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FREE MARKET VERSUS PARITY RATES

J. Herbert Furth

A number of countries[1] recently have attempted to lift some controls from their foreign exchange markets and in that connection one of them has come into conflict with the International Monetary Fund. In each of these cases the freedom of the market has remained so restricted that the fundamental problem of liberty versus regulation has not as yet arisen. Without reference to any actual situation, however, it may be interesting to consider the question of how far complete freedom of foreign exchange rates might controvert the objectives of the Fund.

Let us assume that two countries, A and B, have similar exchange controls. Country A has a currency selling at par with the U.S. dollar, both in controlled and uncontrolled transactions. Country B has a currency selling in controlled transactions at par, but in uncontrolled transactions at a substantial discount in relation to the U.S. dollar. Let us finally assume that Country A decides to abolish all forms of foreign exchange

1/ For instance, Italy (see this Review, December 16, 1947, p. 6), Greece (see this Review, December 16, 1947, p. 11), and France (see this Review, February 10, 1948, p. 1).

controls, both in respect to current and capital transactions. We may expect, in that case, its currency to remain at par vis-a-vis the U.S. dollar, but to be quoted at a substantial premium in relation to the currency of Country B. Under these circumstances, would the abolition of all exchange controls conflict with the Fund's Articles of Agreement?

The action of Country A might be attacked for three reasons: It might be considered a violation of the provision under which "the maximum and minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity" except within narrow margins (Article IV, Sections 3 and 4b); it might be called an infraction of the duty "to maintain orderly exchange arrangements with other members" (Article IV, Section 4a); and it might be said to constitute a discriminatory practice (Article VIII, Section 3).

The first objection seems to find support in the words of Article IV quoted above. This wording is qualified, however, by a subsequent sentence whereby the country's undertaking shall be deemed to be fulfilled if the monetary authorities "for the settlement of international transactions in fact freely buy and sell gold within the limits prescribed by the Fund." Thus, if a country maintains its parity rate vis-a-vis gold in a completely free market, it need not maintain parity cross-rates vis-a-vis the currencies of other member countries.

The validity of the second objection depends upon the interpretation of the concept of "orderliness". Some economists are inclined to consider only planned action as orderly, and all free-market activities as disorderly; the emphasis on free markets, which pervades the Articles of Agreement, obviously precludes the adoption of that opinion. More serious is the suggestion that "orderly" arrangements mean cross-rates compatible with each other. Under this interpretation, only freely convertible currencies could be exchanged in an "orderly" manner in the free market, because only in their case would free market arbitrage provide automatically for the equalization of cross-rates. No member country, however, is obliged to provide for the orderly exchange arrangements of other member countries among each other; a country merely has to provide for orderly exchange arrangements between its own currency and those of the other member countries. Such an arrangement is embodied in a free market for there, as a rule, supply and demand are completely matched at the prevailing market price so that neither a prospective buyer who is willing to pay the market price, nor a prospective seller who is willing to accept it, need remain unsatisfied. It is true that the deviation of that market price from the parity cross-rate may lead to arbitrage, not of currency (which exchange controls of other countries would make illegal), but of merchandise. Such arbitrage transactions may represent a waste of transportation facilities, and impair the foreign exchange policies and controls of another member country. These disadvantages, however, would be caused just as much by the unrealistic parity rates chosen by other countries as by the liberal policy of the country that abolishes foreign exchange controls. There would be little reason to censure the latter while ignoring the others; it would be more satisfactory in the long run to have a general readjustment of parity rates.

The answer to the question whether or not exchange rates differing from parity cross-rates constitute discriminatory arrangements, also hinges upon the interpretation of that term. According to Webster's dictionary, to discriminate means "to make a difference in treatment". It therefore presupposes specific action on the part of the one who discriminates. The country in question, however, takes only one specific step, namely, the abolition of exchange controls. This action in itself treats all currencies alike. Apart from that, the country does not act at all, but permits the free market to employ its pricing mechanism in the case of all currencies and for all purposes, without distinction. It is true that by legal fiction non-action under certain circumstances may be treated as action, namely, if the person violates a specific duty to act, or uses inaction merely as a subterfuge for aiming at special targets. The problem of bad faith is to be decided according to the facts of each individual case. Apart from such considerations, the wording of Article IV shows that no member country has a specific duty to maintain parity cross-rates of the currencies of other countries if its own currency is freely exchangeable with gold. Discrimination, therefore, would be present only if the country, despite the abolition of exchange controls, expressly intervened directly or indirectly in the exchange market so as to bring about exchange rates different from the parity cross-rates. If the authorities remain completely passive, no discrimination could be charged.

These conclusions are consistent with the fundamental purposes of the Fund, which include "the elimination of foreign exchange restrictions" and the lessening "of disequilibrium in the international balances of payments of members" (Article I, paragraphs iv and vi). If a country without any exchange controls were under obligation to insure that currencies of other member countries be traded at rates substantially higher than free market equilibrium rates, it would be faced with one of two alternatives: It would have either to buy up, through its monetary authorities, all offerings of those currencies, or to reestablish exchange controls. In the first case, the country would be threatened with intolerable losses, since the other member countries would be under obligation to redeem only certain parts of those balances (Article VIII, Section 4). In the second case, the Fund Agreement, far from leading to gradual liberation of foreign exchange transactions, would become an instrument for further restriction and suppression of free-market forces. Moreover, in both cases, non-equilibrium rates of exchange would be maintained, impeding rather than furthering progress toward a position of international equilibrium.

It is therefore submitted that a country is entitled to abolish its foreign exchange regulations without regard to the effect of such a measure upon the currencies of other member countries, providing only that it is able to maintain in a completely free market the parity rate of its own currency in relation to gold.

TYPES OF EXCHANGE RATE DISCRIMINATION

Albert O. Hirschman and
Florence Nixon

The problem of exchange rate discrimination has been given renewed attention as a result of the postwar Italian and French exchange rate systems.

These systems are characterized in two main ways:

(1) They discriminate against currencies rather than, as do most South American systems, against transactions deemed less essential or less desirable; and

(2) The discrimination is achieved through an open market which places the relatively non-scarce currencies, directly or indirectly, at a discount with respect to their official parities with the scarce currencies. For this reason discrimination among earners of foreign exchange necessarily implies discrimination among buyers.

It is often said that the discount on the non-scarce currencies which appears in the cross-rates prevailing in the open markets is not really significant since the market is actually manipulated by the government which intervenes in it through allocation of import permits. Accordingly, the exchange control authorities are to be held more responsible for bringing about the discount than independent market forces. Actually, this view overstates the case against the open markets: the discount on the non-scarce currencies presumably would be much larger if no control whatsoever were exercised over the amount of bids in the market; and whatever discrimination is practiced on the part of the exchange control authorities probably consists in a comparatively liberal allocation of import licenses in favor of buyers of non-scarce currencies. The exchange control authorities merely do not go all the way in correcting by discriminatory allocation the departure from the official cross-rate pattern which would result from a really free market.

Nevertheless, the existing discriminating discounts on the non-scarce currencies are intended by the government concerned. In fact, the open markets are set up largely in order to bring about, through such discounts, a diversion of sales to scarce currency areas and a redirection of purchases toward non-scarce currency areas, just as, in certain South American countries, importers of nonessentials are permitted to bid for the foreign exchange supplied by tourists because of the foreknowledge of the authorities that, in such markets, the foreign currencies will be more expensive than at their official parities.

Discrimination according to currencies is here defined as any action of national monetary authorities which makes a foreign currency more (or less) expensive, in terms of the national currency, than would correspond to the official cross-rate pattern. The use of the term discrimination in this note, therefore, does not prejudge the question of whether or not a departure from this pattern loses its discriminating character

(a) if it results from reprisals for maintenance of overvalued or undervalued parity rates on the part of other countries; or

(b) if it is the incidental outcome of the reestablishment of complete freedom of foreign exchange transactions by the country in question.[1/]

With these qualifications in mind, it is possible to distinguish the following principal kinds of discrimination by multiple exchange rate practices:

(a) discrimination among users of foreign exchange according to type of transaction;

(b) discrimination among users of foreign exchange according to kind of currency bought;

(c) discrimination among earners of foreign exchange according to type of transactions;

(d) discrimination among earners of foreign exchange according to kind of currency sold.

It is clear that discrimination of types (a) and (c) can be managed so as to discriminate against a particular currency just as general tariffs can, in fact, discriminate against a single country. There remains, however, an important difference between the primary intents of the two types of discrimination. Thus, in Europe exchange rate discrimination is used mainly as a weapon against the dollar shortage whereas in South America it has arisen primarily as a convenient and flexible alternative for tariffs or taxes in restricting the imports of nonessentials (and sometimes as a means of taxing the profits of foreign-owned enterprises).

The following table gives some examples of countries in Europe and South America practicing various types of discrimination.

Countries	Types of Exchange Rate Discrimination[a/]			
	(a)	(b)	(c)	(d)
(1) France, Argentina	+	+	+	+
(2) Paraguay, Uruguay	+	+	+	-
(3) Bolivia	+	-	+	+
(4) Greece, Italy	(+)	+	-	+
(5) Chile, Ecuador, Peru, Venezuela	+	-	+	-
(6) Brazil, Colombia, Nicaragua	+	-	-	-
(7) Spain	-	-	+	-

a/ + = practiced; - = not practiced.

France and Argentina stand alone in practicing all types of discrimination. Type (a) is present in France only with respect to the currencies quoted in the free market since purchases of such currencies are made in part at the free and in part at the official rate. Type (c) is also

1/ The latter problem is discussed in the preceding article in this Review: "Free Market Versus Parity Rates".

present in France in those currencies only since exporters can sell only half of their foreign exchange at the free rate while tourists and importers of capital obtain the full benefit of the free rate. In Italy, successive modifications of the Fifty Per Cent System have done away with discriminations type (a) and (c) except for the franco valuta system which in practice allows preferential rates to importers of capital. It should also be pointed out that in Italy the sterling area currencies are at a discount with respect to the dollar and all other currencies (the parities of which are calculated at their official parities to the dollar rate) whereas in France the dollar is at a premium with respect to the pound and all other currencies. A situation similar to that in Italy prevails in Greece through the system of marketable exchange certificates for dollar and sterling exchange. In both countries certain essential imports are sold for less than the full countervalue in local currency of their buying price in foreign exchange but such discrimination is in these countries more in the nature of an internal subsidy.

Discrimination of types (b) and (d) in Argentina is not the result of a free market, but of direct intervention of the Exchange control authorities; it thus becomes possible to divorce (b) from (d) and vice versa. Import permits specify application of exchange rates not only according to the kind of commodities purchased, but also according to the country of origin. This is also true in Uruguay. As to type (d) it is brought about in Argentina by the application of more favorable rates applying to exports to neighboring countries and other specifically named areas.1/ Another case of type (d) discrimination is practiced in Bolivia where banks at present buy only dollars at the more favorable "differential" market rate. In Paraguay discrimination of type (b) results from the practice of allocating varying percentages of foreign currency holdings to the "auction" market.

The most common system in South America is the existence of different buying and selling rates for different categories of transactions. The buying rates generally discriminate in favor of tourists, importers of capital, and certain exports, while the corresponding less favorable selling rates generally discriminate against imports of commodities deemed non-essential. Some of the discriminatory rates are determined in a free market while others are fixed by applying a set premium over the official rate.

In a few cases there is discrimination only on the demand or only on the supply side. Thus in Brazil a tax is levied on all purchases of exchange except on certain authorized remittances, while in Colombia, on the contrary, a discriminatory tax is paid on remittances to Colombians residing abroad. Spain has a "tourist peseta" which is available at a discount from the official rate.

One conceivable type of exchange rate discrimination would consist in a uniform substantial differential between buying and selling rates: There would be no discrimination among buyers and none among sellers, but there would be discrimination between buyers on the one side and sellers on the other, the differential making necessary a public subsidy or yielding a Treasury receipt. Strangely enough, there appears to be no exchange rate system fitting this type of discrimination in operation.

1/ Peru, Belgian and French franc areas, Spain and colonies.

FUND AND BANK RELATIONS WITH THE UNITED NATIONS F.I.J.

Relations between the United Nations and the International Monetary Fund and International Bank for Reconstruction and Development have been defined by the terms of agreements approved by the Boards of Governors of the two Bretton Woods institutions in September 1947, and by the United Nations General Assembly on November 15, 1947.

The Bank and Fund are "specialized agencies", under the terms of the Charter of the United Nations. This gives the Economic and Social Council power to enter into agreements with them to define their relations, and to coordinate their activities, and gives the General Assembly the right to examine their administrative budgets. The Bank and Fund have succeeded, however, in reaching agreements which maintain their independence in regard to operating policies and budgetary controls while conforming with the United Nations Charter.

Positive forms of cooperation provided for by the agreements between the two institutions and the United Nations include: (a) reciprocal representation at meetings of, on the one hand, the General Assembly, the Economic and Social Council, and the Trusteeship Council, and, on the other hand, at meetings of the Boards of Governors of the Fund and Bank, and at "meetings especially called by the Fund /Bank/ for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations;" (b) due consideration to the inclusion, on the agenda of meetings of the Boards of Governors of the Fund and Bank and of the Economic and Social Council and the Trusteeship Council, of items proposed by the United Nations or the Fund /Bank/ respectively; (c) exchange of information and publications, and consultation on matters of mutual interest; (d) elimination of unnecessary duplication in statistical work; (e) consultation to secure practicable uniformity in administrative matters; (f) setting up of administrative machinery to make liaison effective.

The Fund and Bank undertake to give due regard, in the conduct of their activities, to the decisions of the Security Council, to assist the Trusteeship Council by furnishing information and technical assistance, to inform the Economic and Social Council of formal agreements they may enter into with other specialized agencies, and to furnish the United Nations with their annual report and quarterly financial statements; furthermore, they may request advisory opinions of the International Court of Justice.

The most important safeguards of independence from the United Nations which the Fund and Bank succeeded in placing in their respective agreements are (a) a statement in Article I,(2) that "the Fund /Bank/ is, and is required to function as, an independent international organization". This is intended to remove, from the designation of "specialized agency" applied to the Fund and Bank, any implication that they are subordinate agents of the United Nations; (b) the delimitation, as described above, of Fund /Bank/ meetings which representatives of the United Nations shall be invited to attend and for the agenda of which the United Nations may propose items; (c) a requirement for "reasonable prior consultation" before the presentation of formal recommendations by either the Fund or Bank to the United Nations and vice versa; (d) U.N. recognition, in the agreement with the Bank (Article IV, (3)) that "it would be sound policy /for the United Nations/ to refrain from making recommendations to the Bank with

respect to particular loans or with respect to terms and conditions of financing by the Bank"; (e) the inclusion (Article X, (3)) of a statement that the United Nations, in interpreting Article 17, (3) of the United Nations Charter (regarding the submission of administrative budgets) will "take into consideration that the Fund [Bank] does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of the Fund [Bank] enjoy full autonomy in deciding the form and content of such budget." In theory this clause does not prevent the United Nations from making budget recommendations (as this would conflict with the United Nations Charter), but the text was agreed upon by the Bank and Fund on the understanding that in fact the United Nations would refrain from such recommendations.

TERMS OF TRADE IN THE NETHERLANDS INDIES

J. B. Churchill

The Netherlands Indies had a substantial trade deficit in 1947, in contrast to the highly favorable trade balances realized in prewar years. This deficit is attributable to a number of factors,[1] not the least of which is an unfavorable change in the terms of trade since prewar.

In 1947 the Indies' imports and exports amounted respectively to $276 and $125 million, leaving a deficit of $151 million. At 1938-39 prices, the 1947 imports and exports would have been valued at about $80 and $60 million respectively, and the deficit on trade account would have been only about $20 million. Prewar prices were of course much lower than those in 1947, and therefore some part of the size of last year's deficit must be attributed to the higher level of world prices generally. However, at least half of the $151 million trade deficit was clearly the result of a greater rise in Netherlands Indies' import prices than in its export prices. Between 1938-39 and 1947, the increase in import prices, it is estimated, was about 1-2/3 to 1-3/4 times greater than the increase in export prices.

The emergence of more favorable terms of trade for the Indies in 1948 will depend, among other things, on an increase (1) in the volume of higher priced exports and (2) in imports from lower cost suppliers. It is difficult to determine the probable effects on the export-import price ratio of a general decline or a further rise in the U.S. price level.

The following table serves to indicate the principal commodities in the Netherlands Indies' export trade, the value of exports of each commodity in 1947 and the average value for the years 1938 and 1939, and the change in unit values of exports over the same period. The 1947 export values, and consequently also the unit value indexes, are estimated on the basis of trade data available for nine months of the year.

1/ See this Review, February 10, 1948.

Changes in Values and Unit Values of Netherlands Indies Exports

Main items in Indies export trade	Average value of exports, 1938-1939	1947 value of exports	Index of unit values (1938-1939 = 100)
	(In millions of U.S. dollars)		
Rubber	89.8	25.6	139
Petroleum products	87.6	23.0	216
Sugar	33.2	--	--
Tea	30.7	2.2	177
Tin	25.0	24.8	175
Tobacco	17.9	1.3	188
Copra	17.3	29.4	616
Palm oil	8.7	.8	1,530
Coffee	6.9	.1	556
Hard fibers for cordage	5.3	.7	533
Tapioca	5.2	--	--
Pepper	5.0	1.8	798
Kapok	4.1	.9	197
Other	37.0	11.8	--
Total	380.0	124.6	--

The export price position of the Netherlands Indies has been significantly less favorable than that of some other important producers of primary products. Prices of the Indies' most important postwar exports (except for copra) in 1947 averaged less than double prewar. The development of new sources of supply during the war, when the chief prewar exporters were cut off from their usual markets, has operated as a limiting factor on increases in the prices of rubber and tin. The price increase for petroleum products also would have been greater had it not been for the Indies' inability to refine as large a fraction of the total output as before the war.

In regard to 1948 export prices, that for rubber will in all likelihood tend to be depressed by the increased exports from the Indies made possible under the terms of the January 17 truce agreement between the Dutch and the Indonesian Republicans. (In 1937-39 the Indies contributed 36 per cent of the world supply of rubber.) On the other hand, the average unit value of petroleum products exports is bound to rise as a result of reconstruction (which will probably be completed by the end of 1948) of most of the Islands' prewar refining capacity. The official buying price for tin was increased about 20 per cent in December. Simultaneously with recovery in exports of the above three commodities and copra there should occur a greater than proportionate increase in the volume of the Indies' other exports. The price increases in the latter are not such as to indicate conclusively that the growing weight of other exports in total exports of the Indies will tend to improve the country's terms of trade in 1948.

Evidence that the postwar increase in export prices has been significantly exceeded by the rise in import prices is obtained from the Netherlands Indies Government wholesale price indexes for imported commodities published for the first half of 1947. The prices from which these

indexes were calculated include profit margins and a number of costs incurred within the Archipelago, and the 1947 indexes tend to be inflated by a disproportionate increase in these costs as compared with costs abroad and ocean freight. The indexes for imported textiles and food (62 per cent of all imports in 1947) stand at 7 to 7.5 times prewar and those for other imports are 5-6 times prewar, in terms of guilders. Apparently these indexes must be adjusted downwards by 10 to 25 per cent[1/] to correct for inflated local currency costs. When we allow for the 1946 devaluation of the guilder in terms of U.S. dollars, it appears that average unit values in dollars, for the Indies' most important categories of postwar imports, were at least 3.5 times prewar in 1947. It is reasonable to suppose that the level of import prices will tend to be lowered in 1948 by an increase in trade with relatively low cost suppliers.

1/ Based on a comparison of the Government's price indexes for certain representative commodities with the increase in the unit values of the same commodities calculated from available import statistics.

CHANGE IN THE STRUCTURE OF BULGARIAN BANKING

C. B. Rose, Jr.

Legislation which became effective on December 27, 1947, with its publication in the Bulgarian Official Gazette declares: "Banking and conclusion of all banking transactions and operations, whether deposit, credit, commission or commercial, are the exclusive (monopoly) right of the State." This monopoly right is to be exercised by two institutions: the Bulgarian National Bank in the field of commercial banking, and a newly created Bulgarian Investment Bank in the investment field. Under the State monopoly commercial enterprises are even forbidden to open book credits except with the express approval of the National Bank.

State institutions and cooperative associations under the sponsorship and control of the State, always have played a leading part in Bulgarian banking. In fact, the National Bank (wholly owned by the State) had been used to finance the development of the country, and had invested directly in many business and industrial enterprises. During the 'thirties, however, the National Bank was divested of all but central bank functions. The State entered the banking field through participation in other institutions. Among them, the Agricultural and Cooperative Bank, the leading credit institution in the country prior to the war, was the central organ for numerous small cooperative agricultural banks and cooperative credit societies throughout the rural areas. The urban equivalent was the People's Banks. Foreign capital (German, French, Belgian, Austrian, Hungarian, and Italian) had played an important role in establishing commercial banks in Bulgaria, the most important of which was located in Sofia with branches throughout the country. Even in this field, however, the semi-governmental Bulgarian Credit Bank was the leader. The Bulgarian Mortgage Bank, formed to take over the mortgage banking business of the National Bank, was a State institution.

Figures on bank operations are available for the end of June 1947 when deposits, and loans and investments were distributed among the various types of banks as follows:

	Deposits	Loans and Investments[a]
	(Per cent of total)	
Big Commercial Banks	16	24
Other Commercial Banks	4	*
People's Banks	19	21
Agricultural and Cooperative	48	55
Postal Savings System	13	n.a.

n.a.= Not available.

* Less than one per cent.

a/ Total exclusive of Postal Savings System.

Under the new legislation, all existing private joint-stock banking corporations (whether Bulgarian or foreign) cease to exist and their assets and liabilities pass to the National Bank. The assets and liabilities of the Bulgarian Mortgage Bank devolve upon the Bulgarian Investment Bank. Compensation to Bulgarian shareholders is to be at face value less a graduated deduction rising from 10 per cent on amounts up to 10 million leva to as much as 50 per cent on amounts in excess of 50 million leva. Reimbursement will be in cash for the first 100,000 leva, with the remainder in 3 per cent bonds issued either by the National Bank or the Investment Bank. Since compensation at face value takes no account of the substantial increase in Bulgarian prices (wholesale prices, for instance, were more than six times prewar), this arrangement amounts to virtual confiscation. The Agricultural and Cooperative Bank also is absorbed in the National Bank. Savings societies are absorbed by the Investment Bank. It is provided that the Bulgarian National Bank may delegate its right to carry on specific types of banking activities to the Postal Savings Bank, the People's Banks, and the Universal Agrarian Cooperatives, which will operate as branches of the National Bank.

Compensation to foreign holders of stock in the banks which have been abolished "will be mutually agreed upon". Russian interests are exempted in these terms: "The present law does not affect banks [which are the] property of a foreign state, operating under article 24 of the Treaty of Peace with Bulgaria of February 10, 1947." The Soviet has succeeded to German interests in Bulgarian banking under the terms of the Potsdam Agreement, and to Italian interests under the terms of the Treaty of Peace with Italy. According to an official compilation, at the end of 1941 (the latest date for which such information is available), foreign capital accounted for 23 per cent of the total capital (786 million leva) of all joint stock credit companies. According to this tabulation,[1] the

1/ An unofficial, incomplete report just received places the amount of foreign capital in Bulgaria at 677 million leva out of a total of 3,700 million leva on an unstated but presumably postwar date. The largest share is credited to Italy (268 million leva) and the second largest to Germany with 111 million leva. The report does not give any distribution by fields of investment.

largest single foreign interest in all Bulgarian joint stock companies was Italian with 339 million leva and the German was second with 243 million leva. How much of this was in banking is not known. Statistics for 1936 indicate that 47 per cent of the German investment then was in banks and 21 per cent of the Italian. Assuming that the same proportion held in 1941, in that year the interest of these two countries in Bulgarian banks amounted to roughly 23 per cent of their total bank capital. If the assumptions are correct, the German and Italian holdings thus account for the entire foreign participation. The balance of probabilities is that war-time developments did nothing to lessen this share but rather increased it. Hence it may be assumed that under the terms of the new law at least 23 per cent of former private banking capital remains outside the control of the Bulgarian State, and as a private interest in the hands of the U.S.S.R. The significance of this fact is diminished by the relative unimportance of private capital in banking even before nationalization.

The new law relating to banks abrogates the law establishing the Bulgarian National Bank and substitutes a new statute. This gives the National Bank blanket powers in the fields reserved to it. The Bank's exclusive right of issuing bank notes is reaffirmed. While the Bank is charged with safeguarding the stability of the national currency and regulating the currency circulation, in line with similar legislation in other Eastern European countries (e.g., Czechoslovakia), no minimum legal reserves for the currency are required. The National Bank is to exercise complete control over foreign exchange and have a monopoly right over foreign means of payment.

Other portions of the new legislation create the Bulgarian Investment Bank and define its functions, place the People's Banks and the Universal Agrarian Cooperatives under the National Bank, and establish a Bank Council. The Sofia Stock Exchange is abolished, and a section is to be set up at the National Bank to perform its functions.