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COMMITTEE OF ECONOMIC ADVISERS

THE DEVALUATION OF THE BULGARIAN LEVA

Note by the Chairman of the Sub-Committee on
Soviet Economic Policy

The attached note has been prepared by the Economics Directorate; it takes account of a note from the United Kingdom Delegation (1) and various comments by the United States Delegation.

2. In accordance with the decision taken by the Sub-Committee on Soviet Economic Policy, at its meeting on 28th March, 1962, this paper is circulated to the Committee of Economic Advisors for information.

(Signed) A. VINCENT

(1) AC/89-WP/88

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DEVALUATION OF THE BULGARIAN LEVA

The Bulgarian leva was devalued on the 1st January, 1962. Like its Soviet counterpart (1) last year, the Bulgarian Government has gone to great lengths to obscure the real nature of the operation by combining an effective devaluation of the leva in terms of other currencies with an internal currency reform whereby the old leva has been replaced by a new one at the ratio of 1 new leva to 10 old ones.

2. However, the gold content of the leva (and thus its value in terms of other currencies) has not been increased proportionately. Previously, the leva was worth at the official rate 0.13 grams of gold (equals \$0.146 or 0.132 roubles). Had the gold content of the currency been raised in proportion to its internal value, i.e., tenfold, it would have been established at 1.3 grams. In fact, the gold content of the new leva is only 0.76 grams, so that 1 new leva is worth only \$0.85 or 0.77 roubles (instead of \$1.46 and 1.3 roubles). Thus, the leva has been devalued by 42%.

3. For Western countries the new rates will apply to both commercial and non-commercial payments, the old non-commercial rates now being abolished. With the other Bloc countries, where special agreements are said to exist, non-commercial rates will remain in force. These, however, are simply the old non-commercial rates adjusted to take account of the 10:1 internal reform but not the devaluation. Thus, the former non-commercial rates of 1 old leva = 0.112 roubles becomes 1 new leva = 1.12 roubles, compared with the new commercial rate of 1 leva = 0.77 roubles. This would appear to be a considerable disincentive to the Russian tourist intent on visiting Bulgaria, while the purchasing power of the Western tourist is increased, since 1 new leva equals only \$0.85, whereas 1 old leva equalled \$0.10.

4. At the beginning of 1961, the Soviet authorities carried through a similar operation - an internal exchange of 1 new rouble for 10 old ones, combined with a 4.4-fold increase in the currency's official gold content - equivalent to a 55% devaluation. Before 1961, when it was devalued, the rouble was overvalued in terms of most satellite currencies; after devaluation, it was clearly substantially undervalued in relation to all of them, and Western observers predicted a general re-alignment of exchange rates within COMECON.

5. So far Bulgaria is the only satellite to have adjusted the rouble parity of her currency, and it should be noted that at the new parity the value of the leva in terms of roubles is 32% higher than that existing before 1961 (i.e. 0.77 roubles compared with 0.58 roubles). Presumably, this parity is thought to reflect accurately the current price levels in the two countries.

(1) On the devaluation of the rouble see AC/127-D/63 dated 4th April, 1961

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6. The depreciation appears to have been aimed mainly at bringing foreign trade prices into line with internal prices in order:

- (1) to eliminate some of the bookkeeping involved in the extensive financial equalisation operations (export subsidies and import taxes) made necessary by the previously overvalued leva; and
- (2) to facilitate calculations of relative profitability of various exports and imports (this is consistent with the increasing attention being paid by bloc countries to ways of improving cost accounting and pricing).

In the case of non-commercial rates, the depreciation was probably intended to stimulate foreign exchange earnings from Western tourism. The simultaneous creation of a "heavy" leva by dropping a zero was probably motivated by:

- (1) a desire to obscure the need for a depreciation from the Bulgarian people; and
- (2) prestige considerations related to having a basic currency unit with a value close to that of the dollar or rouble.

7. As in the case of the Soviet Union the new rate structure will have little direct significance outside the Bloc (all trade is on the basis of Western currencies) while intra-Bloc trade will presumably continue to be accounted in roubles on the basis of world prices. Although it is stated that Bulgarian financial policy is in harmony with Soviet financial theory and practice, the Bulgarian measures should probably be considered not simply a matter of following the Soviet example but as part of a general move inside the Bloc towards a more rational exchange rate structure.

8. With the development of COMECON, it is becoming increasingly important for Communist planners to be able to compare costs and prices in the various member countries, and also with the outside world. Such comparison is almost impossible unless exchange rates reflect prices with reasonable accuracy. This was one reason for the Soviet devaluation of the rouble last year. The Bulgarians have now followed the Soviet example, and it seems logical to assume that within the next year or so we shall see the other Bloc countries conforming to this pattern by adjusting their own exchange rates and the ultimate result may possibly be some form of intra-Bloc convertibility.

OTAN/NATO,
Paris, XVIe.

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ANNEX to
AC/127-WP/86

	At the rate prevailing before 1st January, 1961	At the rate prevailing from 1st January, 1961, until 1st January, 1962	At the rate prevailing since 1st January, 1962
1 <u>old</u> leva	= 80.146 = 0.58 old roubles	= 80.146 = 0.132 <u>new</u> roubles (= 1.32 <u>old</u> roubles)	
1 <u>new</u> leva (= 10 old levi)			= 80.85 = 0.77 new roubles
81	= 6.8 old levi	= 6.8 old levi	= 1.17 <u>new</u> levi (= 11.7 <u>old</u> levi)
1 <u>old</u> rouble 1 <u>new</u> rouble	= 1.7 old levi	= 7.55 old levi	= 1.30 new levi (= 13 old levi)

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