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MONTHLY REPORTS
OF THE
BANK DEUTSCHER LÄNDER

JANUARY 1949

I N T R O D U C T I O N

With this report the Bank deutscher Länder is commencing the publication of regular monthly reports on the economic situation of the specified area (Währungsgebiet), particularly concerning the trend of the money and credit markets. These reports will primarily contain banking statistical data collected in cooperation with the Land Central Banks - the weekly and monthly banking statistics for the Western German specified area - and, in addition, a number of other data which are important for judging the situation relating to monetary and credit policy. The aim of these reports is to objectively inform the public in a manner as comprehensive as possible. Issuing comments on disputed matters concerning credit policy shall, on principle, be avoided in as much as official statements of the Bank deutscher Länder are not published for the purpose of completing these reports.

The "Mitteilungen der Bank deutscher Länder" will, in the future, still be issued in addition to the "Monthly Reports" and will contain primarily laws and ordinances enacted and/or issued under the currency reform, circulars of the Bank deutscher Länder to the Land Central Banks and the statements of the Bank deutscher Länder with official explanations attached.

The end of the month is intended as the issuing date for the "Monthly Reports". Due to technical difficulties on printing, the issuance of the first reports was delayed.

B A N K D E U T S C H E R L Ä N D E R

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The Economic Situation of the
Western German Specified Area in December 1948

(1) Monetary and Credit Matters

Due to the continuing expansion of bank credits, and the progressive conversion of old RM-credit balances, the money volume in the specified area (banknotes plus bank deposits) continued to grow considerably during the reporting month. The increase, however, slowed down due to the restrictive measures of the Board of Directors as well as the gradual terminating of the creation of money (pursuant to the laws) caused by the conversion of old currency credit balances under the currency reform legislation. By the end of the year, 90 per cent. of these old currency credit balances had presumably been converted.

During December, bank credits with business banks (excluding credits granted to financial institutions) increased by 351 million DM. The fact that credits increased during the first three weeks of the month only whereas during the fourth week between Xmas and New Year when business was slow, credits slightly decreased for the first time since currency reform - as can be ascertained from the weekly banking statistics (sample statistics of the Bank deutscher Länder and the Land Central Banks on the 112 financial institutions) - is particularly characteristic for the month of December when turnover

usually reach a maximum level prior to Xmas. Bill of exchange credits account for more than two thirds of the total increase in December which is a sign that the financial institutions were more critical of credits granted to be refinanced. The decision of the Board of Directors of 2 November 1948 which excludes part of the bankers acceptances from rediscount and refers them to the collateral loans requiring a higher rate of interest may have had some influence in view of the fact that bankers acceptances with the 112 weekly reporting banking institutions account for approximately 35 per cent.

Credits granted by the 112 financial institutions
during December 1948
(excluding inter-bank-credits)
in million DM

figures as of	total	t h e r e o f				to public authorities
		to economic enterprises and private persons	current account and acceptance credits	customers' liabilities on account of bills	other short-term credits	
30 Nov	1 643	1 600	908	669	23	43
7 Dec	1 665	1 627	933	673	21	38
15 Dec	1 734	1 696	973	701	22	38
23 Dec	1 822	1 791	988	781	22	31
31 Dec	1 818	1 788	967	805	16	30
changes during December	+ 175	+ 188	+ 59	+ 136	- 7	- 13
Share in the monthly banking statistics (overall statistics) in percentage						
30 Nov	37,9	39,6	39,8	39,8	31,3	14,4

The direct granting of credits of the central bank system to non-bank customers (public authorities, in the case of the Land Central Banks in the French Zone, also other giro customers) only increased slightly during December. Credits of the central bank system to public authorities increased by 5 million DM and to economic enterprises and private persons by 6 million DM.

The money movements over accounts for the settlement of foreign transactions with the Bank deutscher Länder (Konten zur Abwicklung des Auslandsgeschäfts) which caused considerable amounts to be put into circulation during October and November were nearly neutral with regard to the effects on money circulation during December in spite of a 140 million DM increase in the accounts with foreign banks maintained by the Bank deutscher Länder on behalf of JEBIA; the credit balance of accounts maintained in connection with foreign transactions and shown on both sides of the statement increased by only 11.1 million DM as compared with the preceding month.

The expansion of bank credit which has to be added to the progressing conversion of old RM-credit balances pursuant to the currency legislation caused further considerable increases in bank deposits (excluding inter-bank-deposits). Whereas the increase in deposits on free account with the 112 weekly reporting institutions amounted to 174 million DM, available bank deposits (excluding inter-bank-deposits) with 3579 monthly reporting financial institutions increased by 641 million DM during December.

During December, deposits of public authorities and other giro customers with the central bank system, however, showed a downward trend; they decreased by 261 million DM to 1.557 million DM. The circulation of banknotes, however, which had amounted to about 6 billion DM during the first three weeks of the month, in the fourth week increased by 290 million DM under the influence of the year-end (total increase in December 301 million DM), so that by the end of the year, banknotes in circulation amounted to 6 319 million DM, to date the highest amount. The total amount of notes in circulation in the specified area (banknotes plus available bank credit balances, excluding inter-bank-deposits) increased by 700 million DM in December as a result of these movements, so that the total money volume available in the specified area was approximately 17 billion DM by the end of the year.

In spite of the increase in the notes in circulation, the cash reserves of the financial institutions (cash plus central bank credit balances) did not decline in December but, on the contrary, increased.

Deposits with 112 financial institutions in December 1948
(excluding inter-bank-deposits)
(in million DM)

figures as of	blocked deposits		free deposits			
	blocked account	investment account	total	public authori- ties	other credit- ors	savings deposits
30 Nov	164	46	2 886	1 058	1 643	185
7 Dec	147	51	2 936	1 061	1 683	192
15 Dec	124	62	2 966	1 060	1 704	202
23 Dec	107	68	3 084	1 121	1 753	210
31 Dec	84	76	3 060	1 065	1 756	239
changes during December	- 80	+ 30	+ 174	+ 7	+ 113	+ 54
Share in the monthly banking statistics (overall statistics) in percentage						
30 Nov	22,6	22,3	34,1	54,8	31,8	13,7

Deposits of financial institutions with the central bank system increased from 1 462 million DM (30 Nov) to 1 533 million DM (31 Dec), and the weekly reporting financial institutions show an increase in their cash reserve from 700 to 717 million DM. This development had been possible in that the 301 million DM increase in the notes in circulation was balanced by the before-mentioned decrease of deposits of public authorities and other giro customers with the central bank system by 261 million DM. and that, in addition, credits granted by the central bank system to financial institutions increased by 297 to 1 641 million DM and direct credits granted by the central bank system to public and private borrowers increased by 11 to 124 million DM. Characteristic for the liquid status of the banks is the fact that credits granted by the central bank system increased only up to the end of the third week in December, however, decreased by 16 million DM during the fourth week despite the close year-end. Including the requirement resulting from movements on the accounts for the settlement of foreign transactions, the central bank system's creation of money out of business transactions totalled

1 928 million DM by the end of the year.

The liquidity status of the banks, in general, continued to be very favourable. The surplus reserves of all banks, for the December average, amounted to 342 million DM = 30 per cent. of the reserve required. The bill of exchange portfolio of the banks is also considerable. By the end of the year, the 112 weekly reporting banking institutions alone possessed well over 600 million DM bills of exchange - excluding bankers acceptances which for the largest part can only be acceptable as collateral. Pursuant to the present directions concerning credits central bank money would have to be issued for said bills. By the end of December, the portfolio of bills eligible for rediscount may be estimated at approximately 1 100 million DM for the banks as a whole.

In view of the necessity to prevent a further increase in prices, great importance is to be attached to the measures restricting the expansion of credit. As known, the Board of Directors, in the middle of November, recommended that the financial institutions refrain from expanding the credits granted to their customers; obviously, this recommendation became effective as of the end of December. This restrictive line in credit policy was so far supported - apart from the aforementioned rediscount restrictions in the case of bankers acceptances - chiefly by the increase in minimum reserves against demand deposits at places where land central banks are located which increased the financial institutions' total reserve required by approximately 300 million DM. In order to ensure the observation of the directions concerning minimum reserves ^{more} effectively and particularly, to eliminate the incentive to go below the minimum reserve for the purpose of granting credits, the Board of Directors on 10 December, in addition, decided to increase the special interest rate for going below the reserve requirements from 1 per cent. to 3 per cent. above the bank rate for loans (Lombardsatz) effective in the case of financial institutions. The discount rate and the bank rate for loans were not increased.

Surveying the total trend of the money volume, the bank credits and the central bank credits in the fourth quarter of 1948, an increase in the amount of money in circulation in the specified

area by 3 billion DM can be ascertained.

Money Volume in the fourth quarter of 1948
(banknotes plus bank deposits, excluding inter-bank-deposits)
(in million DM)

	30.9.	31.10.	30.11.	31.12.
1. Free deposits with business banks	6 662	7 476	8 453	9 094
2. Deposits on transfer accounts with the central bank system	1 953	1 807	1 818	1 550
3. Deposits on blocked account ¹⁾	2 849	1 747	726	441
4. " " investment account	-	-	208	310
5. Banknotes issued	5 358	5 385	6 018	6 319
6. Deposits with financial institutions not subject to the sample statistics (estimated)	90	100	110	120
total	16 892	17 015	17 333	17 844
thereof, free deposits	14 043	15 268	16 399	17 093

¹⁾ Blocked account possibly contains certain amounts which are to be cancelled pursuant to Law No. 65 (decision of blocked account)

This considerable increase of the amount of money in circulation is based chiefly on the money created under the currency legislation. Only a small but gradually increasing portion of the total amount of money results from the granting of credits by the banks; on 30 September, it amounted to 23 per cent. of the money volume including the relatively small amount of direct credits granted by the central bank system to non-bank customers. By the end of the year, this portion amounted to 29 per cent. of the money volume. For this reason, the larger portion of the money volume is not balanced by credits granted to the economy but only by equalization claims against public authorities which run for an unlimited time and are, therefore, not subject to redemption.

Outstanding Credits including discount credits
with all financial institutions
in the fourth quarter of 1948
(excluding inter-bank-credits)
(in million DM)

	30 Sept	31 Oct	30 Nov	31 Dec
credits granted by business banks to				
non-bank customers	3 196	3 819	4 333	4 684
(thereof: to the economy and private persons)	(3 011)	(3 550)	(4 035)	(4 389)
direct credits granted by the central bank system to				
non-bank customers	44	42	113	124
(thereof: to the economy and private persons)	(9)	(14)	(19)	(25)
TOTAL	3 240	3 861	4 446	4 808
Increase as compared with the preceding month		621	585	362
credits, percentage of the money volume available	23	25	27	28

During the first months following currency reform bank credits expanded almost completely independent of the central bank system due to the considerable creation of central bank money on account of the currency reform legislation. Even by the end of September, outstanding central bank credits to financial institutions were approximately only 11 per cent. of the credits granted by business banks. Gradually the banks became more and more dependent on the central bank system, so that, by the end of the year, approximately 34 per cent. of the credits granted by business banks to non-bank customers had been refinanced by the central bank system. Monetary and credit measures for counteracting the upward trend of prices could, therefore, be issued by the central bank system relatively late.

Development of the Central Bank Credits
during the fourth quarter of 1948
(in million DM)

	30 Sept	31 Oct	30 Nov	31 Dec
1. Bills of Exchange	350	778	1 232	1 461
2. Collateral Claims	10	60	95	187
3. Securities	11	33	36	38
4. Credits to public authorities	35	28	94	99
outstanding central bank credit	406	899	1 457	1 765
thereof: to financial institutions	(362)	(857)	(1 344)	(1 641)
credits to financial institutions, percentage of credits granted by these financial institutions to non-banking institutions	11	22	31	34
5. Balance of accounts for the settlement of foreign trans- actions	- 121	+ 56	+ 154	+ 163
Total debit of the central bank system	285	955	1 611	1 928

A slight uncertainty prevailed in the money market due to the possibility of increasing the discount-rate which was frequently under discussion during December. Nevertheless, in general, money was still easy on the money market. In Frankfurt, day-to-day money was plentiful and continuously offered at approximately $2\frac{3}{4}$ per cent. Monthly loans beyond the last day of the month of December cost $4\frac{5}{8}$ ^{$4\frac{7}{8}$} per cent., trade bills endorsed by a bank $4\frac{7}{8}$ - 5 per cent., bankers' acceptances - rediscountable as well as other bankers' acceptances - of nominal rates of $5\frac{1}{2}$ - $5\frac{3}{4}$ and $6\frac{1}{4}$ - $6\frac{1}{2}$ per cent., respectively, were hardly sold.

In December, new issues of securities were not placed with the exception of 25 million DM 5 per cent. treasury bills of a three months term of Land Württemberg-Hohenzollern which served the redemption of a 25 million Reichsmark issue due on 3 January 1949. The sales pressure in fixed interest bearing securities decreased; in some cases, prices slightly increased. The decline in share prices prevailing since the beginning of November continued until

approximately the middle of December; especially shares of the Ruhr-Montan-industry were weak and partly reached the lowest price since currency reform. From the middle of the month, a somewhat more friendly tendency broke through.

(2) Public Finances

In December, the Länder budgets again closed with a deficit after, in October and November, revenues had, in general, exceeded expenditures. During the period 4 December - 31 December 1948 - there are no figures available for 1 December - the cash holdings of the eight Länder in the Combined Economic Area decreased by roughly 203 million DM. It would be incorrect to conclude an equally high deficit from the decline of cash holdings. For statistical and booking reasons the trend in cash holdings is often different from that in budgetary surpluses or deficits. If, therefore, the actual deficit of all eight Länder budgets of the Combined Economic Area was possibly lower than the decrease in cash holdings, probably no money was neutralized by way of the Länder budgets in December but, on the contrary, the active money volume was increased.

The reason for this development is the marked increase in expenditures and not - as during the first months following currency reform - the low and only gradually increasing revenues. According to information available, the trend of revenues and expenditures of the Länder in the Combined Economic Area during the period August to November was as follows:

	Revenues million DM	Expenditures million DM	Surplus (+) or Deficit (-) million DM
August	750,4	856,5	- 106,1
September	856,4	936,6	- 80,2
October	1 146,8	1 072,0	+ 74,8
November	1 350,7	1 269,9	+ 80,8

Source: Monthly Statistics of Bico Finance Group

Preliminary data for six Länder (Northrhine-Westphalia, Lower Saxony, Schleswig-Holstein, Hesse, and Bremen) show that the upward trend of expenditures continued in December whereas revenues did not even reach the November figure. Obviously, this trend was chiefly due to seasonal fluctuations. In previous years also, expenditures were particularly high in December whereas revenues were mostly lower than those of the preceding months.¹⁾ The deficit of the Länder of the Combined Economic Area could, in general, be financed by recourse to cash reserves (including the first supply of new currency received under currency reform); only Schleswig-Holstein had to raise credits; i. e. 8 million DM from the Post, so that her cash decreased from minus 12.8 million DM on 27 November to minus 28.5 million DM on 31 December when considering the cash advances raised. The indebtedness of the Länder in the French Zone continued to rise, credits raised with the Land Central Banks alone increased from 26.9 million DM on 30 November to 28.8 million DM on 31 December.

The finances of the Combined Economic Area in December likewise showed a deficit of 17 million DM which was, however, lower than that of the preceding month (50 million DM). This deficit is the difference between a new credit raised with the Postal Administration in favor of Berlin amounting to 25 million DM and a repayment of 8 million DM on the credit of 50 million DM raised with the Bank deutscher Länder in favor of Berlin in November 1948. In the future it is contemplated to finance the Berlin-aid from the proceeds derived from the coffee tax and the "emergency aid Berlin".

With regard to the financial situation of the Gemeinden which had been less favourable than that of the Länder during the preceding months, the expenditures likewise exceeded the revenues during December, according to individual data received. It can be presumed that the deficits had largely been financed by spending

(1) The data for December received while this report was being printed confirm the above considerations. Revenues of the eight Länder of the Combined Economic Area = 1,215 million DM; expenditures = 1,404 million DM; deficit = 189 million DM.

the first supply of new currency and not by way of credits. Social insurances, however, continued to show surpluses due to the favourable development of the unemployment insurance. The surplus of revenues is to be estimated at 50 to 60 million DM. This amount, however, only partly compensates the deficits occurred in the remaining fields of public finance.

During the reporting month, the proposal for a tax reform submitted by the Department for Finance in November, which has as its objective a reduction of the income tax rate by 16 per cent. in connection with a tax amnesty and higher tax penalties, drew considerable attention. After the Executive Committee and the Economic Council had, on principle, agreed to the proposal it was, for the time being, withdrawn due to an objection raised by the Länderrat. Recently, the Executive Committee took up the Department for Finance's original proposal on the reform demanding, however, that the suggestion of the Finance Minister (Königsstein Meeting) to grant tax reductions as a reward for the formation of more capital only be given due consideration. The tax reductions are to consist of extended favourings on non-withdrawn profits, improvements in the free valuation of replacements and increased special expenses.

(3) Foreign Trade

In 1948, import of commodities into the Combined Economic Area amounted to 3,1 billion RM or DM, respectively. During the same time, export amounted to 1,8 billion RM or DM, respectively, i.e. a debit balance of 1,3 billion DM.

The increase of industrial imports (gewerbliche Einfuhren) during the second half of 1948 is chiefly due to the fact that the 30 cents rate was applied and not due to a corresponding increase in the quantities imported whereas the increase in food imports is chiefly an actual movement of quantities.

In 1948, import of the Combined Economic Area yielded a total of 592 million Dollars. In the case of "Auflagegüter" (commodities for which the required quantity to be exported is fixed) the quantity exported only slightly increased. Accordingly, the increase in the figures is to be chiefly explained by a rise of prices (adapting the prices to the level of costs). In the case of the remaining commodities, prices likewise increased, but at the same time the quantities exported also rose considerably. The following survey reveals the distribution of export over the year 1948 (in Dollars):

1948 Export
(Combined Economic Area)
(in million Dollars)

	First Half-Year	Second Half-Year	Total Year
"Auflagegüter" ¹⁾	149,6	183,2	332,8
Other Commodities	75,5	183,7	259,2
Total export	225,1	366,9	592,0

The share of the dollar-value of the finished-goods in the total export of the Combined Economic Area increased from 25,9 per cent. during the first half-year to 40,5 per cent. during the second half-year 1948.

¹⁾ Coal, Coke, Timber and Scrap

1948 Foreign Trade
(Combined Economic Area)
(in million RM and DM, respectively)

	First Half-Year		Second Half-Year		Total Year	
Import						
Food Industry	747,2		1077,8		1825,0	
Industrial Commodities	423,5	1170,7	915,3	1993,1	1338,8	3163,8
Export						
"Auflagegüter" ¹⁾	238,7		620,2		858,9	
Other Commodities	245,9	484,6	712,0	1332,2	957,9	1816,8
Import Surplus		686,1		660,9		1347,0

¹⁾ Coal, Coke, Timber and Scrap

From information furnished by JEIA and which is based chiefly on payment transactions and, apart from the movements of goods, also includes services, the following schedule is obtained (preliminary figures):

Foreign Trade
(Combined Economic Area, according to information by JEIA)
(in million Dollars)

	Import	Export	Import Surplus	Export Percent- age of Imports
1945 (Aug.-Dec.)	96	20	76	20,8
1946	643	148	495	23,0
1947	734	225	509	30,6
1948	1353	653	700	48,3
Total	2826	1046	1780	37,0

In December, foreign exchange receipts for exports from the Combined Economic Area amounting to 104 million Dollars reached the maximum figure of the year. The receipts for the whole year 1948 amounted to approximately 620 million Dollars. As is known, the receipts required and expected by JEIA amounted to approximately 600 million Dollars. The development was as follows (in million Dollars):

First Quarter	Second Quarter		
103,9	124,3	= First Half-Year	228,2
Third Quarter	Fourth Quarter		
153,7	237,2	= Second Half-Year	390,9
		Total Year	619,1

Foreign exchange payments for imports amounted only to approximately 493 million Dollars. They are sub-divided as follows (in million Dollars):

First Quarter	Second Quarter		
46,7	150,6	= First Half-Year	197,3
Third Quarter	Fourth Quarter		
156,9	138,6	= Second Half-Year	295,5
		Total Year	492,8

The credit-balance from goods transactions as far as settled in foreign exchange thus amounted to 126,3 million Dollars. Foreign exchange movements outside goods transactions also showed a credit-balance of 16,1 million Dollars. The 1948 foreign exchange balance reveals the following break-down (in million Dollars):

There were available:		
balance as of 31 December 1947		150,9
receipts from exports	619,1	
other receipts	22,9	642,0
		<u>792,9</u>

There were used:		
payments for imports	492,8	
other payments	6,8	499,6
balance as of 31 December 1948		<u>293,3</u>

The foreign exchange reserve available at the beginning of 1948 was thus almost doubled during a period where the German economy was in great need of foreign exchange for industrial imports. During the period from the transfer of the Joint Foreign Exchange Agency and the Gemeinsame Außenhandelskasse to the Bank deutscher Länder on 1 August 1948 until 31 December 1948, the additional receipt of foreign exchange amounted to 135 million Dollars which at a ratio of conversion of 30 cents = 1 DM corresponds to an additional amount of 450 million DM.

The foreign exchange credit balances of 293 million Dollars as of 31 December 1948 were balanced by obligations from letters of credit for current import transactions up to 196 million Dollars. Of the latter, approximately 30 million will fall due in March 1949 at the earliest.

The extremely low imports which since currency reform have been a serious burden for economy and currency are about to increase again. In December, payments of importers considerably increased. The development was as follows:

Payments of Importers
(in million RM and DM, respectively)

Monthly Average and/or Month	GARIOA-, ERP and STEG Imports	Other Imports	Total of Imports
January-June	263	135	398
July-October	162	65	227
November	171	92	263
December	242	132	374

In spite of the considerably increased import payments a sterilization of money had not yet taken place in the foreign trade sector during December, since simultaneously disbursements to exporters increased and further considerable amounts for special purposes had been released. This development seems to continue during January.

Deliveries of commodities into the Combined Economic Area within the ERP (total program April to December 1948 approximately 342 million Dollars) amounted to approximately 92 million Dollars by the middle of December. Industrial imports accounted for approximately 26 million Dollars of this amount. By the end of the year, 135 million DM for ERP-imports were deposited with the Bank deutscher Länder.

In December, too, the Combined Economic Area participated within the European clearing in the compensation of balances accrued during the preceding month which resulted from the international goods exchange. To repay import surpluses in November, 1,002,000 Dollar drawing rights which the Combined Economic Area is entitled to were used. At the same time, export surpluses accrued in November and amounting to 895,000 Dollar were set off against drawing rights which the Combined Economic Area has to grant to other countries. In addition, an amount of

50 000 Dollars drawing rights which the Combined Economic Area has to grant to another country had been used within an automatic first-category compensation which, as known, may be made by the Bank for International Settlements without approval by the participating countries. Proposals on second-category compensations so far do not seem to have been carried through for want of approval by the partners concerned. In the case of transactions with another country, the Combined Economic Area recorded import surpluses during November, which could have been paid for by drawing rights to which the Combined Economic Area is entitled. However, since the Combined Economic Area had to expect further deliveries of goods with corresponding payment commitments from the country concerned, in the near future the utilization of these drawing rights was deferred pursuant to an agreement with the partner countries. Other countries which pursuant to the Paris Agreement have to place drawing rights at the disposal of the Combined Economic Area were not in a position to do so in December since they could not produce any export surpluses to the Bizonal Area.

The ECA-administration appropriated a fixed Dollar amount of conditional aid to the Combined Economic Area corresponding to the drawing rights granted. During the reporting month, the Combined Economic Area had received within the European clearing agreement a net-appropriation of ECA-funds (drawing rights) amounting to approximately 1 million Dollars.

In order to contribute as much as possible to the reestablishment of normal banking relations with foreign countries, the Bank deutscher Länder is endeavouring to transfer gradually to the sector of private banking institutions those transactions which do not belong directly to the activity of a bank of issue but had to be taken over temporarily due to post-war conditions. The transfer of Military Government export/import accounts maintained abroad to the Bank deutscher Länder now under process offers an opportunity to introduce German Außenhandelsbanken into international banking. In the United States and Great Britain, the agent banks with which the Bank deutscher Länder has accounts, have already been authorized to carry out certain types of payment orders from approved Außenhandelsbanken.

In addition, eight branch establishments of foreign banks were granted permission from Military Government for establishing

business in the Combined Economic Area. These permits define the group of persons concerned as well as the type and extent of the banking activities in detail. As far as the regulation of payments in D-Mark is concerned, these can only be effected from accounts maintained with the appropriate Land Central Bank.

(4) Production and Sale

During the last month industrial production in the Bizonal Area did not increase as much as during the first four months following currency reform (July to October 1948). The index number of industrial production (1936 = 100) in October was around 74, in November around 75, and in December around 78. The supply of goods possibly did not increase to the same extent because since late summer, tendencies to hoard goods again became apparent. Compensation transactions again replaced the normal supply to some extent. Recently, however, the industry's willingness to make deliveries again increased and the keeping of excessive stocks seems hardly advisable due to the drop of prices. A certain decline of demand was already noticeable in trade during the second half of December - with some regional differences, however -. The Xmas business, particularly in the case of higher-priced goods, in spite of the usual Xmas bonuses, was disappointing, so that in January, for the first time for many years, clearance sales had to be arranged in order to sell off the stocks.

Total 1948 industrial production was roughly 53 per cent higher than that of 1947. During the second half of 1948 (i.e. the period following currency reform) the level of production was 62 - 63 per cent. higher than that of the corresponding period of the preceding year.

The renewed increase in production in December is due decisively to the favourable development of the general production goods (i.e. coal, power, gas, basic chemicals). During the reporting month, this group almost equalled the 1936 average. December production of coal amounted to 8,10 million tons as compared with 7,71 million tons in November and 7,87 million tons in October which so far has been the maximum figure. The new increase was attained by a drop in the rate of absenteeism and a further

rise in the performance per shift. With a production of 87 million tons in 1948, 74,4 per cent. of the 1936 production was achieved. Productive capacity of labour employed in mining is, however, still much below pre-war level; in 1936, the shift performance of one miner averaged 2,11 tons against 1,31 tons in December 1948. Despite the comparatively favourable production results, 1948 coal supply of Western Germany amounting to 58,5 million tons (roughly 9 million tons more than in 1947) was inadequate although coal stock piles have considerably diminished due to improved transportation facilities and the majority of supplies provided for Berlin and the Eastern Zone remaining in the Bizonal Area.

Production and consumption of power further increased in December (by 7 per cent. as compared with the preceding month) which had partly been achieved by overloading the power plants.

1948 December iron and steel production also reached a new maximum level of the post-war period. It was more than double the production of the corresponding month of the preceding year.

The increase in production during December was likewise remarkable in the case of vehicles, products of electrical engineering, leather, ceramics and rubber, whereas the industry of stones and earths as well as the sawing and timber industries show a downward trend.

It is furthermore remarkable that transport could meet the increased demands of the year 1948 without great difficulties.

After currency reform the economy in the French Zone did not recover to the same extent as in the Combined Economic Area - apart from several special industries -; the existing bottlenecks are more numerous and more pressing than in the Combined Economic Area. By adhering to the system of control and allocation, the stimulating factors in the French Zone's economy remained comparatively weak and in view of the supply of raw materials its economy, due to its lower prices, was placed into a very disadvantageous position as compared with the neighbouring areas. To the lack of raw materials, coal, electric power, packing materials and the like, which lately caused a decline in production, certain credit difficulties have to be added, since finished goods could no longer be sold to the

required extent due to control and allocation. It is therefore hoped that supplies from the Bizonal Area and abroad will increase and the regulations with regard to control and allocation which handicap the sale of goods will be relaxed.

The lower level of prices in the French Zone which is due to the maintenance of the system of control and allocation had thus been achieved with sacrifices, i.e. with a still marked instability of the entire economic situation.

(5) Labour Market

The number of unemployed in the Combined Economic Area which in November had even dropped to 701.100 - contrary to the seasonal trend - (October: 723.200) increased by about 42.000 in December. The usual increase in unemployment during winter (decrease of employment in out-door professions) thus materialized rather late in 1948. The December-figure of unemployed of 742.900 is still below the maximum figure after currency reform which was reached at the end of August 1948 with 768.200. The number of vacancies which in November had dropped from about 269.000 to about 245.000, decreased considerably (to about 200.700).

The rise in unemployment during the reporting month exclusively concerned male labour (increase of about 53.000), whereas the number of female unemployed declined further by about 11.000 persons and which is due mainly to the hiring of female labour during the Xmas business and the hiring of domestic servants. Thus, the uninterrupted decrease in the unemployment of female labour since August 1948 continued (August: 235.000, December: 207.600).

The number of male unemployed in December did not increase in all Länder in the Combined Economic Area. Northrhine-Westphalia recorded a further decrease in the unemployment; in several Länder (Hamburg, Württemberg-Baden) there were only slight changes whereas in Schleswig-Holstein, Lower Saxony and Bavaria, i.e. particularly in the agricultural areas the figure of male unemployed and thus the total figure increased considerably.

Figure of Unemployment in the Combined Economic Area
as of the End of December 1948

	Actual Number	May 1948=100
Schleswig-Holstein	114 800	617
Hamburg	26 200	217
Lower Saxony	171 000	296
Northrhine-Westphalia	106 200	85
Bremen	11 500	132
Hesse	61 100	150
Württemberg-Baden	25 000	89
Bavaria	227 100	153
Total	742 900	169

(6) Prices and Wages

In December tendencies towards increasing prices were weaker to a greater extent than in November. Despite the Xmas business, the level of prices as a whole came to a halt from the middle of the reporting month. Due consideration has however to be given to the fact that the various branches of economy, for the time being, were affected very differently by this development. Accordingly the development of prices was not at all uniform in December. Nevertheless, among the prices of the legal market being regularly observed by the Bank deutscher Länder and taken from various statistics increases were less numerous in December than in the preceding months.

Latest Trend of Retail Prices

	Prices observed Percentage t h e r e o f		
	increased	dropped	unchanged
October	53	26	21
November	41	33	26
First-Half of December	36	27	37
Second-Half of December	18	19	63

According to observations made by other institutions, the majority of prices dropped or remained unchanged during December. Sporadic price increases remained in narrow limits. Even on the black market, the trend of prices was similar as far as can be judged due to the various regional and local differences. This is particularly remarkable since a considerable rise could have been expected owing to the increased demand around Xmas. But even on the black market, price increases - apart from a few exceptions - were not of great importance.

Contrary to the stagnancy of prices in December, a distinct turn in the trend of prices could be noticed on the regular as well as on the black market during January 1949. Price increases could, in general, no longer be noticed; on the other hand, setbacks in prices to a larger extent in individual markets and decreases in prices to a smaller extent in the majority of the free markets were registered.

At present, the reasons for these price reductions cannot be clearly ascertained. At first, the turn in the trend of prices obviously originated from the consumer who was neither willing nor in a position to pay the high prices. It influenced the supply of goods which during October and November - owing to speculative excesses - had lost touch with the actual buying possibilities of demand and now endeavoured to adapt itself to the demand. The change in the attitude of the consumer as well as of the supply was certainly partly due to psychological reasons; in this connection, the expectation of a lowering of prices repeatedly expressed by the economic administration, the announcement of increased imports for the first part of this year and the fear of further credit restrictions were undoubtedly important. The change in the attitude was, however, also essentially determined by objective factors; the termination of the creation of money under the currency legislation, the credit restrictions already in force, stricter methods of tax collection and the temporary increase in the cash holdings of public authorities have, in some fields, already brought about a noticeable decline in the available purchasing power and have, in other fields, rendered the supply of money exceedingly difficult. The precautionary measures for ensuring a better liquidity taken with regard to the dates for the payment of

taxes and for the payments to be made under the equalization of burdens at the beginning of the new year as well as the new increasing inclination to save were working in the same line.

The stagnancy of prices occurring in December had, for the time being, probably diminished the efforts made towards an increase in wages. The level of wages, therefore, remained substantially the same during the reporting month. The decrease in the real income having taken place in the preceding months (the real income was, however, still incomparably higher than prior to the introduction of the Deutsche Mark) shall in the first place be balanced by an extension of the "Everyman-Program" which has also emphatically been demanded by the trade unions and has been announced by the Department for Economics.

The nominal gross-income of wage and salary earners (excluding assisting dependents, but including, however, pensioners) probably amounted to about 41 billion DM (without deduction of direct taxes) during the last months of the year 1948. This figure is by 27 per cent higher than the nominal average income of 1936.

(7) Summary

In December, the volume of money further increased even if the increase slowed down due to the restrictive measures of credit policy as well as the gradual termination of the creation of money under the currency legislation. Contrary to the last two months, public budgets again closed with a slight deficit. Only a very small amount of money was put into circulation through the foreign trade accounts.

Like in November, industrial production continued to increase slightly, whereas unemployment, for the first time, showed the usual seasonal increase in December.

The inflationary tendencies towards increasing prices weakened considerably. From approximately the middle of December a certain turn in the total market tendency was noticeable. In this connection, the attitude of consumers probably was the decisive factor. The business activity of trade which so far has been extremely lively also slackened. This development is chiefly reflected in the field of prices where considerable declines have taken place since the end of the year.

The Statements of the Bank deutscher Länder

Pursuant to Article 26 of the Law on the "Establishment of the Bank deutscher Länder", the Bank deutscher Länder has since 7 September 1948 published a weekly statement on its status and, in addition, a monthly consolidated statement for the total central bank system (Bank deutscher Länder and Land Central banks) hereinafter referred to as the "consolidated statement". The establishment of two separate statements as well as the items contained therein reveal the great differences existing between the present and former central bank system; which are partly due to the reorganization of the central bank system and the technique of the currency reform.

In the 11 Länder of the specified area (Währungsgebiet) Land Central Banks were established as juridical persons under public law. They are limited chiefly to make credit transactions with the credit institutions of their respective Länder (except the LCBs of the French Zone) and execute cash transactions for the governmental agencies. The Bank deutscher Länder was established at a later date as the bank of issue and simultaneously as the "Bank of the Land Central Banks" and may serve as fiscal agent for the agencies of the Combined Economic Area, including Railway and Post. The Bank deutscher Länder was simultaneously charged with regulating foreign exchange transactions as well as the entire interbank money transfer between the Länder of the specified area.

The Bank deutscher Länder as well as the Land Central Banks are required by law to regularly publish their statements. Due to the sub-division (Bank deutscher Länder und Land Central Banks) in the organization of the central bank system, neither the statement of the Bank deutscher Länder nor that of the Land Central Banks alone permit a complete survey on the monetary and credit supply of the total Western German specified area. This survey may only be ascertained from the consolidated statement where the reciprocal claims and liabilities between the Bank deutscher Länder and the Land Central Banks are balanced, so that this statement reflects only the business relations of the total central bank system to customers outside the central bank system (i.e. chiefly the remaining financial institutions, as well as agencies of the

occupying Powers, the Combined Economic Area and the Länder). Thus, the consolidated statement of the Bank deutscher Länder - and not the weekly statement - must, on principle, be considered perhaps as important as the statement of the former Reichsbank, in spite of the new construction of the consolidated statement, so that a comparison of these two statements, with certain reservations, is permissible.

The items "bank notes issued" as well as the items connected with foreign transactions are inserted without changes from the weekly statement of the Bank deutscher Länder into the consolidated statement. The deposits of financial institutions with the Land Central Banks are transferred to the consolidated statement, likewise without changes. The deposits of agencies of the Occupying Powers and public authorities with the Bank deutscher Länder and the Land Central Banks are consolidated. Claims and liabilities against each of the 11 Land Central Banks contained in the weekly statement of the Bank deutscher Länder must correspond to the Land Central Banks' liabilities and claims against the Bank deutscher Länder, so that these items are cancelled when balancing is made. The assets side shows the consolidated equalization claims, bills of exchange and other securities of the Land Central Banks and the Bank deutscher Länder.

The scope of responsibilities of the Bank deutscher Länder and the Land Central Banks are particularly expressed on the liability side of the weekly statement and the consolidated statement: the function as bank of issue under the item "bank notes issued", the central bank function under the item "balances (deposits) of member banks" and the function as fiscal agent for public administration under "deposits of public authorities and the Occupying Powers" and the execution of foreign payments transactions under "foreign exchange liabilities against JEIA" as well as under the other accounts for the settlement

BANK DEUTSCHER LÄNDER

Consolidated Interim Statement of the Bank deutscher Länder and the Landeszentralbanken
as at December 31, 1948

Assets

Liabilities

	in DM 1000	in DM 1000
1. Credit balances with foreign banks inclusive of credit balances within the scope of trade agreements (administered for Military Governments)	993,064	6,319,448
2. Other accounts covering foreign transactions	1,538,559	1,532,718
3. Foreign currencies (administered for Military Governments)	11	39,809
4. Credit balance on Post Check Account	129,175	**)
5. Bills	1,461,044	1,335,138
6. Treasury bills and short-term treasury bonds of the Länder	510	222,091
7. Collateral claims against a) bills	34,055	2,575
b) equalization claims towards Public Authorities	132,104	1,375,877
c) treasury bills of the Länder	361	100,000
d) loans of the Länder	25	270,000
e) other securities	648	370,000
8. Cash advances to a) Military Government	649	6,483
b) the Länder	34,631	135,305
c) other public bodies	63,205	168,895
9. Securities a) purchased equalization claims against Public Authorities	38,242	12,486,121
b) purchased in the open market	59	12,486,121
10. Participation in the Bank deutscher Länder	100,000	100,000
11. Claims against Public Authorities from Monetary Reform	7,520,749	7,520,749
12. Interim claims against financial institutions from the first supply with new money	143,025	143,025
13. Other assets	306,005	306,005
	<u>12,486,121</u>	<u>12,486,121</u>
	<u>12,486,121</u>	<u>12,486,121</u>
1. Bank notes issued *)	6,319,448	6,319,448
2. Deposits of a) financial institutions within the specified area	1,532,718	1,532,718
b) financial institutions outside the specified area	39,809	39,809
c) public bodies ca) Occupying Powers	455,308	455,308
cb) Public treasuries	452,742	452,742
cc) municipalities and associations of municipalities	85,990	85,990
cd) other public bodies	341,098	341,098
d) other giro customers within the specified area	1,335,138	1,335,138
e) other giro customers outside the specified area	222,091	222,091
3. Foreign exchange liabilities towards JEIA (12,890 thereof not yet covered by JEIA)	2,575	2,575
4. Other accounts covering foreign transactions	1,375,877	1,375,877
5. Capital stock a) Bank deutscher Länder	100,000	100,000
b) Landeszentralbanken	270,000	270,000
6. Reserves	6,483	6,483
7. Pending accounts within the Central bank system	135,305	135,305
8. Other liabilities	168,895	168,895
Liabilities by endorsements: DM 1,106,717	1,106,717	1,106,717

Frankfurt a. M., January 20, 1949
BANK DEUTSCHER LÄNDER
Signed: Könniker, signed: Dr. Zachau

*) In addition DM 407,352,000.— have been made available to the Currency Commission, Berlin, by order of Military Governments.
**) Minimum reserves pursuant to Art. 6 of the Issue Law in the average of the month of December 1948
Reserve required 1,143,048 total of excess amounts 366,656
Actual reserve 1,484,865 total of deficient amounts 24,839
Surplus reserves 341,817

of foreign transactions.

The item "bank notes issued" shows the notes in circulation in the Western German specified area. This item does not contain the cash on hand with the Land Central Banks since this amount is charged to the Bank deutscher Länder and cannot be considered bank notes issued, the same as cash on hand with the Bank deutscher Länder itself. In addition, Deutsche-Mark-notes which had been made available to the Währungskommission Berlin by order of the Military Governments are likewise not included under this item. This amount will appear as annotation to the statement. Since pursuant to Article 1 of the Issue Law, small denominations (in future, also coins) are issued by the Bank deutscher Länder and not by the government, in contrast to the previous regulation, the item "bank notes issued" also embraces small denominations.

The most important item of the deposits in the weekly statement of the Bank deutscher Länder is "balances of member Land Central Banks". These balances are nearly exclusively the balances minimum which the Land Central Banks shall maintain with the Bank deutscher Länder (presently 20 per cent. of their demand deposits maintained, in pursuance of Article 6 of the Issue Law). Thus, the approximate total of deposits with the Land Central Banks can be ascertained from the amount of balances of the member Land Central Banks which is about five times the total of deposits. Since the calculation of the reserve required and the balances required can only be made on a monthly average, the breaking-down into balances required and excess reserves can only be made in an annotation to the item "balances of member Land Central Banks". Pursuant to the decision of the Board of Directors, this sub-division will not be made prior to 7 February 1949 and amounts in excess of or lower than the reserve required will appear separately.

In the consolidated statement, the balances of member Land Central Banks are replaced by "deposits of financial institutions within the specified area" with the central bank system. Pursuant to Article 6 of the Issue Law, the financial institutions which are affiliated to the Land Central Banks are also obliged to maintain minimum balances with the Land Central Banks

which are contained in the demand deposits included in the statements. The inclusion of the reserves required and the surplus reserves will be made in the consolidated statements the same as in the weekly statement, in the case of the first mentioned statement, however, on 31 December 1948 for the first time.

In the weekly statement, the item "deposits of authorities of Bizonal Economic Administration" also contains deposits of the railway and the Generalpostkasse. Together with the item "deposits of the Occupying Powers" they represent in a wider sense, the deposits of public bodies with the Bank deutscher Länder.

Corresponding deposits of Länder agencies and other public bodies are maintained with the Land Central Banks, but the Occupying Powers have also transferred part of their balances to the Land Central Banks. All these balances of public bodies with the central bank system are summarized in the consolidated statement under the heading "deposits of public bodies".

The item "other deposits" in the weekly statement corresponds to the items in the consolidated statement "deposits of financial institutions outside the specified area" and "other giro customers" within and outside the specified area. The most important item under "other deposits" are credit balances of the Currency Commission Berlin and those of the Gemeinsame Aussenhandelskasse still being wound up; these deposits are maintained only with the Bank deutscher Länder.

Under the corresponding items of the consolidated statement are included also the credit balances of private customers maintained with the Land Central Banks. This item clearly shows to what a limited extent the central bank system collects deposits from non-bank customers in contrast to the former Reichsbank system where fairly large deposits of other creditors were always common.

Pursuant to Para 25 (a) of the Law on the Establishment of the Bank deutscher Länder, the capital of the Bank deutscher Länder was fixed at one hundred million Reichsmarks and converted to one hundred million Deutsche Marks at a ratio ^{of} 1 : 1 in pursuance of Article VII of the Bank Regulation.

In the consolidated statement the capital of the Land Central Banks is added thereto, which according to the provisions of the individual Laws on the Establishment of Land Central Banks totals 270 million Deutsche Marks and was likewise converted at a ratio of 1 : 1 pursuant to Article VI of the Bank Regulation. (With regard to the capital of the Bank deutscher Länder which is held by the Land Central Banks a corresponding item "participation in the Bank deutscher Länder" had to be inserted into the consolidated statement on the assets side.)

The item "pending accounts within the central bank system" is entered only in the consolidated statement. This item contains chiefly pending giro transfers between the individual branch establishments of the Land Central Banks as well as between the individual Länder of the Western German specified areas. (In the weekly statement, these figures are included in the credit balances of member Land Central Banks).

Moreover the items "foreign exchange liabilities towards JEIA" and "other accounts covering foreign transactions" represent more comprehensive items on the liabilities side, the nature of which will become understandable when considering the special organization of the German foreign trade. On the assets side, "credit balances with foreign banks" and "other accounts covering foreign transactions" correspond to the aforementioned two items on the liabilities side. These assets and liabilities items are contained in the weekly statement and the consolidated statement, since they are only maintained with the Bank deutscher Länder and the Land Central Banks are not directly participating in foreign transactions.

"Foreign exchange liabilities towards JEIA" together with "credit balances with foreign banks" shown on the assets side, merely represent transitory items and bring about a corresponding extension of the balance sheet. Both items are maintained as foreign exchange in the books of the Bank deutscher Länder and are valued in DM for the statement according to conversion ratio of JEIA. The handling of these foreign exchange credit balances as transitory items shows that they are not held as property by the Bank deutscher Länder but are only administered by the latter as agent for the JEIA. The annotation "administéré for Military Governments" under "credit balances with foreign banks" expressly emphasizes this fact.

The excess of "credit balances with foreign banks" over "foreign exchange liabilities towards JEIA" points to the fact that part of the credit balances with foreign banks cannot be considered foreign exchange liabilities towards JEIA which are chiefly foreign exchange credit balances originating from business transactions which are not in connection with commodity and services transactions. The same applies to the small item "foreign currencies" which only affect currencies taken over from repatriated persons.

All business transactions connected with the export and import of the Combined Economic Area (i.e. excluding the French Zone of Occupation) are entered in DM on "other accounts covering foreign transactions" which partly appear on the assets side and partly on the liabilities side of the balance sheet. Apart from a clearing account with the Foreign Exchange Agency, there also appear chiefly on the liabilities side:

- the DM-deposits of importers pending their final settlement and booking;
- the credit balances of the U.S./U.K. Military Governments with the Bank deutscher Länder from the equivalent values for imports on credit (GARIGA, STEG, ERP) and
- the DM-liabilities towards exports - mostly short-term liabilities and accrued for technical reasons - as far as the foreign exchange receipt has already been entered, the DM-disbursement, however, has not yet been made.

On the assets side there are chiefly:

- the DM-equivalent value for the JEIA-foreign exchange (the DM-equivalent value can be interpreted as a claim against JEIA from foreign exchange accrued from German exports which have as yet not been utilized for imports);
- payments to exporters as far as the foreign exchange proceeds from exports have as yet not been received or entered, as well as
- claims against importers as far as the foreign exchange has been spent and the accounting entries had not been completed on the corresponding liabilities account.

The "temporary equalization claims against public authorities" represent the main asset in the weekly statement of the Bank

deutscher Länder. They reflect the creation of money under the Western German currency reform and the financial institutions are allowed an equalization claim against the public authorities to cover the difference between their liabilities and their remaining assets, in pursuance of Article 11 of the Conversion Law. The equalization claims are bearing interest at three per cent. per annum. The debtors of the equalization claims allocated to the Bank deutscher Länder are the Combined Economic Area and the French Zone, whereas in the case of equalization claims of the Land Central Banks (as well as the remaining financial institutions) the Länder were made debtors. Since, at the time of conversion, the Bank deutscher Länder did not possess assets to any larger extent, an equalization claim arises for nearly all liabilities from the currency conversion. In order to obtain a survey on the formation of this equalization claim, the latter has so far been sub-divided into the various obligations imposed on the Bank deutscher Länder pursuant to the currency laws: from the disbursement of the quotas per capita and the business amounts; from the first supply of new currency to public authorities and the Occupying Powers; from the conversion of liabilities minus assets, especially the deposits of financial institutions; from the conversion of the capital of the Bank deutscher Länder and from the redemption of small denomination symbols. In the future, this sub-division will be dropped. The equalization claims are called "temporary" since the exact amount can only be ascertained after the entry in the debt-register has been made on account of the examined and approved DM-opening balance sheet (conversion account).

In this connection, the "interim claims" against Land Central Banks are to be mentioned. They arose from the necessity to enable the Land Central Banks to fulfil their obligations imposed upon them by the currency laws in due time by advancing DM-notes and giro credit balances. The interim claims of the Bank deutscher Länder against the Land Central Banks are balanced by corresponding Land Central Bank interim claims against the Bank deutscher Länder. To the same extent as the accounting for the conversion of money is progressing, the interim claims are being converted into temporary equalization claims and will finally disappear from the statements of the Bank deutscher Länder and the Land Central Banks.

In the consolidated statement, the equalization claims of the Bank deutscher Länder and the Land Central Banks are summed up under the item "claims against public authorities". The interim claims of the Land Central Banks against public authorities from the first supply of new currency to the Länder are added to the equalization claims since, after final accounting and examining by the auditing offices, they will be converted into equalization claims. Since in the case of consolidation, the interim claims and interim liabilities between the Bank deutscher Länder and the Land Central Banks will disappear, in the consolidated statement there are only left interim claims of the Land Central Banks against the financial institutions. These arose through the giro credit balance advanced to the financial institutions by the Land Central Banks up to 1 per cent. of the liabilities of the affiliated financial institutions; these interim claims will likewise disappear as soon as the conversion operations will be finally concluded.

Before the entry is made in the debregister, the equalization claims are not negotiable between the financial institutions; according to Article XI of the Bank Regulation, the Bank deutscher Länder and the Land Central Banks are authorized to make loans against or purchase equalization claims from the affiliated financial institutions of their solvency is imperiled. The comparatively large amount of the item "collateral claims against equalization claims towards public authorities" in the weekly statement of the Bank deutscher Länder shows as to what extent the Bank deutscher Länder already had to make use of the provision of Article XI. In individual cases, the Land Central Banks have also made loans against and purchased equalization claims from the affiliated credit institutions, as may be taken from the item "securities" in the consolidated statement. This was chiefly a retroactive correction of the liquidity supply, especially to the mortgage banks which proved to be necessary due to the technique of the reorganization of banks.

These transactions are by no means to be considered open-market operations and no conclusions may be drawn from the item

"securities purchased in the open market" to the beginning of said operations; for such a purpose, the amounts shown under this item are by far too small. The Bank deutscher Länder and the Land Central Banks are, on principle, authorized to engage in open market transactions. At the present time, there are no appropriate open market securities available; the "temporary equalization claims against public authorities" are of no account in this respect since they are neither negotiable freely nor have they a free market value nor does their interest rate - established primarily according to fiscal points of view - correspond to the present Land interest rate.

The items "bills" and "collateral claims" in the weekly statement reveal the extent of credits granted by the Bank deutscher Länder - being the final source of refinancing - to the Land Central Banks. The bills of exchange shall be good commercial bills. As collateral may be used: bills of exchange, treasury bills and securities issued by the Länder as well as equalization claims. Up to the present time, the Bank deutscher Länder chiefly granted loans against equalization claims of the Land Central Banks towards public authorities on the basis of collateral transactions at nine tenth of their nominal value. The Land Central Banks are endeavouring to make use as far as possible of the cheaper discount credit. In spite of this, the Land Central Banks, on account of their liquidity situation, are not in a position to dispense with covering a considerable part of the monetary requirements by way of pledging.

The credits granted by the central bank system as a whole to the remaining banking institutions are shown under the corresponding items "bills" and "collateral claims" in the consolidated statement. In the case of "bills" the bills in the portfolio of the Land Central Banks as well as the cheques in hand with the Land Central Banks which are of secondary importance must be added to the bills held by the Bank deutscher Länder (which correspond to the amount of liabilities by endorsement shown under the status of the Land Central Banks). With regard to the "collateral claims" in the consolidated statement, their comparatively low amount becomes noticeable when

comparing this sum with that of the corresponding item appearing in the weekly statement. However, since in the consolidated statement the collateral claims of the Bank deutscher Länder are set off against the corresponding liabilities of the Land Central Banks, there will remain as collateral claims of the total central bank system only the collateral loans directly granted by the Land Central Banks. This concerns chiefly equalization claims against public authorities and, to a smaller extent, short-term loans against bills.

The item "cash advances to authorities of the bizonal economic administration" in the weekly statement only discloses the extent of credits granted by the Bank deutscher Länder to the authorities of the bizonal administrations. Pursuant to Article III 14 (b) of the Law on the Establishment of the Bank deutscher Länder, the latter Bank is authorized to grant to the Bizonal Economic Administration, in anticipation of specific revenues, short-term advances which shall, at the present time, not exceed 300 million DM. The present cash advances were hitherto far below this limit.

In order to obtain a survey on the total granting of short-term credits of the central bank system to public authorities, reference must again be made to the corresponding item of the consolidated statement where the advances granted by the Land central Banks to the Military Governments, the Länder and the other public bodies were added to the cash advances granted by the Bank deutscher Länder.

The item "treasury bills and short-term treasury bonds of the Länder" appears with only small amounts in the consolidated statement and has hitherto not been included in the weekly statement.

The Development of the Banking Institutions
in November 1948

Results of the monthly banking statistics
for the Western German specified area
(statistics of the Bank deutscher Länder
and the Land Central Banks on all banks) 1)

During November, the banking institutions partly increased their cash reserves to a considerable extent. This trend was chiefly due to the increase of reserve requirements against demand deposits (at banking places) from 10 to 15 per cent concluded about mid-November and effective as from 1 December 1948. In addition, the rumour of an anticipated increase in the discount-rate which was repeatedly set afloat during November may have played a role.

The credit expansion and the expansion of bank deposits connected therewith further advanced in November. In addition, the conversion of old Reichsmark-credit balances pursuant to the currency legislation continued.

(1) Slowing down of Credit Expansion which, however, still has a high rate of increase.

The total outstanding credits of all financial institutions (excluding credits to financial institutions) increased from 3819 to 4333 million DM in November, i.e. by 13 per cent. Compared with the preceding months, a certain slowing down in the expansion of the credit volume became apparent, however, the rate of increase of over 1/2 billion DM is still rather high.

1) Contrary to the weekly banking statistics which are based on reports received from the 112 financial institutions selected for the sample statistics, the monthly banking statistics cover practically all financial institutions. Excluded only are those institutions which showed less than 2 million Reichsmarks in their balance sheets on 31 March 1948. - The results of the monthly banking statistics will be published regularly in the future "Monatsberichte" (monthly reports); the next issue will contain the December results.

Credits granted to non-bank customers with all banks
(in million DM)

	July	August	Sept.	Oct.	Nov.
Figures as of the end of the respective month	1339	2378	3196	3819	4333
monthly rate of increase		1039	818	623	514

Like in the preceding months, the increase in credits during November nearly exclusively benefited economic enterprises and private persons; credits granted to the latter two increased by 485 million DM to 4035 million DM. A special institution again chiefly accounts for the increase in credits to public authorities by 11 per cent to 298 million DM, whereas in the case of the remaining banking groups, credits granted to public authorities remained nearly unchanged and in the case of Girozentralen dropped to its lowest level. The increase in credits to financial institutions in the case of the groups "Zentralkassen" and "other financial institutions" is balanced by a corresponding decrease with the credit institutions and Girozentralen, so that the total of credits to financial institutions, for the first time, show hardly any change.

Development of credits granted to non-bank Customers

	end of Oct.	end of Nov.	Increase compared with preceding month	
	in million DM			percentage
1) Credits to non-bank customers total	3819	4333	514	13
thereof (a) to economic enterprises and private persons	3550	4035	485	14
(b) to public authorities	269	298	29	11
2) Credits to financial institutions	1058	1057	-1	-

The share of the individual bank groups in the total credit volume remained unchanged in November. The group commercial banks still totalled 2,7 billion DM credits, i.e. nearly 2/3 of the total credits; savings banks and cooperatives (Genossenschaften) the share of which is jointly approximately 1/5 trails far behind. The Girozentralen credits granted to non-bank customers (including credits to public authorities) which have showed a slight decline in the preceding month now participate again in the expansion of the credit volume at nearly 7 per cent.

(2) Continuing Increase in Deposits

Due to new deposits resulting from the conversion, the increase in deposits considerably exceeded the expansion of credits granted in November. The total deposits of non-bank customers on free account increased by 977 million DM (= 13 per cent) from 7476 to 8453 million DM. "Other creditors" and the holders of savings accounts participate with a total of 609 million DM (= only about 3/5 of the total increase as compared with 3/4 in the preceding month) in the increase, whereas the accounts of public authorities which revealed a remarkable and more than average increase by 368 to 1929 million DM account for the remaining amount. A further improvement of public budgets may be concluded from this increase in the credit balances, especially since the credit balances of public authorities with the central bank system decreased by only 26 million DM during the same period. 60 per cent. of the deposits of public authorities amounting to nearly 2 billion DM with financial institutions (excluding Land Central Banks) were maintained with savings banks and Girozentralen by the end of November.

Deposits with all Banks
(only actually converted deposits)
(in million DM)

Figures as of the end of the month	Deposits on blocked Account	Deposits on free Account	t h e r e o f				Financial Institutions
			non-bank customers	t h e r e o f			
				Public Authorities	Other Creditors	Savings Deposits	
October	1747	8556	7476	1561	4765	1152	1180
November	726	9749	8453	1929	5170	1354	1296
Changes during November	-1021	+1093	+977	+368	+407	+202	+ 16
Percentage	-58	+13	+ 13	+ 24	+ 9	+ 18	+ 10

The sub-division of the deposits of non-bank customers on free account by the individual banking groups reveals that the groups commercial banks and savings banks jointly account for 70 per cent. of all deposits; and the share of savings banks comprises 70 per cent. of all savings deposits. The group co-operatives accounts for 10 per cent. of all deposits and the Girozentralen for 9 per cent.

The gradual increase in the share of time deposits, especially savings deposits, in the total deposits which has already been observed in the preceding months and which is still based on the conversion operations, continued during November; by the end of the month, time deposits amounted to 24 per cent. of the total deposits and savings deposits alone to 16 per cent. For comparison, it is to be mentioned that at the end of 1925, savings deposits amounted to likewise only 16 per cent. of the creditors of all banks, whereas at the end of 1932, they were again 44 per cent. of the creditors' amounts.

(3) Differences in the Development of the New Business.

The examination of the increase in the volume of transactions done by the individual bank groups in November shows that the savings banks with an increase of over 14 per cent. in the case of credits and deposits expanded their business to a relatively larger extent than the commercial banks in the case of which the increase of credits granted was only 12,6 per cent. and in deposits collected only 11,1 per cent. Credit cooperatives, however, reveal a considerably lower increase in the case of credits as well as deposits. With regard to Girozentralen, the very high percentage of the increase in deposits of non-bank customers is remarkable and chiefly results from the inflow of public funds (+ 120 million DM) thus enabling the Girozentralen to increase their cash reserves without increased refinancing (liabilities by endorsements minus 5,2 million DM). Public deposits with the Girozentralen alone amount to 82 per cent. of deposits of non-bank customers with the Girozentralen.

A comparison of the total amount of credits minus the liabilities by endorsements with the deposits on free account for the purpose of obtaining a basis for the judgement of the relations of profitableness of the most important bank groups, reveals that

the relation in the case of savings banks is the most unfavourable where credits amount to only 17.2 per cent. of their deposits. It may be assumed that during the first months following currency reform, the savings banks had been forced to take a reluctant course in granting credits due to the excess of withdrawals over deposits which had to be financed largely from new deposits and which continued during November although in a declining manner. This probably accounts for the above mentioned relatively larger increase in these credits granted in November. The relation of credits to

Development of Deposits of non-bank customers
on Free Account by Types of Deposits

Figures as of the End of the Month	Total in Million DM	t h e r e o f				
		Demand Deposits in mil- lion DM	Time Deposits		Savings Deposits	
			in mil- lion DM	Percent- age of all De- posits	in mil- lion DM	Percent- age of all De- posits
July	4001	3604	397	10	313	8
August	5509	4631	878	16	686	12
September	6662	5339	1323	20	958	14
October	7476	5794	1682	27	1152	15
November	8453	6408	2045	24	1354	16

deposits with commercial banks is particularly favourable from the point of view of profitableness, where credits equalled 63 per cent. of the deposits. It must be considered that all banks can balance that portion of deposits which is not covered by loans chiefly only by means of 3 per cent. equalization claims.

Development of Credits and Deposits of non-bank Customers
by Bank Groups
(in million DM)

	Figures as of	Credits to non- bank Custom- ers	Increase + Decrease	Per- cent- age	Deposits of non- bank Custom- ers on Free Ac- count	Increase + Decrease	Per- cent- age
Commercial Banks	Oct.	2407,6	+302,4	12,6	2903,4	+323,3	11,1
	Nov.	2710,0					
Savings Banks	Oct.	460,0	+ 65,6	14,3	2390,1	+351,9	14,7
	Nov.	525,6					
Credit Cooper- atives	Oct.	316,8	+ 34,1	10,8	775,7	+ 76,5	9,9
	Nov.	350,9					
Giro- zentralen	Oct.	264,0	+ 32,5	12,3	627,0	+130,6	20,8
	Nov.	296,5					
Zentral- kassen	Oct.	103,8	+ 15,8	15,2	78,6	- 3,4	4,3
	Nov.	119,6					

Credit Transactions of three important Bank Groups
in Relation to their Deposits
(in million DM)

	Credits	Liabilities	Column 1	Deposits	Column 3
		by Endorse- ments	minus Column 2	on Free Account total	Percentage of Column 4
	1	2	3	4	5
All Banks	5389,8	1422,3	3967,5	9748,9	40,7
Commercial Banks	3107,1	816,8	2290,3	3592,7	63,7
Savings Banks	528,5	49,0	479,5	2793,5	17,2
Credit Co- operatives	353,8	60,2	293,6	865,2	33,9

(4) Considerable Increase in Cash Reserves in some Cases -
a Decrease in the Stock of Bills of Exchange.

The cash reserves (cash in hand plus Land Central Bank credit balances) of financial institutions were as a whole by 381 million DM (= 31 per cent.) higher at the end of November than at the end of October; the stock of bills of exchange, however, decreased by 202 million DM (= 12 per cent.). Due to the simultaneous increase in banknotes in circulation (increase in November = 132 million DM) - the central bank giro credit balances of non-bank customers remained practically unchanged - the financial institutions as a whole raised 454 million DM bill of exchange credits and 35 million DM more collateral loans from the central bank system by the end of November than by the end of October. This considerable increase in cash reserves was chiefly due to the preparations made in view of the increase in reserve requirements for demand deposits from 10 to 15 per cent (at bank places) decided upon by the middle of November which required about 300 million DM, but, in addition, also to rediscounts made as a precautionary measure because of rumours repeatedly circulating in November on a possible increase in the discount rate.

Cash Reserve and Stock of Bills of Exchange
of the most important Bank Groups

	Cash Reserve			Stock of Bills of Exchange		
	End of Oct. in million	End of Nov. DM	Changes Percent- age	End of Oct. in million	End of Nov. DM	Changes Percent- age
All Banks	1241	1622	+ 31	1696	1494	- 12
Commercial Banks	405	567	+ 40	1054	960	- 9
Savings Banks	402	432	+ 7	126	117	- 7
Kredit Co-operatives	112	109	- 3	77	70	- 9
Girozentralen	142	326	+ 130	347	262	- 24
Zentralkassen	59	62	+ 5	52	50	- 4

Accordingly, the changes in the cash reserves and the stock of Bills of exchange within the individual bank groups were rather varying. The highest percentage increase in cash reserves but

simultaneously the highest percentage decrease in the stock of bills of exchange occur with the Girozentralen. Commercial banks also reveal a strong increase in the cash reserve, however, in proportion to their larger amount of bills of exchange accruing from current transactions, a far lower decrease in the stock of bills of exchange. Credit cooperatives, being the only exception, record a slight decrease in their cash reserves which is partly due to the fact that the majority of these institutions were not affected by the minimum reserve increase which only applies to bank places and partly to the relatively difficult situation with regard to liquidity.

As compared with the amount of deposits on free account (including deposits of financial institutions), the liquidity of banks was only slightly weaker than in November, including bills of exchange; it dropped from 33,9 per cent. to 32 per cent. With regard to commercial banks, Girozentralen and Zentralkassen, the increase in cash reserve and the decrease in bills of exchange are nearly balanced, so that the total liquidity either slightly dropped (commercial banks) or increased (Girozentralen, Zentralkassen). Savings banks and credit cooperatives, however, show a decrease in cash liquidity as well as a decline of the total liquidity in view of the small stocks of bills of exchange. The group savings banks show the lowest liquidity (19,6 per cent.), and the group Girozentralen the highest (46,9 per cent.). The commercial banks with a liquidity quota of 42,5 per cent. are well above the average of all banks (32 per cent.).

Cash Reserve and Stock of Bills of Exchange
of the most important Bank Groups in Percentage
of Deposits on Free Account by the End of October
and November.

Bank Groups	Cash Reserve		Stock of Bills of Exchange		Cash Reserve and Stock of Bills of Exchange	
	End of Oct.	End of Nov.	End of Oct.	End of Nov.	End of Oct.	End of Nov.
All Banks excluding Land Central Banks	14,3	16,6	19,6	15,3	33,9	32,0
Commercial Banks	12,7	15,8	33,0	26,7	45,7	42,5
Savings Banks	16,6	15,5	5,2	4,2	21,7	19,6
Credit Cooperatives	14,1	12,6	9,6	8,0	23,8	20,7
Girozentralen	13,5	26,0	32,9	20,9	46,4	46,9
Zentralkassen	21,2	23,0	19,0	18,7	40,2	41,7

Cash Deposits on and Cash Withdrawals from Savings Accounts
with all Financial Institutions during the Second Half of 1949.

Cash turnover on savings accounts as defined under Article 22 of the Kreditwesengesetz (credit law) which may be maintained with all financial institutions, is of particular importance. Savings deposits do not serve the payment transactions but the investment. Accordingly, it is stipulated by law that these savings deposits may, on principle, only be disposed of in cash and not by way of transfers or by making out of cheques. In addition, for any disposal of savings accounts the savings bank pass book must be presented. Though certain exceptions are permissible in urgent cases (e.g. illness or longer absence of the savings book holder) from the obligation concerning cash withdrawals from savings bank books, it may well be assumed that cash withdrawals from savings accounts represent almost the total amount of all disposals charged to savings accounts.

With regard to deposits, the procedure is different. Concerning deposits on savings accounts, the Kreditwesengesetz contains only the provision that amounts made available by way of credits may not be credited to savings accounts. In the Kreditwesengesetz there is, however, no obligation for cash transactions in the case of deposits. Accordingly, those amounts can also be credited on savings books which are received in cashless transactions, either by way of transfer or presentation of cheques. Excluded are amounts the origin of which permits the assumption that they do not serve investment purposes but are destined for immediate spending; this would apply especially to the payment of salaries to persons receiving a fixed salary which, in general, should be credited to giro accounts but in practice - especially in the case of municipal savings banks - are often credited to savings accounts. This handling naturally does not give very clear statistical data in that the cash withdrawals seem to be relatively higher than the cash deposits due to disposals over the salary account generally made in cash. Apart from the cash and cashless receipts on savings accounts, amounts originating from the conversion of old Reichsmark-credit balances as well as the crediting of the second portion of the qucta per capita - the latter crediting as a non-recurring measure - play an important part since currency reform. By

the end of the year, these amounts exceeded new deposits by far.

The development of the available deposits on savings accounts with all financial institutions in the specified area reveals the following picture:

Development of available (free) Savings Deposits with all financial institutions from July to December 1948 (excluding blocked account)

Figures as of	Stock ¹⁾ (in million DM)	Increase compared with Preceding Month (in million DM)	Savings deposits, Percentage of all Deposits of non-bank Customers on Free Account
1948			
31 July	313		8
31 August	686	373	12
30 September	958	272	14
31 October	1152	194	15
30 November	1354	202	16
31 December	1599	245	18

1) Excluding the postal savings bank
(Stock of deposits on 31 December 1948 = 55 million DM)

According to the monthly statistics of the Western German specified area (overall statistics of the Bank deutscher Länder and the Land Central Banks), the cash deposits on savings accounts were about 217 million DM during the 4 months period September through December 1948. When estimating the deposits made during July and August - where no statistical data are available - at approximately 80 million DM and adding this amount to the above mentioned 217 million DM, the cash deposits on savings accounts could be estimated at about 300 million DM for the second half of 1948.

Valuating this figure, it is to be considered that on the one hand, as mentioned before, cash deposits are only a part of new receipts on savings accounts and that, in addition, savings on savings account represent only a part of the total cash savings - not even a very important part - savings, apart from the hoarding of cash, are also made with insurance companies,

building-and loan associations, social insurance as well as new issues insofar as the latter do not serve the redemption of old issues. Apart from money savings, there are also savings in kind which are probably by no means insignificant and which are made in the form of self-financing.

Up to the end of the year, withdrawals by far exceeded new deposits on savings accounts. In each month, the savings account transactions showed an excess of cash withdrawals. In order to value this trend in the correct manner but not to overestimate it, one has to keep in mind that the persons making these withdrawals are not those making new deposits. Credit balances on converted old Reichsmark-savings books are chiefly withdrawn partly because the holders, for the first time for years, have to make urgent procurements which had always been postponed, procurements which are due to the far reaching abolition of the system of compulsory allocation and control which brought about a high increase in the supply of commodities and partly because the incapacitated salary and wage earners who had lost their property are forced to gradually spend their remaining savings. It can be predicted with some certainty that this process of spending converted savings deposits will finally ebb away and new savings will then lead to the elimination of the so far still existing excess of withdrawals.

Contrary to the upward trend in cash deposits, cash withdrawals decreased from month to month. In December, withdrawals were probably only fifty per cent. of the September withdrawals. The excess of cash withdrawals over cash deposits has probably decreased to an even larger extent; in December, it was only 40 per cent. of the September-amount. During the week 1 to 7 January 1949, the excess of cash withdrawals of the 112 financial institutions reporting for the weekly banking statistics, but which, however, include only 21 savings banks, ceased, for the first time since currency reform, and cash transactions on savings accounts were balanced.

Cash Deposits, Cash Withdrawals and Excess of Cash Withdrawals
within Savings Transactions from July to December 1948
(in million DM)

Month	Cash Deposits	Cash With- drawals	Excess of Cash Withdrawals over Cash Deposits
July	} not yet ascertained separately		
August			
September	59	291	232
October	50	260	210
November	48	170	122
December	60	152	92

Exact statistical data can not as yet be given on the total of new deposits with all financial institutions since currency reform - i.e., cash deposits plus cashless receipts-. But, nevertheless, on account of the available figures and estimates, the conclusion seems justified that cash deposits could have been hardly more than one half the total new receipts on savings accounts.

Assuming that this assumption is correct, the total amount of new receipts has amounted to roughly 600 million DM since currency reform. Since withdrawals amounted to roughly 1200 million DM, there is a deficit of roughly 600 million DM for new transactions on savings accounts during the second half of 1948. This deficit was reduced by the end of the year by the amount on free savings accounts resulting from the conversion. Since the final amount on savings accounts by the end of the year amounted to 1600 million DM, the total amount on savings accounts originating from the conversion - when adding the above deficit - can be estimated at about 2200 million DM. Including savings deposits still on blocked accounts - about 270 million DM by the end of the year - the deficit in new transactions when compared with the total amount of all savings deposits hitherto converted (free account plus blocked account) would amount to roughly 25 per cent. If withdrawals had been made only from converted savings accounts - an assumption which can hardly be correct due to the payment of salaries by way of savings accounts - not quite fifty per cent. of all converted savings accounts were withdrawn during the second half of 1948.