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CIA/RR CB-61-5

Copy No. _____
6 February 1961

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CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

CURRENT SUPPORT BRIEF

RECENT SOVIET FINANCIAL MANEUVERS IN THE FREE WORLD

OFFICE OF RESEARCH AND REPORTS

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CENTRAL INTELLIGENCE AGENCY

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RECENT SOVIET FINANCIAL MANEUVERS IN THE FREE WORLD

Recently reported Soviet financial maneuvers in the Free World suggest a continuing effort to exploit the propaganda impact of the ruble revaluation while generally strengthening and enhancing the international standing of the ruble. Reports have been received to the effect that the Soviet Union is seeking to establish ruble accounts in certain Western countries and to obtain ruble quotations in certain Free World money markets. The significance of these reports could range from the reflection of a mere propaganda move to the foreshadowing of a liberalization of Soviet foreign trade and financial policy leading eventually to the convertibility of the ruble. More likely, however, they reflect an attempt to enlarge the ruble trade area by exploiting current or prospective balance of payment difficulties in susceptible Western countries through imposing ruble clearings as the price of expanding trade with the USSR.

According to a report

the Soviet Union recently concluded a transaction with a Greek businessman who agreed to accept "new hard" rubles in payment. 1/ The agreement, reportedly, did not provide for reciprocal purchases of Soviet goods or services in payment for which the rubles could be used. Rather it contemplated the eventual convertibility of the ruble. This report together with related information received on Soviet financial maneuverings in Brazil seem to form a pattern.

The Brazilian report originated with the leftist Brazilian newspaper Ultima Hora which stated in November 1960 that "delegations from Brazil and the Soviet Union will confer in Geneva or Moscow next December (1960) to study the possibility of placing rubles on sale in the Brazil currency exchange as well as the free exchange of the Soviet currency." This newspaper account ended with the claim that "in the future, any industrialist or businessman can buy or sell the required amount or rubles directly from Soviet commercial houses." 2/

The Brazilian Foreign Office declared that the Ultima Hora article was without substance, however, and that Brazil would not depart from the provisions of its 1959 trade agreement with the USSR which specifies settlement in US dollars for any amounts in excess of the permissible swing credit. 3/

Such accounts would serve as clearing accounts for Soviet-Japanese trade. Whereas commercial contracts would continue to be negotiated in terms of dollars or pound sterling, accounts would be kept in terms of rubles. Balances over and above an agreed limit could be convertible to Free World currencies or could be transferred to third countries within the ruble trade area, opening the door for limited multilateralism in trade with the Soviet Bloc. 5/

At the present time the Soviet Union maintains ruble accounts, i.e. ruble denominated clearing accounts in only one Western country--Finland. These accounts represent an exceptional case which grew out of Finnish dependence upon the USSR market for a substantial portion of its export availabilities ever since reparations shipments induced

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the orientation of Finnish industrial development to meet Soviet requirements. According to the 1959 Russo-Finnish trade agreement accounts in rubles are kept in the Bank of Finland and in GOSBANK. The agreement contains a swing credit and stipulates payment in gold or in freely convertible currencies for imbalances in excess thereof. Prices of exports and imports are fixed in rubles on the basis of world market prices. A 1950 Russo-Finnish trade agreement provided for some multilateral clearing of Soviet debit balances through transfers to Satellite accounts. This system was largely discontinued in 1957 when East Germany and Poland withdrew on the grounds that they needed Western currencies more than rubles in payment for their exports. Provided the new Soviet proposal permits multilateral settlement of debit as well as credit balances, the Satellite countries might be more interested.*

What dictated the choice of Brazil, Greece, as the initial targets for the reported Soviet financial maneuvers can only be assumed. In the Soviet view, each of these countries plays a pivotal role in its part of the world. Accordingly, any step which it might take to alter the extent or the conditions of its trade with the Soviet Union would be likely to have repercussions beyond its borders. Moreover, each of these countries is experiencing or shows some concern over possible balance of payments difficulties and, in the Soviet view, might therefore be expected to welcome the opportunity to lessen the drain on their gold and convertible currency reserves by increasing trade with the Soviet Union--even at the expense of ruble clearing. This juxtaposition of circumstances may appear to Soviet officials to provide a climate propitious for an attempt to expand the ruble trade area. Even if the Soviet overtures are rejected, an important propaganda point will have been scored as ruble trading will have been advanced as a serious alternative to trading in Free World currencies.

Much less likely than the possibility of opening ruble clearing accounts in Free World countries appears the possibility that the Soviet Union will attempt to establish--within the foreseeable future--extensive convertibility of the ruble. To place the significance of such a step into its perspective it should be remembered that any move towards convertibility, i.e. towards allowing foreigners to accumulate substantial claims on Soviet output, would represent a radical departure from Soviet policy which has sought effectively to quarantine the USSR economy from the influences of Free World markets by maintaining control over all foreign trade and financial transactions, including, since 1928, a prohibition over the export and import of Soviet currency. All foreign trade and financial transactions of the USSR are conducted either through bilateral clearing or through payment in foreign exchange or in gold.

By maintaining its strict control over all foreign trade and financial transactions, the Soviet leaders have been able to gear exports and imports to the requirements of the economy of the USSR--or to transcending foreign policy objectives--utilizing foreign trade as an effective instrument for promoting the policy priorities of the Soviet Union at home and abroad.

The establishment of ruble accounts in Western countries the ownership of which would be permitted to change hands, is seen as weakening the government monopoly over foreign trade and foreign exchange resources, for the rubles held by non-Soviet interests would represent claims against the Soviet economy which must be paid for out of Soviet production--or out of the Soviet gold hoard. Nevertheless, the volume of such claims could be controlled by means of restrictions on Soviet imports, and the demand for rubles could be controlled through restrictions on exports. At the same time, however, the smaller the availability of rubles,--and, what appears to be the corollary--the greater the uncertainty regarding limitations on their use in the purchase of Soviet goods and services, the greater the difficulty faced by the Soviet Union in attempting to market its rubles abroad.

To compensate for the uncertainties surrounding the usefulness of the ruble--either in terms of convertibility or in terms of purchasing rights (as distinct from purchasing power) in the USSR--it is likely that the Free World money markets would exact discounts, not an auspicious debut for the much heralded "heavy" ruble as an international currency. It is this dilemma, which, at least in the near future, appears to militate against any serious Soviet attempt to enter its rubles into competition with Free World currencies.

On the other hand, the Soviet Union may plan to expand the ruble trade area by pressing for the establishment of ruble denominated clearing accounts and for the inclusion of limited intra-bloc multi-lateral clearing provisions in payments agreements negotiated with selected Free World countries. The amount of actual trade flowing through these clearings could be varied by Soviet authorities to meet prevailing circumstances. It would not have to be large, in any case, to reap propaganda advantages in the ensuing struggle between the ruble and the dollar.

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Analyst:

Sources:

- 1.
- 2.
3. FBIS, Daily Report (Latin America), no. 225, p. CI. OOU.
4. State, Rio de Janeiro. Airgram G-236, 27 Dec 60. OOU.
- 5.

6 February 1961

CIA/RR CB-61-5

Page 5

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