u>82</u>
Total	62

Some enterprises formerly owned by Germans and Hungarians, which otherwise wouldn't come under the nationalization law, are being attached to nationalized firms of their respective industries and, therefore, the nationalized sector of industry may reach 65 to 70 per cent of the total industrial employment.

The thus industrialized enterprises are directed by 12 central offices, each for one sector of the nationalized industry. The management is appointed by the Government and is subject to supervision of a special committee consisting of representatives of the Ministry of Finance, National Bank, Ministry of Industry, and the Prime Minister's Office. Having been appointed, the general managers are running their enterprises as if they were private enterprises except that accrued profits are to be divided into three parts: (1) a part has to be delivered to the Ministry of Finance, (2) another part has to be kept for replacement or expansion of equipment (amortization account) and (3) a part has to be distributed among the employees of the industry.

During 1946, the nationalized industries evidenced considerable loss which was due mainly to the fact that they worked below their full capacity, being handicapped by inadequate organization, by lack of skilled labor, as well as by irregular flow of raw materials from abroad. The Ministry of Finance expects the national industries to make considerable profits in 1947, particularly since the volume of output of Czechoslovak industry is steadily increasing in both the nationalized as well as the private sector. The best indication of the growing production results of the Czechoslovak industry is the value of its sales for 1946. While in the first quarter of 1946 the total value of industrial products sold by the factories amounted to 27.7 billion crowns, this figure jumped to 45.8 billion crowns in the last quarter.

Foreign Trade

Czechoslovakia, and more specifically, its Western provinces Bohemia and Moravia, were the industrial region of the former Austro-Hungarian Empire. After the dissolution of the Empire, there remained only one way for Czechoslovakia to maintain the standard of life of its population: to trade with abroad. Its natural markets were the so-called successor states in Central and Eastern Europe and Germany. The growing productivity of Czechoslovakia's agriculture, however, which made the country in the 30's nearly self-sufficient in food, narrowed the basis on which a larger volume of trade between Czechoslovakia and her predominantly agricultural neighbors could be developed, except by capital export to these countries. This Czechoslovakia attempted to do within its economic possibilities (mainly for political reasons) to Yugoslavia and Rumania, so as to check the growing German political and economic penetration into these countries.

As a result, Czechoslovak economy had to look for other outlets for its products on distant markets. To a large extent it succeeded, even though it was handicapped by high transportation costs, being a land-locked country, and the fact that, except for coal and timber, it has no significant raw material resources. As a result of these efforts, by 1937 the share of the United States and the Sterling area on Czechoslovak exports increased from 23 percent in 1929 to 31.2 percent. Similarly, its exports to France, Belgium, the Netherlands, and Switzerland increased from 7.4 percent to 13.9 percent and exports to other overseas countries (mainly Latin America) from 6 percent to 12 percent. The United States, with 9.3 percent of the total Czechoslovak exports became the second largest buyer next only to Germany (whose share decreased from 19.4 percent in 1929 to 13.7 percent of the total exports in 1937). At the same time, exports to the Danubian countries (Austria, Hungary, Yugoslavia, Bulgaria and Rumania) decreased from 31.6 percent in 1929 to 20.3 percent in 1937. Thus, Czechoslovakia achieved, within a relatively short period of eight years, a shift in her exports to the effect that her exports to exchange control countries and Germany, which amounted in 1929 to about 61.8 percent of the total exports, decreased to only 41.9 percent in 1937, while at the same time, her exports to free countries increased from 38.2 percent to nearly 58.7 percent. In striving to achieve this, Czechoslovakia had to reorient its production from the mass manufacture of cheap industrial products to high-quality specialties, be it in textile, glass, ceramic, or in tool and machinery industries.

Postwar Trade

Despite disrupted transportation systems in Europe (and particularly, the routes to the harbors Czechoslovakia is mainly using: Hamburg, Bremen, Trieste, Stettin, Rotterdam, and Gdynia) and nearly eight years of interrupted trade contacts, Czechoslovakia is well on her way to regain lost markets and indeed find new ones. In the Spring 1947, her foreign trade reached 71 percent of the volume of 1937. The following table indicates the rapid recovery of Czechoslovakia's foreign trade.

Czechoslovakia's Foreign Trade Since Liberation

(in millions of crowns)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1945 May - December	500.3	776.7	- 276.4
1946 January - March	1347.5	1140.1	/ 207.4
April - June	2562.0	2059.4	/ 502.6
July - September	2064.9	2635.6	/ 1429.3
October - December	6350.5	4401.9	/ 1948.6
1947 January - March	5460.7	5006.5	/ 454.2
April - June	7510.0	7807.6	- 297.6

In 1937, the total volume of trade amounted to 22.9 billion Czechoslovak crowns while in the first half of 1947 the total volume reached the sum of 25.7 billion crowns. Expressed, however, in 1937 prices, the volume of trade for this period reached only 8.57 billion crowns or 71 percent of the 1937 volume.

The Commodity Structure

The structure of trade remained basically the same as prewar years. As can be seen from the table below, under classification of trade for the first half of 1947, raw materials is the main item on the import side of the balance, while finished goods is the predominant item in exports.

Foreign Trade in Czechoslovakia for the First Half of 1947 classified according to Brussels nomenclature:

(in millions of crowns)

	<u>Imports</u>		<u>Exports</u>	
	<u>In crowns</u>	<u>Percent</u>	<u>In crowns</u>	<u>Percent</u>
I. Live animals	52.6	0.4	1.4	0.0
II. Foodstuffs and Beverages	1944.9	15.2	1654.4	12.7
III. Raw Materials or Semi-finished goods	7361.7	61.4	2044.5	15.8
IV. Finished Products	2952.3	23.0	9257.0	71.4
V. Gold and Silver	2.2	0.0	13.8	0.1
Total	12813.8	100.0	12970.8	100.0

While 71.4 percent of the exports consist of finished products, a considerable shift within this group is noticeable. Textile goods, which before the war, used to form 20 to 25 percent of total exports, relapsed to third place behind iron and steel products, as well as products of light metal and machinery industry. This is the result of the expansion of metallurgical industries during the war and the fact that many textile factories were dismantled by the Germans and that others do not work at full capacity either because they do not have the necessary skilled labor

(which has been transferred to Germany) or because of lack of raw materials which have to be procured to a large extent from countries with which Czechoslovakia has already passive balance of trade.

The main items on the Czechoslovak import list are: tobacco, cotton, wool, iron ore, non-ferrous metals, rubber, hides, mineral oil, foodstuffs, and machinery needed for reconstruction. Her largest export items constitute: iron and steel, iron and steel products, that is, machinery of all kinds (mainly agricultural machinery and electric motors, but also railway cars, freight cars and locomotives), glass and glass products, timber and timber products, textiles, shoes, paper and paper products, hops, and sugar.

Geographical Distribution of Trade

In the short period since liberation, Czechoslovakia re-established trade relations with nearly all European countries and with all significant trading nations of the world. In the last 12 months, she concluded over 30 trade and payment agreements with various countries. In the first half of 1947, her 10 largest customers judged by the value of exports were the following countries:

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
	(in millions of crowns)		
1. Switzerland	1512.7	1132.0	+ 380.6
2. Sweden	1180.8	851.8	+ 329.0
3. Netherlands	995.9	780	+ 215.9
4. Belgium	885.8	751.5	+ 128.3
5. United Kingdom	697.4	1387.5	- 690.1
6. Yugoslavia	697.1	357.3	+ 338.1
7. United States	634.7	1813.2	-1178.3
8. U.S.S.R.	600.6	426.8	+ 173.8
9. Italy	550.5	476.2	+ 74.2
10. France	480.0	496.7	- 16.7

While before the war the largest importers of Czechoslovak goods were Germany and the United States, in the first postwar years they were replaced by Switzerland and Sweden, respectively. On the supply side, Germany was replaced by the United States while the United Kingdom maintained its position followed closely by Switzerland. The comparatively large share of the Netherlands, Belgium and Sweden on Czechoslovak trade is due (for the time being) to the elimination of Germany from European trade.

The natural markets of Czechoslovak industry, the countries of Southeastern and Eastern Europe still do not figure significantly in the country's foreign trade.

All these countries suffered great damage during the war. Moreover, three years of successive crop failures hampered any substantial recovery in their production capacity. Thus, while they are willing buyers of industrial products of Czechoslovakia, they have neither the foodstuffs nor raw materials to spare which Czechoslovakia would be willing to accept for her exports, nor do they have convertible foreign currencies to pay for imports from Czechoslovakia. The Czechoslovak Ministry of Foreign Trade is under constant pressure from manufacturers who want to export to this region because of the higher prices they can achieve there, yet for reasons of not desiring to increase large credit balances with these countries it has to resist this pressure strongly.

Despite mutual desire to increase the volume of trade between the Soviet Union and Czechoslovakia, in 1946 only 12 per cent of total Czechoslovak exports went to the U.S.S.R., while Czechoslovakia imported only 9.6 per cent of her total imports from this country. In the first half of 1947, U.S.S.R.'s share dropped slightly below 5 per cent of the total trade of Czechoslovakia. The recently initiated negotiations for a 5-year trade treaty between the two countries promise an expansion of trade, particularly, since the U.S.S.R. has committed itself to supply Czechoslovakia with larger quantities of highly needed goods, e.g., it offered to deliver in 1948 about 200,000 tons of wheat, 200,000 tons of corn and other cattle-feeding grains, 65,000 tons of fertilizer, and 20,000 tons of cotton.

Prospects and Problems of Further Expansion of the Volume of Trade

Recently, Czechoslovakia has concluded a series of trade treaties with Poland, Yugoslavia, and Bulgaria, which are aimed at considerable expansion of their present exchange of goods. Czechoslovakia committed itself to supply to these countries within the contracted period, textiles, durable consumers goods, and above all, capital equipment, in connection with the respective reconstruction plans of these countries. They, in turn, are to supply Czechoslovakia with foodstuffs and raw materials, hoping that in the course of reconstruction the production of these products will considerably increase. However, to produce the capital goods desired by these countries, Czechoslovakia has to import, in addition to raw materials supplied by the above-mentioned countries, raw materials from overseas, particularly, cotton, wool, copper and other non-ferrous metals, besides industrial equipment for its own reconstruction. To do so, (if it will not succeed in securing a loan from the International Bank for Reconstruction and Development) it will have to intensify its exports to the free exchange countries in order to finance its growing deficit with the United States and United Kingdom which are the sources of the above-mentioned raw materials and capital goods. The prices achieved on the free exchange markets are, however, lower than those offered by the countries of South-eastern Europe and the quality of exported commodities has also to be higher due to a much keener competition. To decrease its prices and to improve the quality of the products suitable for the overseas markets, is therefore, one of the main problems of the Czechoslovak exports to the West, because it is only by increasing her exports to the West (which can be done only if the above-mentioned two conditions are met) that Czechoslovakia can increase also her trade with her Eastern neighbors and thus her total volume of trade.

Balance of Payments

There are no official figures available on Czechoslovakia's balance of payments for 1946, therefore, only the balance of trade is given for that year. The Czechoslovak Government, however, submitted to the International Bank for Reconstruction and Development an estimate of its balance of payments for 1947. For comparison, the balance of payments of 1937 as compiled by the League of Nations is presented in the table below.

Balance of Payments for 1937, 1946 (Balance of Trade only) and Estimates for 1947.

(in millions of US dollars)

	<u>1937</u>			<u>1946</u>			<u>1947</u>		
	Rec.	Pay.	Net Bal.	Rec.	Pay.	Net Bal.	Rec.	Pay.	Net Bal.
1. Merchandise	417.8	383.2	✓34.6	286	204	✓82	590	670	- 80
2. Services (Brokerage, insurance, licenses, transportation, representation abroad, etc.)	50.2	46.5	✓ 3.7	.	.	.	34	68	- 34
3. Remittances, subsidies, pensions, etc.	5.7	2.7	✓ 3.0	.	.	.	6	4	✓ 2
4. Interest, dividends, rentals, etc.	6.8	24.8	-18.0	.	.	.	2	20	- 18
5. Miscellaneous	3.9	13.1	- 9.2	.	.	.	.	.	.
6. (a) Payment of Debts, transfer of capital, etc.	3.7	12.1	- 8.4	.	.	.	5	45	- 40
(b) Foreign credits*	--	--	--	.	.	.	40	6	✓ 34
7. Errors in measurement	--	5.7	- 5.7	.	.	.	.	.	.
Total	488.1	488.1	0	286	204	✓82	677	813	- 136

* Credit in receipts for 1947: expected use of parts of credits previously granted (Canada \$10 million, U.K. \$13 million, US \$1 million, cotton credit, Brazil \$10 million, Australia \$2 million, and Egypt \$4 million.)

Credit expenditure for 1947: Sales on credit or probable increase in clearing balances.

The characteristic feature of Czechoslovak balance of payments in prewar years was that the surplus in the trade balance usually covered the deficit of the invisible items. It is expected, that in the first three postwar years, the balance of trade will be also passive. While the trade figures for 1946 show a surplus of \$80 million, this is mainly due to the fact that UNRRA shipped to the country in 1946 supplies in the value of \$205 million which were not included among the regular imports. The Government estimate for 1947 expects in the trade balance a deficit of \$80 million but in the first half year on merchandise account there is a slight surplus of \$3.1 million dollars.

While it is expected that the balance of trade will become passive in the second half of this year (and the preliminary trade figures for July indicate a deficit of \$4 million), it is improbable that it will reach the estimated sum of \$80 million should the Government be unable to secure additional credits to those it already has available. ^{1/} Having complete control of exports and imports by a strict licensing system, it can if necessary restrict imports and other payments to an amount for which it will be able to find cover by exports and by borrowing from abroad.

In comparison with 1937, the following factors unfavorably influence the postwar balance of payments of Czechoslovakia:

(1) The cost of transportation to and from Czechoslovakia is much higher than before the war. Large quantities of raw materials were shipped formerly by boats down the Elbe and Oder River and are now shipped by rail. The Danube is still not fully navigable, and thus the trade with the Balkans is still to a large extent transported on railroads.

(2) Patent license fees are higher than before the war, and the receipts for Czechoslovakia's patents and licenses are much smaller.

(3) There is a considerable rise in commission payments to agents abroad as compared to prewar years. This item, although transitory will be important for the next 3 or 4 years.

(4) Payments in support of international institutions, established during and after the war, are much higher than the contributions of Czechoslovakia to international institutions of prewar days.

^{1/} Since the estimate of the 1947 balance of payments was submitted (March 31, 1947, Czechoslovakia entered into negotiations with Argentina for a new trade agreement, and within its framework it hoped to receive a loan equivalent to U.S. \$35 million of which \$10 million could be used in 1947. The treaty has already been concluded but not yet ratified. Reparation payments of Hungary to be paid in 1947 amount to U.S. \$3.8 million and credits extended to Czechoslovakia, within the framework of the payments agreement with various countries, may be estimated to an amount of U.S. \$15 million. Adding these sums to available resources, the deficit would decrease to U.S. \$107.2 even if it is assumed that the trade deficit will amount to the estimated sum of U.S. \$80 million.

(5) Czechoslovak representation abroad costs much more now than foreign missions spend in Czechoslovakia.

(6) Due to political atmosphere, the tourist trade will be negligible for the first few years. Before the war, it was a considerable source of income.

(7) Immigrant remittances will be much smaller due to the fact that a great many workers formerly abroad returned to Czechoslovakia and because of 8 years of separation many family ties were broken or loosened to such an extent that they will be a limiting factor in remittances to be sent.

(8) Interest payments and amortization of loans abroad will now require a higher sum than before the war. The income from investments abroad has declined or stopped altogether since most of the Czechoslovak investments were in countries which nationalized important industries or otherwise stopped payments of profits and interests (e.g. the Balkan countries).

Foreign Credits & Debts. Exchange Resources

The gold and foreign exchange resources of the country are concentrated in the National Bank of Czechoslovakia, the only official agency having transactions in foreign exchange and the only Czechoslovak institution holding monetary gold. The commercial banks are permitted to hold abroad only working balances and these too are under strict control and at the disposal of the National Bank.

Czechoslovakia entered peace with very little gold and foreign exchange reserves. The greatest part of its prewar holdings was either dissipated by the Germans or spent (under special agreement with the Government of the United Kingdom) by the Czechoslovak Government in Exile (some \$28 million)

On January 1, 1947 the holdings of gold and small foreign exchange of the National Bank of Czechoslovak amounted to 5,746 million crowns (U.S. \$114.9 million) of which 10 per cent was freely disposable gold, 18 per cent consisted of gold claims against Germany ^{1/}, 5 per cent were in Swiss francs, 15 per cent in currencies of Western European countries, 10 per cent in various currencies of smaller countries, e.g. Argentine pesos, Egyptian pounds, Portuguese escudos, etc. 30 per cent in Pound Sterling and 12 per cent in U.S. dollars.

Prewar Foreign Debts

The Czechoslovak foreign debt, contracted before the war, can be divided into three distinct categories:

(a) Debts taken over from Austria-Hungary in accordance with the peace treaties of 1919 which amounts to U.S. \$45 million. On January 1, 1938, Czechoslovakia, following the example of other debtor countries discontinued the payment of interest and amortization of this debt. Since last summer negotiations have been in progress for new arrangement among the creditors and debtor countries for the payment of these loans. There are no positive measures yet announced.

(b) So-called political debts consisting of loans extended to the Czechoslovak Government during and immediately after the first World War to maintain its Army in Siberia, France, and Italy, and of the liberation payment decided upon by the Versailles treaties of September 10, 1919. Together this debt amounts to U.S. \$194 million. The servicing of this debt was discontinued since the Hoover moratorium of 1931.

^{1/} Due to inter-allied agreement on reparations and specifically on the distribution of seized German gold assets of which Czechoslovakia is to get 3.1 per cent, only a small fraction of the lost gold will be returned.

(c) Inter-war investment loans of which a debt of U.S. \$29.8 million is still outstanding. The outstanding amount consists of a residue of the 8 per cent Czechoslovak investment loan of 1922 in the sum of U.S. \$5.5 million and of a British Government loan of 1938 in the sum of U.S. \$24.3 million. Beginning with October 1, 1946, the servicing of the first mentioned loan was renewed on a new basis, the interest rate being reduced from 8 per cent to 6 per cent and the period of repayment was extended to the end of 1960. The British Government loan of U.S. \$24.3 was granted in connection with the reconstruction of Czechoslovak economy after the Munich pact and the liquidation of this credit was not yet discussed between the two Governments. It is probable that it will be dealt with when the problem of the British credit during the 2nd World War is settled.

In all, the prewar Czechoslovak foreign debt amounted to U.S. \$268.8 million.

During the 2nd World War certain credits were arranged by the Czechoslovak Government in Exile with the British and French Governments. The Czechoslovak Government in London secured from the British Government during the war for material and personal expenditures of military and administrative nature a loan in the sum of U.S. \$53.5 million and for the same purposes from the French Government a loan in the sum of U.S. \$0.2 million. Terms of repayment of these loans have not yet been arranged.

Loans after liberation

Since the liberation of the country the Czechoslovak Government or the Czechoslovak banks with the guarantee of the Government were able for the purpose of purchasing food, raw materials or war surplus goods to secure the following loans:

CZECHOSLOVAK POST-WAR LOANS

Description	Purpose	Interest Rate	Date Issued	Date Due	Amount issued in original currency	Amount outstanding as of March 31, 1947 (in millions of U.S. dollars)
					(Can.\$)	
1. Canadian loan (limit 19 mill. Can.\$)	Purchase of raw materials	2 $\frac{1}{2}$ %	1946	1951-55	4,000,000	4
					£	
2. British Gov. Loan (limit £5 mill.)	Purchase of com- modities	2 $\frac{1}{2}$ %	1945	1949-53	2,120,000	8.5
3. Loan of Swedish Gov. (limit 24 mill. Sw.Kr.)	Raw materials	3%	1946	1948	Sw. Kr. 12,000,000	According to Nat. Bank of Czech. sources, loan was fully repaid
					U.S.\$	
4. Loan from U.S. (limit originally \$50 mill. suspended 9/27/46)	Purchase of war surplus goods	2 $\frac{3}{8}$ %	1946	1952-76	7,500,000	7.5
					£	
5. British Gov. Loan (limit £2,500,000)	Purchase of surplus goods	$\frac{3}{8}$ %	1946	1950-51	439,000	1.7
					\$	
6. Loan from the Brazilian Gov.(limit \$20 mill.)	Purchase of raw materials	3%	1946	1952-56	5,472,969	5.5
7. U.S. Export-Import Bank to Prague Cr. Bank (limit \$20 mill.)	Purchase of cotton	2 $\frac{1}{2}$ %	1946	26 mos. from date of com- mitment	\$ 19,000,000	19
8. U.S. Export-Import Bank to Prague Cr. Bank (limit \$2 mill.)	Purchase of tobacco	2 $\frac{1}{2}$ %	1946	26 mos. from date of com- mitment	\$ 2,000,000	2

CZECHOSLOVAK POST-WAR LOANS

Description	Purpose	Interest Rate	Date Issued	Date Due	Amount issued in original currency (in millions of U.S. dollars)	Amount outstanding as of March 31, 1947
9. Nier Bank Cairo to Zivnostenska banka Praha (Z.L. 1 mill.)	Purchase of cotton	3%	1947	12 mos. from date of commitment	Z.L. 1,000.000	
10. Commonwealth Bank of Australia to Zivnostenska banka Praha (L 500,000)	Purchase of wool	2 1/2%	1947	12 mos. from date of commitment	L 500.000	
11. Hambro's Bank London to Czechoslovak Banking houses (limit L 1 mill.)	Purchase of raw material	2 1/2%	1946	12 mos. from date of commitment	L 750,000	U.S. \$3

The total foreign indebtedness of Czechoslovakia by the end of 1946 amounted to U.S. \$373.7 million. In addition, Czechoslovak Government or Czechoslovak commercial banks have secured further credits in the sum of about \$57 million which can be utilized partly in 1947 and partly in 1948.

In 1947, Czechoslovakia will have to pay about U.S. \$2.9 million in servicing its foreign debt as indicated in the table below.

Interest and Amortization of the
Czechoslovak Foreign Debt in 1947

(Converted in U.S. dollars)

Name of debt	Interest	Amortization
1. 8% (now 6%) Czechoslovak Government Bonds of 1922:		
(a) Sterling issue	229.980	38.620
Payments on interest partly due for 1939-1946.	112.380	--
(b) Dollar issue	102.570	17.224
Payment on interest partly due for 1940 - 1946.	89.655	--
2. Swedish Government credit 3% interest	130.000	--
3. U.S. Government Credit	160.000	2,000.000
	874.585	2,055.844

Total estimated service of foreign debt in 1947.....\$2,930.429.-

Exchange Market in Czechoslovakia

After liberation, Czechoslovakia reintroduced a severe system of exchange control which had been in operation since 1931, but because of a few amendments a new foreign exchange law was passed by the Parliament in January 1946. This law gives the National Bank of Czechoslovakia, which is the sole bank of issue of the country, the duty to control every payment outgoing from or incoming to Czechoslovakia. This means that all payments, in foreign currencies or in Czechoslovak crowns, are under control and, similarly, borrowing or lending abroad in whatever currency. The purpose of this policy is to control not only actual payments but also every change in the country's liabilities toward other countries.

The reasons for such a strict foreign exchange control are partly economic and partly political. Czechoslovakia usually has an active balance of trade but the quality of items on the export and import side is not the same. In imports, Czechoslovakia has to buy and pay for considerable quantities of raw materials, such as, cotton, wool, iron ore, etc., in currencies of the Western countries. On the export side, a great proportion of manufactured goods tend to the Eastern countries where payments in the form of compensation or in clearing are the only ones to be obtained at present. Thus, Czechoslovakia is exposed to a constant pressure on her holdings of gold and convertible currencies since her reserves of "scarce" (from the subjective point of view) currencies are being continually converted into claims against countries, currencies of which cannot be used in Western markets. This structure of foreign trade is responsible for the fact that while the balance of trade for the country is in equilibrium, qualitative structure of the two sides of the balance of trade, as measured in terms of convertible foreign currencies, shows a tendency toward a deficit in convertible currencies.

Another set of reasons is given by political conditions in continental Europe. For so many years the nations of Europe have been prey of pressure and strain that the fears regarding safety of life and property induce them to look for a safer investment of their assets. While there is a constant tendency for many liquid properties in Central and especially Southeastern Europe to look toward the Czechoslovak monetary market as a safe haven for their surplus funds, many a Czechoslovak would prefer to have his own moneys deposited in Switzerland, Scandinavia or in the United States. It is immaterial whether the reasons for such tendencies are sound. The fact remains that the strength of them is sufficient to cause a permanent desire for many capitals used in the country to leave for some other and psychologically more desirable place.

Foreign Exchange Rates

All transactions in foreign exchange take place at official rates which are published by the National Bank of Czechoslovakia every Friday. Rates for cables and money transfers are published separately from those of foreign bank notes. Since the monetary reform of 1945, the official parity

rate has been 50 Kcs. to 1 U.S. dollar. The National Bank publishes three rates: buying, selling, and parity rates. The spread between buying and selling rates is as a rule 0.6 of 1 per cent. Recently published official rates for important currencies are as follows:

	<u>Buying</u>	<u>Parity</u>	<u>Selling</u>
	<u>(in Kcs.)</u>		
U. S. Dollar	49.85	50	50.15
£ Sterling	200.90	201.50	202.10
Swiss Franc	11.59	11.62	11.66
Swedish Kroner	13.86	13.91	13.95

The rates for foreign bank notes are somewhat lower and the spread wider. Their market is, however, of little importance.

There is no free market in foreign exchange in Czechoslovakia at present. All exporters and other traders having claims abroad must surrender them to the National Bank either directly or through the authorized banks. Owners of investments abroad must declare them at regular intervals to the National Bank which decides whether they may keep such investments or whether they have to sell them to an authorized bank or to the National Bank itself. Travellers may export goods in value of 500 Kcs. while larger exports, as well as railroad and airplane tickets, must be authorized by the National Bank. Exportation of Czechoslovak notes is prohibited above the total of 500 Kcs. There are no multiple exchange rates or discriminatory practices in Czechoslovakia.

Black Market

There is no black market of any significance in Czechoslovakia. Only some illegal trading in foreign notes is recorded. Sporadically, foreign notes, primarily U.S. dollars and Swiss francs, are dealt in by private persons. The volume of transactions, however, is without any importance. The prices of U.S. dollar notes vary between 65 to 120 Czechoslovak crowns. Moreover, Czechoslovak notes are being sold in small quantities on the Swiss market at a discount of around 25 per cent and on the New York market at a discount of about 70 per cent. On the other hand, Czechoslovak bank notes are being dealt in on black markets in Austria, Hungary, Rumania, Bulgaria, and Poland. They are quoted from 20 to 100 per cent above the official parity rate.

Currency, Banking, and the Budget

The "National Bank of Czechoslovakia" is the central bank of the country. It is still a privately owned stock company even though there is a bill before the Parliament to nationalize it. The National Bank is responsible - in close cooperation with the Ministry of Finance - for the monetary policy of the country. In spite of the great influence exerted by the Government on matters of fundamental policy, the Board of Governors of the National Bank is in fact an independent body with great influence in the economic policy.

Even before the war, a concentration of commercial banks was in progress. During the war, the Germans speeded up this process in order to gain larger control of private banks. Thus, while in 1929, there were 39 large commercial banks, by 1945 the number decreased to 12. In the course of nationalization in October 1945, all these banks were nationalized. A Central Administration for these banks has been appointed by the Government and the general manager of the National Bank of Czechoslovakia (Mr. Leopold Chmela) has been appointed Chairman of the Central Governing Board.

Until recently, banking in Czechoslovakia was organized along the same line as in other central European countries with commercial banks having large interests in various industrial enterprises. With the nationalization of the commercial banks a complete reorganization of the banking system of Czechoslovakia is envisaged.

It is envisaged that the 12 commercial banks will limit their activities to short-term financing of industries. The large network of Peoples' Savings Banks (which are organized on a cooperative basis) together with the Postal Savings System, will serve as collector of small savings and will also extend credits to artisans, small business, and farmers, and that a third group of banks will be created which will provide means for long-term capital investment.

Monetary Reform

The monetary reform of the country was initiated in November 1945. At that time, by a series of decrees, the Government unified the currencies of the country by eliminating the five currencies (the Czech crown, the Slovak crown, the reichsmark, the pengo, the Polish zloty) from circulation and exchange them for the new Czechoslovak crown. Simultaneously, it ordered all cash to be deposited with the bank, where, together with sight and saving deposits, it was blocked, except 500 crowns per person, which was issued in the new currency. By this action, the total amount of currency in circulation decreased from 130 billion crowns in May 1945 to 31 billion crowns in January 1946.

Unfortunately, in the law decreeing the blocking of accounts there was a loophole as far as Government agencies and autonomous bodies (districts, provinces and municipalities) were concerned. These were exempted from the

blocking provisions. The Government was not aware of the large sum (about 15 billion crowns) which was involved. In the course of the year a great part of these balances was withdrawn from the banks and thus swelled the circulation. Over 2 billion crowns were transferred from private blocked accounts to free accounts of the Government in lieu of payment of taxes due for 1945. By December 1, 1946, when stricter regulation was put into force about 13.3 billion crowns were released from the frozen deposit. Since then other money were deblocked and thus bank notes in circulation increased from 31 billion in January 1946 to 43.5 billion by December 31, 1946 and 45.9 billion by July 31, 1947. On August 15, 1947, the total amount of banknotes in circulation plus sight deposits in the Central Bank amounted to 55.2 billion crowns.

Blocked accounts

To complete the monetary reform, about two months ago a law was passed by the Parliament establishing a "Currency Liquidation Fund" whose function it will be to liquidate in a method, which would not disturb the economy of the country, the blocked accounts which on December 31, 1945 amounted to 249.5 billion crowns. The problem to be solved by the Currency Liquidation Fund presents itself as follows:

Blocked deposits as of December 1st, 1945.....249.5

1.	From this sum is to deducted amounts which were not claimed by their owners or their legal heirs within the specified time limit prescribed by law and will be forfeited,	21.4
2.	The Parliament levy on capital and war profits, the proceeds of which will be used to finance the released blocked accounts against which there are no assets available, will bring in an estimated	30.
3.	Deposits of enemy nations	40.6
4.	Some smaller items, together	<u>5.5</u>
		97.5

This total will decrease the blocked accounts to 152 billion.

Therefore, even after all these measures are carried out the Currency Liquidation Fund will have on its hands 152 billion of deposits which it will have to liquidate in a manner which will prevent inflationary dangers. Of the 152 billions, only 50 billions are covered by real assets held by the depository banks. For the rest there are only fictitious assets viz. deposit claims against the National Bank which, in turn has in its books, claims of doubtful value, in the same amount on the German Reichsbank.

In an effort to find assets to cover these deposits and slowly release them to their owners the Government has established the Currency Liquidation Fund which is to be attached to and administered by the National Bank of Czechoslovakia. According to the law establishing this institution the Fund will take over all the obligations on the blocked deposits from the commercial banks together with their respective assets. Among the assets, there are some good assets, (e.g. claims against Czechoslovak debtors, securities of S.S. firms, etc.) and doubtful ones (German Reichsbank securities, Treasury notes, claims against German nationals, etc.)

Since, however, the obligations are larger than the total sum of good assets, the Liquidation Fund will be made the recipient also of proceeds of all sales of property, of transferred Germans and Hungarians, confiscated property of collaborators, reparation and restitution claims, as well as some yearly donations from the State included in the yearly budget of the country. The operations of the Liquidation Fund are envisaged so as not to disrupt the normal trade channels of the business community.

The commercial banks will not hand over to the National Bank the good assets covering the blocked deposits, but instead they will open to their full amount for the Liquidation Fund an interest bearing sight deposit account. How much of these deposits the Liquidation Fund will be able to use will depend on the liquidity of each separate bank. For the greatest portion of the deposits the Liquidation Fund is supposed to issue its own interest bearing marketable securities which it will slowly redeem. The rate of redemption will depend on the good assets the Liquidation Fund will accumulate from the above-mentioned sources and on the condition of the money market.

Conditions on the Money Market

Conditions on the money market at present are rather easy. Deposits with the banks are increasing and the deposits of the banks with the Central Bank are high. Judging by the volume of deposits on passbooks, long term savings and the formation of long term capital are constantly mounting. The state of Government finances seems to help the general easiness on the market. In the last eight months, the Government held cash balances either with the National Bank or with the Postal Savings Bank on the average of about 3 to 4 billion Czechoslovak crowns. Only twice after the currency reform did the Government use the market. In the Spring of 1946, short term Treasury notes were issued in the total of 6 billion crowns at the rate of $1\frac{1}{2}$ per cent. In October 1946, long term Government bonds were placed on the market in the total value of 4.5 billion crowns bearing 3 per cent interest. Before the end of 1946 the Government paid off 2.1 billion crowns of Treasury notes and in May 1947 an additional 500 million were paid off.

By the end of June 1947, the total deposits on passbooks, and on demand deposit accounts, reached a total of 67.3 billion crowns. Of this, 32.3 per cent were deposited on passbooks and the rest on demand deposits. (To some extent the easiness on the money market is also due to low private building activity which is caused by the lack of building materials and shortage of labor.)

Budgetary Position

From May until December 31, 1945, the Czechoslovak Government functioned without any budget except temporary appropriation of its own. Only in March 1946 did the provisional Parliament pass on the budget for the whole year of 1946. In disturbed times like 1945, the collection of taxes was very lax and it was only in 1946 that the revenue collecting agencies were functioning with the thoroughness they were accustomed to in prewar years. It was because of this that the Government had to borrow 6.4 billion crowns to finance its expenditures in 1945. The budget for 1946 called for 64 billion crowns on the expenditure side of which 38.9 billion was intended for normal government expenditure while 25.1 billion was intended for reconstruction, investment and aid of war-damaged areas. The normal expenditures were to be covered by "normal revenue" of 31.4 billion so that a deficit of 7.5 billion crowns in the normal government expenditures was expected. Investment, reconstruction, and economic aid expenditures embodied in the extraordinary budget were to be covered, for the most part, by local credits 18.6 billion crowns and, in smaller part (3.5 billion crowns) from proceeds of sale of UNRRA goods and an additional 3 billion crowns from other sources (foreign loans). Actually, the expenditures for 1946 amounted only to 39.8 billion crowns while the income amounted to 36.8, so that actual deficit for 1946 amounted only to 3 billion and not, as estimated, 29.1 billion crowns. This low deficit was mainly due to the fact that instead of 64 billion crowns the Government spent only 39.8. Lack of materials, particularly building materials which were to be used for construction projects and the manpower shortage, prevented the Government from carrying out its reconstruction program. Moreover, on the income side, the revenue from the tax collection was by 14 per cent higher than was expected. The 3 billion deficit was covered by internal borrowing.

1947 Budget

The budget for 1947 as accepted by the Parliament was set at 73.3 billion crowns on the expenditure side. On the income side the estimated revenue is 48.4 billion crowns so that 24.9 billion, or 1/3 of the expenditures, has to be covered by credits.

This is a considerable increase as compared with the 1946 budget, particularly since the Government expects the present price and wage levels to prevail and hope to decrease the number of its employees and economize in all its departments. The reason for the increased budget is two-fold. One is the extensive investment and reconstruction program of the Government and the second the fulfilment of considerable commitments emanating from social legislation passed by the Parliament during the past year to relieve war victims and the socially weakened. Over 10 billion crowns is budgeted for social service purposes.

Investment and reconstruction expenditures which are included in the budget estimate are figures at the sum of 18 billion crowns. Of this figure 11.9 billion crowns are investments within the frame-work of the two-year plan. These have priority in supply of material and labor. The rest, 6.1 billion, will be carried out according to the stipulation of the

Financial Law only if the status of the State Treasury will permit it. Because of this stipulation the deficit may be considerably lower than is now estimated.

In the first four months of 1947, the Government revenue amounted to 17.8 billion crowns while the expenditures amounted to 20.5 billion crowns so that the first four months the deficit amounted to only 2.7 billion crowns. This deficit was covered from the cash the Government borrowed in 1946 on the domestic money market so that in the first four months it did not have to enter the market for new loans. For the first half of 1947 there are no detailed data available except that the total revenue of the Government for that period amounted to 23.4 billion crowns against the budget estimate of 16.4 billion crowns.

State Debt

The internal debt as carried in the budget for 1947 amounted to 88.8 billion crowns. This debt can be divided into 3 parts (a) original debts of the Czechoslovak State contracted before the war (before 1939) (b) debts during oppression (1939-45) and (c) debts contracted after liberation (1945-1946). These are:-

	<u>In Millions of Crowns</u>
(a) Original Czechoslovak debt	26,960
(b) Debt of the protectorate of Bohemia and Moravia	33,417
Debt of the Slovak State	12,548
(c) Post liberation debt	<u>15,900</u>
Total	88,825

Of this total 18,819 million crowns is a short term debt at an interest rate of 1 1/8 per cent to 3 1/2 per cent. The long term debts bear interest at the rate of 3 to 4 1/2 per cent.

The amount of interest payments is 3,061 million crowns, which would mean an average rate of 3.44 per cent. This, while not high as interest rates go in Central Europe, would still be higher than what the State paid before the war.

Slightly more than half (52 per cent) of this debt has its origin in time of enemy occupation and served to finance the German occupation and military needs. In spite of this it cannot be repudiated because in the largest part it represents reserves of small savings banks and insurance corporations. To lower its burden the Government decided that before it resumes interest payments, which were interrupted as of January 1st, 1946, the interest rates of all those loans which are above 3 per cent will be decreased to that level resulting in a yearly saving of 400 million crowns.

Balance Sheet of the National Bank of
Czechoslovakia, July 31, 1947.

(In 000's of Czechoslovak Crowns)

ASSETS:

Gold and balance abroad	4,694.071*
Other cash	1,954.683
Bills discounted	2,080.031
Securities discounted	169,000
Advances on collateral	2,053.190
Other assets	<u>122,226.667</u>
	<u>133,177.642</u>

LIABILITIES:

Share capital	405.000
Capital reserve fund and reserve funds	250.331
Bank notes in circulation - new	45,036.788
Bank notes in circulation - old	930.499
Cheque account balances and other sums due at sight - new	9,288.086
Cheque account balances and other sums due at sight - old	68,783.992
Other liabilities	<u>8,482.946</u>
	<u>133,177.642</u>

* of which: convertible currencies Kcs. 2,356.705/m
non-convertible curren. Kcs. 2,337.366/m

Interest rate:

From October 28, 1945:	Discount rate	2 1/2%
	rate of advances on collateral	2 3/4 - 3 3/4%

Production, Employment, Prices and Wages

Recovery of Industrial Production

The military actions in the last 2 months of the war completely paralyzed industrial production as well as the transportation network of the country, so much so that even 4 months after liberation (end of September 1945) industrial production reached only 50% of the 1937 level. Since then, however, it has been steadily rising, as shown in table below, and by the end of June 1947 production reached 90 per cent of prewar level.

Increase in Industrial Production since Liberation

(Monthly Average of 1937 = 100)

1945 September	50
December	55
1946 May	70
October	80
1947 January	85
June	90

In the short span of 18 months, Czechoslovak industry succeeded in replacing over 200,000 skilled workers and managers of German nationality, and at the same time, increased its labor force by June 1947 to nearly the 1937 level. Simultaneously, the productivity of the labor force increased considerably, as is indicated, in the following two tables:

Development of Industrial Employment since Liberation

	<u>In 000s of</u> <u>Employees</u>	<u>(No. of Czechs</u> <u>and Slovaks)</u>	<u>Per cent</u>
1937 December	1298	(898)	100
1945 October	1039	(779)	80
December	1134	(917)	87
1946 May	1158	(956)	88
October	1135	(1070)	87
1947 January	1180	(1121)	91
June	1241	(1189)	95

Development in Productivity of Labor in Czechoslovak
Industry since Liberation

	<u>Index of</u> <u>Industrial</u> <u>Production</u>	<u>Index of</u> <u>Industrial</u> <u>Employment</u>	<u>Index of</u> <u>Productivity</u> <u>of Labor</u>
1937 December	100	100	100
1945 October	50	80	60-65
December	55	87	60-65
1946 May	70	88	80
October	80	87	90
1947 January	85	91	95
June	90	95	95

In view of the fact that the whole economic organization of Czechoslovakia was recast during the past two years, and over 200,000 skilled workers and technicians left the country and had to be replaced often with less skilled and experienced men, the recovery of industrial production is remarkable. The more so, if difficulties in procuring raw materials (iron ore, cotton, certain chemicals, non-ferrous metals and others from abroad) and of transportation within and outside the borders of the country are taken into consideration.

The favorable results were achieved by quick repair of damaged plants, unexpectedly rapid shift of labor from one industry to another, and from agriculture into industry, and by the progressively improved labor morale.

All this would not have been possible had the country not enjoyed an internal political environment in which all political parties had equal responsibility for a smooth functioning economy.

However, the recovery is uneven in different industries. In some, due to the wartime expansion of production facilities (or postwar expansion due to priority needs, e.g. locomotives and railroad cars), the production reached by June of this year by far exceeded the level of 1937. In others, particularly, in certain branches of textile and glass industries, and most conspicuously, in the building materials industry, the target is still far from sight. Below is given a table of production results of selected industries in June 1947.

Production Results of Selected Industries in June 1947 Compared with Monthly Average of Production in 1937.

<u>Industry</u>	<u>1937 Mo. Average</u>	<u>July 1947</u>	<u>Production Target According to the 2-year Plan</u>
Hard coal (000s of tons)	1398	1278	1398
Lignite (000s of tons)	1491	1863	1822
Coke (000s of tons)	254	345	330
Iron ore (000s of tons)	133	102	129
Crude Iron (000s of tons)	127	121	108
Crude Steel (000's of tons)	192	167	168
Rolled Steel Products (000s of tons)	.	116	115
New Railroad cars (units)	135	979	582
Locomotives (units)	6	19	15
Automobiles (units)	649	670	643
Tractors (units)	17	386	485
Electromotors (units)	6100	14773	16600
Motorcycles (units)	1187	2200	1840
Paper (000s of tons)	16	18	17
Cotton yarn (in tons)	6281	3538	3244
Phosphates (000s of tons)	.	27	32
Leather footwear (000s of prs.)	.	2218	3411
Glass (plate) (000s of tons)	.	11	11
(blow) (000s of tons)	.	10	11
(misc.) (in tons)	.	652	790
Agricultural machinery (million pcs.)	.	81	62

2-Year Reconstruction Plan

The Czechoslovak 2-year plan (put into effect on January 1, 1947) is essentially a plan of economic reconstruction and not a plan of large scale capital development. Its target is to increase the industrial production of the country by the end of 1948 to 10 per cent above the level of 1937. To accomplish this it is necessary that by 1948, as the plan envisages it, the industrial labor force be brought up to the 1937 level and that its productivity be increased by 10 per cent above that level.

The plan does not intend to increase production in all industries above the 1937 level, rather, it intends that certain industries should expand to reach a production as high as 150 per cent of the prewar level (steel, agricultural machinery) while in others, (e.g., textiles, ceramics, and glass) the production goals are set below the 1937 figures. From the investment aspect, the plan is mainly concerned with the modernization of existing plants and with the transfer from border regions where they were formerly manned by Germans to the province of Slovakia. However, even this modest goal will require 20 per cent of the national income in each of the two years. This indicates how much the industrial machinery wore out during the war years when, with some exception, no replacement or improvement was made.

In the first half of 1947, the plan was fulfilled 101 per cent. In certain industries, particularly metallurgy, and machine tool production, the plan was more than fulfilled while in certain branches of the textile industry, in glass, fertilizer, agricultural production, and above all, in the building materials industry, the production reached only 70 to 80 per cent of the goal.

This uneven development will be straightened out if given a normal flow of raw materials from abroad as well as some up-to-date equipment for certain industries (textiles and steel-rolling mills) and the plan will be fulfilled. The main bottlenecks to overcome are ran lower and irregularity of inflow of materials from abroad, especially cotton, hides, iron ore, some chemicals, copper, and other non-ferrous metals.

Transportation

One of the greatest difficulties which was nearly successfully overcome in the Czechoslovak economy was railroad transportation. By the end of the war, over 1220 bridges and 38 tunnels were destroyed in addition to 75 per cent of the railroad buildings and heating places and 64.5 per cent of railroad switches. In addition, Czechoslovakia lost 2,120 locomotives, representing 52.6 per cent of her prewar stock, 8,300 passenger cars, representing 68.3 per cent of her prewar stock, and 71,734 freight cars, representing 74.5 per cent of her prewar total. Since then, by importation from abroad (UNRRA aid and purchases from U.S. Army surplus in Europe) as well as by domestic production, the situation was considerably improved. Due to more efficient utilization of existing railroad cars, the railway system of the country will transport in 1947 nearly 95.5 per cent of the 1937 tonnage. The existing park of locomotives and railway cars as of March 31, 1947 is as follows:

Number of Locomotives and Railroad Cars in Czechoslovakia as of March 31, 1947, compared with the end of 1946 and 1937.

	<u>1937</u>	<u>End of 1946</u>	<u>Mar. 31, 1947</u>	<u>Per cent of 1937</u>
Locomotives	3290	72	3009	91.5
Freight cars	95600	5,930	61592	64.4
Passenger cars	10864	8158	8001	73.6
Self-propelling rail-cars (driven by gas combustion motors)	372	282	313	84.1

Similar improvement is evidenced in the number of autobusses and autotrucks in operation as indicated in the table below.

Number of Autobusses and Autotrucks in March 31, 1947, compared with the end of 1946 and 1937.

	<u>1937</u>	<u>End of 1946</u>	<u>Mar. 31, 1947</u>	<u>Per cent of 1937</u>
Autobusses	2300	1608	1869	69.7
Autotrucks	4012	5541	5711	142.3

Due to war destruction, the number of river boats and barges used on the rivers, Elbe, Danube, and Oder, decreased to 70 per cent of 1937. This figure should be decreased by an additional 20 per cent because those barges which are on the Oder River cannot be used at all. This is a great handicap because most of the Swedish iron ore came on barges down the Oder River and now has to be transported by railroad which is much more expensive. (Disregarding the fact also that railroad cars needed for other purposes must be diverted for this job.)

By Spring of 1947, Czechoslovakia had succeeded in replacing its transport airplane park to only 70 per cent of 1937. This, however, is mainly due to the shortage of U.S. dollars.

Agricultural Production

In contrast to industrial production, the output in agriculture is far below what it was in 1937. Besides causes which are general for nearly all of Europe, namely, droughts in two successive years, in Czechoslovakia there were additional factors which aggravated the situation. First is the lack of manpower and because of it only 85 per cent to 90 per cent of arable land was sown. The Government's policy was to encourage a shift of labor from agriculture to industry and replace it with machinery and thus achieve a higher productivity of Czechoslovak agriculture which was far below that of Western Europe. In shifting the labor from agriculture to industry the Government was successful. Some 300,000 farmers became industrial workers, but the second part of its program, namely, mechanization of

agriculture, is sadly lagging. This handicap is aggravated by the loss of draft animals and other livestock during the war which have not been replaced, and great deficiency in artificial fertilizers. The importation of some 15,000 Rumanian, 5,000 Bulgarian, and 3,000 Italian workers did not remedy the situation greatly. It will take 3 or 4 years until the Government policy of mechanization of agriculture will bear fruit, and the production, in spite of the smaller numbers of people working in it, will reach the prewar level as proposed in the 2-year plan. While the 1946 harvest of wheat and rye was about 75 per cent to 80 per cent of the prewar years, this year (in spite of a larger acreage sown) it will barely reach 50 per cent of a normal harvest. This means that compared with last season when about 16,000 tons of wheat and rye supplied by UNRRA, and about 30,000 tons supplied by USSR, were sufficient to cover the needs of the country, this year to maintain the same rations of bread and flour, Czechoslovakia will have to import around 500,000 tons of wheat and rye. It has succeeded in acquiring from the USSR 200,000 tons of wheat, part of which is already being delivered. The remaining 300,000 tons will have to be bought from Canada, United States, Argentina and Yugoslavia. Moreover, in 1946, the potato and sugar beet crops were about 50 per cent above normal and thus enabled the country not only to export great quantities of sugar and potatoes but also to use these products extensively for feeding purposes thereby lessening the fat and meat shortages of the country. This year, while the drought did not cause as much damage to potatoes and sugar beets as it did to wheat and rye, the crop will not be so plentiful and thus in turn will react unfavorably on the animal husbandry and aggravate again the supply situation of the country in meats and fats.

Employment

The greatest bottleneck in the Czechoslovak economy is the shortage of manpower. Transfer of Germans from the country decreased by some 20 per cent the available manpower. In addition, the general exhaustion of workers after 6 years of hard work under difficult physical and psychological conditions, lowered considerably their efficiency. When the production was resumed it was necessary to employ more workers in some industries (particularly, in coal mining and steel) than in prewar years to achieve the same production results.

By encouraging the return of Czechoslovak nationals from Germany, France, Hungary, Poland, USSR, and even from overseas (particularly miners) and by shifting labor from agriculture to industry the Government succeeded by June 1947 to increase the number of workers employed in industry close to the prewar level. In December 1937, there were 1.3 million people employed in industry. In September 1945, this number dropped to 0.9 but in May 1947 it again increased to 1.2 million.

It should be mentioned also that in the drive to increase the number of industrial workers, the Government succeeded in inducing women to take jobs in industry. As compared to prewar years, the number of women increased by January 1947 by approximately 25 per cent. Even this is not sufficient to cover the manpower needs of the industry, for instance, the steel industry has only 87.4 per cent of its needs, the glass industry 91.8 per cent, the coal mining 95.7 per cent, and the building material industry has, in fact, only 60.4 per cent. To improve these conditions,

The Government is endeavoring to bring into industry additional manpower and hopes to recruit it from the ranks of public servants, particularly from the railroad employees and from security services which were expanded greatly in the immediate months after the liberation and are now considered to be superficial. But above all, it attaches great hope that by large capital investment it will increase the productivity of available workers.

In agriculture, however, the shortage is still great and can be solved only by a considerable mechanization. This will require, however, at least two or three years. The importation of about 20,000 seasonal workers from Southeastern Europe is only a fraction of the needed 190,000 in that sector of the economy.

Prices and Wage levels

Ever since the monetary reform of November 1945, the price level as compared with other countries in Europe was reasonably stable. While there was a continuous slow rise it was mainly due to an increase in prices of imported commodities. The same holds true for the cost of living as indicated in the indexes of the State Statistical Office - reproduced below. The black market, of little significance even in 1945, has nearly completely disappeared. There is some fear, however, that due to the bad harvest of this year, it might emerge again this winter, particularly in flour, meat, butter and other fats, if the Government does not succeed in importing enough foodstuffs and fats.

Index of Wholesale Prices March 1939 = 100

	<u>General</u>	<u>Domestic Commodities</u>	<u>Imported Commodities</u>
1946 January	266.9	264.4	293.3
February	268.4	266.2	293.3
March	274.8	271.2	315.5
April	273.6	271.7	307.9
May	273.7	271.9	307.3
June	276.9	274.2	312.2
July	280.1	278.1	312.2
August	292.0	282.2	353.7
September	293.6	284.1	361.4
October	292.5	282.7	337.4
November	301.5	297.7	346.6
December	300.7	296.2	343.7
1947 January	301.1	296.2	345.9
February	298.5	294.5	337.4
March	300.4	296.5	338.4
April	294.4	289.7	333.8
May	295.4	290.7	335.3

Cost of Living Index
March 1939 = 100

	<u>Total</u>
1946 I	306.7
II	309.9
III	310.6
IV	311.2
V	310.1
VI	309.2
VII	307.3
VIII	308.9
IX	306.0
X	306.3
XI	307.0
XII	309.1
1947 I	310.3
II	312.8
III	313.1
IV	297.5
V	296.4

Wages

Simultaneously, with the monetary reform (November 1945) which was combined with an adjustment of prices, the wages too were increased to generally about 3 times their prewar level. Since then the wage level has been steady, having risen only from 302.3 (based on March 1939 level) to 302.8 by June 1947 which is due to a slight adjustment in certain industries, particularly, in building and coal mining, intended to induce workers to seek employment in these industries. This slight rise does not, however, reflect the wages actually paid out to workers. It is computed only on the basis of an 8-hour day without taking into consideration the overtime nearly every industrial worker puts in nor "black wages" which skilled laborers receive to stay on the job instead of moving to other places. Many industrial managers willingly pay special bonuses to get skilled workers into their plants. This, combined with the fact that many wages were raised much more than were prices at the time monetary reform was carried out caused real wages to increase to about 360 based on the March 1939 level.