

Staff Memorandum No. 447

March 1, 1950

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Recent Appreciation of the Ruble

The attached memorandum is circulated for the information of the Executive Board (RD-988 referred to herein was circulated as Staff Memorandum No. 446).

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RD-992

INTERNATIONAL MONETARY FUND

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Recent Appreciation of the Ruble

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1. According to a press bulletin, by a decree of the Soviet Government of February 28, 1950, the exchange rate of the ruble relative to the U.S. dollar (and all other currencies) has been adjusted upward from ruble 5.30 to the U.S. dollar to ruble 4 to the dollar. The ruble has thus been appreciated by 32.5 per cent.

Since 1918, prices charged and received by Soviet foreign trade monopolies to or from trade partners abroad are expressed in foreign exchange, generally in some convertible currency (mostly U.S. dollar) or more recently also in sterling, insofar as the partner countries belong to the transferable account group of countries. There is no direct relation between these prices and domestic ruble prices. The ruble exchange rate, therefore, has not been-- insofar as merchandise trade is concerned--a link between domestic prices and prices prevailing abroad. Should the Soviet Union continue to use exclusively this method of trading, the present adjustment in the exchange rate of the ruble towards the U.S. dollar would have no bearing on its trade relation with the rest of the world.

2. It is possible, however, that due to the rapid increase of its share in the foreign trade of the Eastern European countries, some departure from this trading method, at least insofar as the countries of Eastern Europe are concerned, is contemplated by the Soviet authorities.

At present the accounts of merchandise trade between the Soviet Union and the Eastern European countries is carried in "compensation dollars" at prices prevailing on "world markets".

Taking into account the economic system of these countries, this trading method has proved conducive to the expansion of their mutual trade. It was not conducive however to a closer economic integration between these countries and the Soviet Union. The domestic ruble prices have no close relation to the domestic prices prevailing in Czechoslovakia, Poland, or Rumania. Domestic prices have been decreed by the respective planning authorities of the individual countries always from the point of view of the integral economic plan of a given country.

The Soviet Union, being the supplier of raw materials and, besides Czechoslovakia, also the main provider of capital goods of Eastern European countries, apparently intends to transfer its trading with these countries from the "compensation dollar" and world prices to a ruble basis. In other words, it may intend to charge, as well as pay its trading partners in Eastern Europe the domestic ruble prices (the turnover tax excluded) and to keep the trading accounts in rubles. By this procedure the Soviet Union would enable the countries of Eastern Europe to adjust gradually their price structure to the price levels prevailing in the Soviet Union.

In doing this, not only will the accounts of trade between the Soviet Union and a respective Eastern European country be carried in rubles, but also multilateral settlements between the individual Eastern European countries in rubles will be made possible. The trade agreements between Finland, the Soviet Union and Czechoslovakia and Poland, respectively, concluded in August 1949, the accounts of which are carried in rubles, may have been intended as a pathfinder for this procedure (see RD-988 and I F.N.S , Vol. II, No. 3). (In fact, balance in mutual payments was assured by agreement). Such multilateralization of trade within Eastern Europe has been proclaimed as one of the aims of the European Council of Mutual Aid.

3. A real multilateralization of trade within Eastern Europe, while the present method of pricing is maintained in foreign trade, whether on the "compensation dollar" or ruble basis (at whatever rate of exchange), would be impossible. It must therefore be assumed that if the Soviet authorities (apart from the long-run political aim of closer integration of the economies of the countries of Eastern Europe with the economy of the U S S R.) intend to multilateralize trade relations of the Eastern European countries, the prices charged and paid in trade with and among such countries have to be closely related to Soviet wholesale prices (apart from transportation costs). Only thus can the ruble serve as a basis of account and settlement between the countries of Eastern Europe on a multilateral basis.

Since in the Soviet Union almost the entire tax burden^{1/} is levied at the distribution level, and only on consumer goods intended for domestic use, it is possible that the present producer prices (in our terminology wholesale prices) of the Soviet Union are such, that they correspond to the new rate of 4 rubles to the dollar, rather than to the previous rate of 5.30 rubles to the dollar.

^{1/} In the form of turnover tax which accounts for some 75 per cent of total budgetary receipts of the Soviet Union.

It may be that such considerations of purchasing power parity in terms of rubles have motivated the present adjustment.

While there are some data on Soviet retail prices of consumer goods, no data whatsoever are available as to the level of domestic wholesale (producer) prices. It is possible that while applying domestic wholesale prices in its trade relations with other members of the Council of Mutual Aid, the Soviet Union intends, by the appreciation of the ruble, to assure itself satisfactory terms of trade. This does not mean, of course, that actually the Soviet Union will give less export goods and receive more import goods than it does now in "compensation dollar" trade. It may be no more than a means of continuing the present terms of trade when prices and accounts are on a ruble basis.

According to the Associated Press, the "diplomatic exchange rate" of 8 rubles to the dollar has been moved, as of March 1, 1950, to 6 rubles to the dollar, which represents an appreciation by one-third. The "diplomatic rate", however, will be entirely abolished as of July 1, 1950.

4. Downward adjustments in domestic retail prices by some 10 to 14 per cent were announced for most important consumer goods (bread, meat and meat products, flour, cereals, fish and fish products, dairy products, sugar, as well as textiles and presumably also footwear). While these price adjustments are important for the real wages of the Soviet population, they may have no bearing on the adjustment in the exchange rate, because of the peculiar price and tax structure of the Soviet economy.

The combined announcement of the two moves, however, may be important from the psychological point of view, both in its effect on the Soviet population, as well as in relation to the outside world, particularly should the present adjustment in the ruble rate imply significant overvaluation of the ruble in relation to the currencies of other Eastern European countries.

5. A more extensive discussion is in preparation.

APPENDIX

Text Decree on the Ruble (as issued by the Tass, the official Soviet News Agency and published in the New York Times of March 1, 1950).

The following statement has been issued by the Council of Ministers of the U.S.S.R. regarding the transfer of the ruble to the gold standard and the raising of the rate of exchange of the ruble with regard to foreign currencies:

The currency reform in the U.S.S.R. carried out in December 1947, eradicated the aftermath of the second World War in currency circulation and restored the full value of the Soviet ruble.

The abolition of the rationing system carried out simultaneously with the currency reform and the substantial reduction in prices of consumer goods carried out three times in the course of 1947-50, resulted in a still greater strengthening of the ruble, raising its purchasing power and raising its rate of exchange in relation to foreign currencies.

Depreciation in Other Lands

At the same time a depreciation of currencies has occurred in, and is continuing, in Western countries which has already led to the devaluation of European currencies.

As regards the United States of America, the uninterrupted rise of prices of consumer goods and the inflation continuing on this basis, about which responsible representatives of the United States Government have repeatedly spoken, have likewise led to a substantial reduction in the purchasing power of the dollar.

Owing to the above-stated circumstances the purchasing power of the ruble has become higher than its official rate of exchange. In view of this the Soviet Government has power if necessary to raise the official rate of exchange of the ruble, and to calculate the rate of exchange of the ruble not on the basis of the dollar, as was established in July 1937, but on a more stable, gold basis, in conformity with the gold content of the ruble.

The Council's Decision

Proceeding from this, the Council of Ministers of the U.S.S.R. has decided:

1. From March 1, 1950, the rate of exchange of the ruble with respect to foreign currencies shall not be concluded on the basis of the dollar but shall be transferred to the more stable gold standard, increasing the gold content of the ruble.

2. The gold content of the ruble will be fixed at 0.222168 grams of fine gold.

3. From March 1, 1950, the purchasing price of the State Bank of the U.S.S.R. for gold shall be fixed at 4 rubles 45 kopecks per gram of fine gold.

4. From March 1, 1950, the rate of exchange of the ruble with respect to foreign countries shall be fixed, in keeping with the gold content of the ruble as established in Paragraph 2, at 4 rubles for one American dollar instead of 5.30 previously and at 11 rubles 20 kopecks for one pound sterling, instead of 14 rubles 84 kopecks as at present.

The U.S.S.R. will revise accordingly the rate of exchange of the ruble with respect to other foreign countries.

In the event of further changes in the gold content of foreign currencies or changes in the rate of exchange, the State Bank of the U.S.S.R. will establish the rate of exchange of the ruble with respect to foreign currencies with due consideration for these changes.