



## **The State Bank of the USSR** Anonymous

Article from the website of the Bank of Russia on the policy of the State Bank of the USSR in the Soviet Union.

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## **The State Bank of the USSR**

When the New Economic Policy (NEP) was launched, the All-Russian Central Executive Committee (VTsIK) and the Council of People's Commissars (SNK), on October 3 and 10, 1921, respectively, passed resolutions re-establishing the bank under the name of the State Bank of the RSFSR. On November 16, 1921, it began to conduct operations and in 1923 it was transformed into the State Bank of the USSR.

The Statute of the State Bank of the RSFSR, passed by VTsIK on October 13, 1921, said that it was an economic organisation established "to assist by credit and other banking operations the development of industry, agriculture and goods turnover and also the concentration of monetary turnovers and the implementation of other measures designed to establish proper money circulation". The bank had the right to extend loans to industrial and commercial enterprises based on different forms of ownership, farms and self-employed handicraftsmen "only if they were solvent and their financing was economically justified". The State Bank was a part of the People's Commissariat of Finance (Narkomfin), directly accountable to the People's Commissar (Minister) of Finance.

In November 1921 the State Bank was granted the exclusive right to conduct operations with foreign currency and valuables. It also set the official price of precious metals and the official exchange rate, regulating private trade in gold, silver and foreign currency on stock exchanges and cheques and bills of exchange drawn in foreign currency, which were permitted in 1922.

Two re-denominations conducted in 1922 and 1923 increased the face value of Soviet paper money which Narkomfin issued at that time to cover the budget deficit. During the first re-denomination the new rouble of the 1922 issue exchanged for 10,000 roubles of all issues that were in circulation in the country; during the second re-denomination the new rouble of the 1923 issue exchanged for 100 roubles of the 1922 issue.

On October 11, 1922, the State Bank was granted the right to issue the chervonets (banknote) and became the issuing centre. The issue of the chervonets marked the beginning of the monetary reform that ended spiralling post-war inflation.

In 1922-1924 both the rouble and the chervonets were in circulation. The chervonets was backed by gold: it was equivalent to 7.74232 grams of fine gold, equalling the tsarist Russia's 10-rouble coin. In 1923 Russia began to mint gold chervonets coins, which were mostly used in foreign trade. In March 1924 the monetary reform was completed and the new rouble, which was used as change and equalled one-tenth of the chervonets, exchanged for 50,000 roubles of the 1923 issue or 50 million roubles of the earlier issues.

During the period of the new economic policy (NEP) the following types of bank credits were used: the discounting of bills of exchange, demand loans from special current accounts covered by bills of exchange and time loans against bills of exchange. In addition, three years after its founding, the bank began to practise direct target crediting. In October 1924 the State Bank drew up its first consolidated credit plan comprising all branches. As a result of the reform of the cash structure of the State Treasury, conducted in 1925, the cash holdings of the State Bank and Narkomfin were merged.

Soviet Russia's first commercial banks, including sectoral joint-stock banks (specialised banks) and mutual loan societies, appeared in 1922. These banks were to extend short- or long-term loans to individual sectors of the economy. In 1924 the Committee on Banks was set up under the State Bank's Board to co-ordinate their activities.

In the latter half of the 1920s the functions and activities of the State Bank changed dramatically. The change was mainly the result of the accelerated rates of industrialisation, which required vast capital investment in the basic industries within a short period of time.

It was impossible to industrialise the USSR by traditional methods, that is, by accumulating financial resources inside the country and using foreign loans. The population lacked the required savings, while foreign loans could not be obtained for economic (the world was in the grip of an economic crisis) and political reasons. As a result industrialisation in the USSR was financed by money emission. Throughout the entire period of phasing out the NEP the Soviet authorities tried to find the simplest means by which the state could distribute funds between the various sectors of the economy.

In June 1927 as a result of tighter regulation of the short-term capital movement the State Bank was vested with the responsibility of exercising immediate day-to-day control over the entire credit system, while the Narkomfin retained its function of general regulation. The State Bank was to supervise the activities of other credit institutions in compliance with government credit policy directives. Specialised banks were required to keep their spare funds in and borrow from the State Bank only and the latter was granted the right to be represented in their boards and auditing units. In addition, the State Bank increased its share of the specialised banks' equity capital.

As the banking system was re-organised in February 1928, most short-term credit operations began to be concentrated in the State Bank. It also took control of many branches of joint-stock banks, which began to play an auxiliary role in crediting the economy. Long-term lending was conducted mainly by the Bank for the Long-Term Crediting of Industry and Power Engineering (BDK) specially created for this purpose, the Central Utilities and Housing Bank (Tsekombank) and partly the Central Agricultural Bank (TsSKhbank).

In August 1928 the Central Bank was assigned the task of cash budgeting and that made it possible to concentrate all the cash operations of the socialist economy in the State Bank.

In June 1929 the first Statute of the State Bank was adopted, which declared the State Bank an authority regulating money circulation and short-term lending in accordance with the general economic development plan of the USSR.

In the late 1920s and early 1930s the USSR carried out a series of reforms aimed at creating an effective mechanism of centrally planned regulation of the material and financial aspects of the reproduction process. Accordingly, a credit reform was carried through in 1930-1932, which resulted in the creation of a mechanism of centrally planned regulation of the monetary and credit resource flows.

In January 1930 as a result of the abolition of mutual commercial credit all direct short-term lending began to be conducted in the State Bank. All specialised banks turned into long-term investment banks and all their branches were closed. Specialised banks were required to conduct all operations through State Bank branches.

In January 1931 the acceptance form of non-cash settlements through the State Bank was introduced.

In March 1931 the State Bank's functions as the only short-term credit bank and settlement and cash centre of the Soviet economy were established.

In June 1931 working capital of enterprises was divided into their own capital and borrowed capital, and the main principles of short-term bank crediting were laid down. When enterprises became owners of working capital, it became possible to establish the entities of bank crediting. State enterprises now received short-term loans only to finance en route values, advance payments for seasonal production reserves, the accumulation of seasonal reserves of raw materials, fuel, production and auxiliary materials, temporary increases in investment in unfinished construction projects, seasonal accumulation of finished goods and products and other temporary needs related to the production and circulation of commodities.

In May 1932 the functions of the State Bank and those of the long-term investment banks (Prombank, Selkhozbank, Vsekobank and Tsekombank) were finally delineated.

As a result of the credit reform the State Bank lost the last elements of a commercial bank and became a typical Soviet state bank whose main functions were to extend planned loans to the economy, manage money circulation and settlements, do the cash budgeting and effect international settlements. The structure of the credit system that was established at that time would remain in place for 55 years practically unchanged.

Later on all changes in the activities of the State Bank were limited to the introduction of new forms of planned credit to the economy and bank settlements and also new methods of controlling the spending of funds on wages and salaries (80% of the entire cash turnover) and the collection of proceeds from trade.

In February 1930 all transactions to sell gold and foreign currency to private individuals for chervonets at a fixed rate were banned, the Soviet currency was withdrawn from foreign exchanges and a quoting commission was set up under the State Bank's Board to set the exchange rates of foreign currencies.

In 1933 the State Bank implemented a series of measures to accelerate settlements, improve accounting, reporting and paperwork and enhance internal banking control. The State Bank balance sheet was restructured on a departmental basis to become comparable with the credit plan. The offsetting of interaffiliate turnovers was decentralised, while the centre continued to exercise general control.

In 1939 the State Bank began to collect cash.

During the Second World War (1941-1945) it issued cash to cover the budget deficit, increasing the money supply fourfold. To normalise money circulation a confiscatory monetary reform was conducted in 1947, during which old money was exchanged for new at the rate of 10 to 1, cash accounts in the savings banks were re-evaluated and all state loans, except the 1947 loan, were converted.

In March 1950 the gold content of the rouble was set at 0.222168 grams of fine gold.

In December 1949 the second Statute of the State Bank was adopted.

In April 1959 an overhaul of 1959 the credit system resulted in the transfer of some operations conducted by the Selkhozbank, Tsekombank and municipal banks to the State Bank.

In 1960 the State Bank began to draw up plans to credit long-term investment.

In May 1961 the rouble was re-denominated and devalued. One new rouble exchanged for 10 old roubles. At the same time the gold content of the rouble was only increased four times to equal 0.987412 grams of fine gold.

In October 1960 the State Bank adopted its third Statute and in 1963 all the state savings banks were brought under its control.

In 1965-1969 the economic reform brought about some changes in the activities of the State Bank, which were connected with lending and settlements, money circulation planning and regulation, financing capital investments and organising the savings system. Credits on material assets turnover and wage costs and credits on ordinary loan accounts became the main means of crediting industry.

In July 1987 as a result of the reorganisation of the credit system new specialised banks were founded (Vneshekonombank SSSR, Promstroibank SSSR, Zhilsotsbank SSSR and Sberbank SSSR) and the State Bank began to perform the functions of the country's main bank. It was assigned the task of elaborating the consolidated credit plan and planning the distribution of funds and credit investments among all banks.

In September 1988 the fourth Statute of the State Bank of the USSR was approved, declaring the State Bank the country's main bank and the only issuing centre and organiser of credit and settlement relations in the economy.

In March 1989 the transfer of the specialised banks to full cost-accounting and self-financing required the State Bank to provide them with target figures on the volume of credit resources, the amount of household savings taken on deposit, and the volume of foreign-currency receipts and payments on banking operations.

In January 1990 the State Bank was given control over the Savings Bank of the USSR.

On July 13, 1990, the State Bank of the RSFSR, accountable to the Supreme Soviet of the RSFSR, was created on the basis of the Russian Republic Bank of the State Bank of the USSR.

On December 2, 1990, the Supreme Soviet of the RSFSR passed the Law on the Central Bank of the RSFSR (Bank of Russia), which stipulated that the Bank of Russia was a legal entity and the main bank of the RSFSR and that it was accountable to the Supreme Soviet of the RSFSR. The law specified the functions of the bank in organising money circulation, monetary regulation, economic activity and the regulation of joint-stock and co-operative banks.

In December 1990 the Law on the State Bank of the USSR and the Law on Banks and Banking were passed. Under these laws the State Bank of the USSR and the national banks that were being established at that time on the basis of the republic divisions of the State Bank were to build a single system of central banks based on a single monetary unit, the rouble, and fulfilling the functions of a reserve system.

In June 1991 the Statute of the Central Bank of the RSFSR (Bank of Russia), accountable to the Supreme Soviet of the RSFSR, was approved.

The period between July 1990 and December 1991 was a time of conflict between the Russian State Bank and the State Bank of the USSR.

In November 1991, owing to the establishment of the Commonwealth of Independent States and the disbandment of Soviet Union structures, the Supreme Soviet of the RSFSR

proclaimed the Central Bank of the RSFSR the only body of monetary and foreign exchange regulation in the RSFSR. It was entrusted with the functions of the State Bank of the USSR in issuing money and setting the exchange rate of the rouble. The Central Bank of the RSFSR was instructed to assume, before January 1, 1992, full control of the assets, technical facilities and other resources of the State Bank of the USSR and all its institutions, enterprises and organisations.

On December 20, 1991, the State Bank of the USSR was dissolved and all its assets, liabilities and property in the RSFSR were transferred to the Central Bank of the RSFSR (Bank of Russia).

### **Senior Executives of the State Bank of the RSFSR – the State Bank of the USSR**

1. Sheinman A.L. – Chairman of the Board of the RSFSR State Bank – USSR State Bank in 1921-1924, 1926-1929
2. Tumanov N.G. – Acting Chairman of the Board of the USSR State Bank in 1924-1926
3. Pyatakov G.L. – Chairman of the Board of the USSR State Bank in 1929-1930
4. Kalmanovitch M.I. – Chairman of the Board of the USSR State Bank in 1930-1934
5. Maryasin L.E. – Chairman of the Board of the USSR State Bank in 1934-1936
6. Kruglikov S.L. – Chairman of the Board of the USSR State Bank in 1936-1937
7. Grichmanov A.P. – Chairman of the Board of the USSR State Bank in 1937-1938
8. Bulganin N.A. – Chairman of the Board of the USSR State Bank in 1938-1940, 1940-1945, 1958
9. Sokolov N.K. – Chairman of the Board of the USSR State Bank in 1940
10. Golev Ya.I. – Chairman of the Board of the USSR State Bank in 1945-1948
11. Popov V.F. – Chairman of the Board of the USSR State Bank in 1948-1958
12. Korovushkin A.K. – Chairman of the Board of the USSR State Bank in 1958-1963
13. Poskonov A.A. – Chairman of the Board of the USSR State Bank in 1963-1969
14. Sveshnikov M.N. – Chairman of the Board of the USSR State Bank in 1969-1976
15. Alkhimov V.S. – Chairman of the Board of the USSR State Bank in 1976-1986
16. Dementsev V.V. – Chairman of the Board of the USSR State Bank in 1986-1987
17. Garetsky N.V. – Chairman of the Board of the USSR State Bank in 1987-1989
18. Gerashchenko V.V. – Chairman of the Board of the USSR State Bank in 1989-1991