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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE DEVALUATION OF THE BULGARIAN LEVA

Note by the Secretary

The attached note, prepared by the Economics Directorate, is circulated to the members of the Sub-Committee on Soviet Economic Policy for information and possible comments.

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DEVALUATION OF THE 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devaluation of the leva in terms of other currencies with an internal currency reform whereby the old leva has been replaced by a new one at the ratio of 1 new leva to 10 old ones.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. 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.

4. 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.

5. Alterations in exchange rates within the bloc, however, do not involve any change in the terms of trade in the countries affected, as would be the case in the rest of the world, since intrabloc trade is, according to Communist sources, conducted at "world prices" (i.e. the dollar prices pertaining on the world market, converted into roubles, zlotys, forints, levi, etc., at the official, and in most cases, totally artificial rates of exchange). To the extent that this practice is actually observed, adjustments in exchange rates have no effect whatever on intrabloc trade.

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

6. Nevertheless, 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 remains to be seen whether the other satellites will follow suit.

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	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 1 <u>new</u> leva (= 10 <u>old</u> levi)	= 80.146 = 0.53 <u>old</u> roubles	= 80.146 = 0.132 <u>new</u> roubles (= 1.32 <u>old</u> roubles)	= 80.85 = 0.77 <u>new</u> roubles
81	= 6.8 <u>old</u> levi	= 6.8 <u>old</u> 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 <u>old</u> levi	= 7.55 <u>old</u> levi	= 1.30 <u>new</u> levi (= 13 <u>old</u> levi)

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