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Volume Title: Money, Financial Flows, and Credit in the Soviet Union

Volume Author/Editor: George Garvy

Volume Publisher: NBER

Volume ISBN: 0-884-10475-3

Volume URL: http://www.nber.org/books/garv77-1

Publication Date: 1977

Chapter Title: The Role and Structure of Credit

Chapter Author: George Garvy

Chapter URL: http://www.nber.org/chapters/c4158

Chapter pages in book: (p. 106 - 133)

# 6

# The Role and Structure of Credit

THE state in the Soviet Union has complete control over all types of credit, operating chiefly through a single agency, the State Bank. The aggregate volume of credit is determined by the production and distribution goals set in real terms.[1] When physical plans are revised, related credit plans must be modified accordingly. Under the pre-Reform system, the primary role of banks was to provide working capital to the state-owned sector of the economy.[2] Prior to the 1965 Reform, the significance of bank credit was only marginal in fixed capital formation, and in a slow uptrend in the farm sector.

## *Volume and Composition of Credit*

The total volume of credit is considerably smaller in the Soviet Union than in the United States, and the range of end uses for which credit is available is much narrower. The contrast is high-

[1] "The basic function of Soviet credit is in the planned use of the resources of the socialist economy and in speeding up the tempo of the enlarged socialist production" is a standard statement in textbooks, speeches, and articles by Soviet government and State Bank officials.

The private segment of the economy, which sells its output at free market prices, is smaller than in any other country in the socialist bloc. It is ignored by Soviet economists, official statistics, and the State Bank.

[2] For a discussion of ambiguities of "working capital" as used in the Soviet Union, see Becker [101]. See also Bychkov [20], Campbell [106], and Podolski [139]. For a further discussion of working capital, see Mitel'man's review of Melkov's book [61] in *D.K.*, October 1970.

lighted in Table 6.1, which compares credit outstanding at the end of 1969 in the two countries.[3]

In the Soviet Union, the total amount of credit outstanding at the end of 1969 was equivalent to about one-fifth of the gross social product. By contrast, the amount of credit in use in the United States was nearly double the value of GNP. Even adding an estimated 35.7 billion dollars for de facto trade credit available to state enterprises, total credit outstanding in the Soviet Union comes to less than $165 billion, or only one-eighth of the comparable U.S. figure.[4] In the United States, the overwhelming bulk of credit is extended by deposit institutions. The credit not evidenced by credit market instruments ("other credit") mainly represents trade credit, which alone is almost double the amount of all loans extended by the Soviet banking system.

Loans to the federal government are excluded from both totals. In the Soviet Union the bulk of such borrowing consisted of bonds placed with the population, while in the United States, government securities are held by business firms and financial institutions as well as by individuals. The bulk of the total working capital of the Soviet economy (excluding *kolkhozes*) consisted of amounts due to various creditors. This category mainly includes accounts (including those past due) payable to other state enterprises rather than merchandise purchased on credit terms, as well as amounts due the Treasury (and usually payable within a few days) and other creditors.

Short-term lending still accounts for the overwhelming bulk of all credit, as illustrated in Table 6.2, hovering around 90 percent in recent years. The authorities set the uniform standard rules for the issuance of credit, specifying in great detail the activities qualifying for credit financing (i.e., collection of drafts, or payment of taxes). Before 1959 short-term credit extended directly to

[3]Comparative statistics like those presented in Table 6.1 are subject to a variety of limitations. For instance, U.S. figures include loans to foreigners, while Soviet foreign indebtedness, limited to foreign governments and extended solely by the Treasury, is omitted from the data in Table 6.1. Melkov [61], Ch. II contains a brief but valuable historical review of the credit activities and of the liabilities of the State Bank.

[4]Note that ruble figures are converted into dollars at the official rate applicable at the end of 1971.

TABLE 6.1

Credit Outstanding in the Soviet Union and the United States, 1969
(billions of dollars, outstanding at end of year)

| USSR | | | | U.S.[a] | | | |
|---|---|---|---|---|---|---|---|
| | Bank Credit | Trade Credit | Total | | Credit Market Instruments | Other | Total |
| *Kolkhozes* | 12.4 | | 12.4 | Farming[b] | 45.1 | 8.9 | 54.0 |
| | | | | Nonfarm, noncorporate business | 70.1 | −1.2 | 68.9 |
| State enterprises[c] | 106.1 | 35.7 | 141.8 | | | | |
| | | | | Nonfarm corporations | 335.3 | 194.3 | 529.6 |
| Households | | | | | | | |
| Mortgages | 2.7[e] | | | Households[d] | 440.6 | | |
| Consumer credit | 3.7 | | 6.4 | Home mortgages | 260.4 | | |
| | | | | Consumer credit | 122.5 | | |
| | | | | Other[f] | 57.6 | 21.3 | 461.9 |
| Cooperative and official organizations | 3.8 | | 3.8[g] | | | | |
| Local government | — | | —[h] | | | | |
| | | | | State and local government | 137.1 | 5.9 | 148.0 |
| | | | | Federally-sponsored credit agencies | 30.6 | 4.5 | 35.2 |
| Total | 128.7 | 35.7 | 164.4 | Total | 1,058.8 | 233.7 | 1,292.6 |

*Notes to Table 6.1*

SOURCES: [86], 1969, pp. 774–779; and Federal Reserve Board, *Flow of Funds Accounts: Financial Assets and Liabilities Outstanding, 1959–1971,* Washington, D.C., 1972.

NOTE: Components may not add to totals because of rounding. Rubles are converted at the rate of 1 ruble = $1.1.

[a] Excludes financial business and loans extended to foreigners.

[b] Includes farm business other than farmers.

[c] Includes state farms, excludes credit to retail trade for financing household purchases.

[d] Includes nonprofit organizations.

[e] Covers construction cooperatives and individuals.

[f] Includes "other mortgages," security credit, and miscellaneous bank loans.

[g] Long-term only.

[h] Very small amount of loans to municipalities for improvements included with state enterprises.

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the agricultural sector was financed almost exclusively via state procurement organizations outside the credit system.[5] The uses of short-term credit, by major economic sector and by main purpose, are illustrated in Tables 6.3 and 6.4.

While the relative importance of long-term loans has been on the rise since 1965, their share in the total credit volume at the end of 1971—at least about 17 percent—was roughly the same as in 1940. The increase from 1965 to 1971 was mainly due to a larger credit flow to collective farms and cooperative housing. In contrast to the pre-1959 period, when the volume of long-term credit granted to *kolkhozes* had been very small, total long-term lending to agriculture, including credit for the acquisition of livestock, averaged close to 6.5 billion in the 1959–1965 period, and rose to 8.4 billion in 1968.[6]

While it makes credit available to municipal governments for financing municipal services, the Bank does not extend credit to the national government[7] and to the relatively small number of farmers not on collective farms.

[5]See also Parchenko and associates [64].

[6]For more details on long-term lending to agriculture, see Yunik and Miseyuk [91], pp. 153ff and Pzybyla [247]. Golev [36] and Katsenelenbaum [44] review the situation prior to the changes made in 1958. Both sources contain a considerable amount of statistical data; Golev includes a valuable historical introduction.

[7]Credit to enterprises for financing their payments to the budget in effect constitutes indirect credit to the national government: the budgetary surplus resulting from such payments is, in effect, a counterpart of bank loans. This type of credit arises from the

TABLE 6.2

Loans by All Banks, Selected Years
(in billions of rubles, outstanding at year's end)

| | 1933 | 1940 | 1950 | 1960 | 1965 | 1970 | 1971 |
|---|---|---|---|---|---|---|---|
| | | | | Short Term | | | |
| Industry | | 2.1 | 7.0 | 14.6 | 23.6 | 35.5 | 37.2 |
| Agriculture (including *kolkhozes*) | | 0.2 | 0.6 | 3.0 | 4.6 | 9.5 | 12.0 |
| *Kolkhozes* | | [a] | [a] | 0.7 | 0.4 | 2.5 | 3.4 |
| Wholesale trade[b] | | 1.6 | 6.1 | 16.3 | 25.7 | 35.1 | 38.6 |
| Total[c] | 1.1 | 5.6 | 17.3 | 42.7 | 68.0 | 108.2 | 115.4 |
| | | | | Long Term | | | |
| Collective farms | 0.1 | 0.2 | 0.7 | 2.4 | 3.9 | 10.3 | 11.6 |
| State and cooperative enterprises and organizations[d] | | 0.5 | 0.7 | 0.4 | 1.3 | 7.1 | 9.4 |
| Households | | 0.1 | 0.6 | 1.0 | 0.8 | 0.6 | 0.6 |
| Total | 0.1 | 0.8 | 2.0 | 3.8 | 6.0 | 18.1 | 21.6 |

SOURCE: [86], 1971, p. 486; 1967, pp. 891 and 893; 1968, pp. 779 and 781.
NOTE: Details may not add up to totals because of rounding. Wholesale trade organizations of industrial ministries are included under "industry."
[a] Less than 100 million.
[b] Supply and purchase organizations, including those purchasing farm output.
[c] Includes other segments of the economy.
[d] Includes cooperative housing, which rose from 0.02 at the end of 1952 to 2.3 at the end of 1971.

In the household sector, credit for financing purchases of consumer goods is not available from the banking system at all, in contrast with several socialist countries where savings banks make loans to finance such purchases. However, since 1958 stores of the state retail trade organization have been selling certain goods on credit.[8] (See Table 6.5.)

Installment buying of consumer goods was introduced at a time when supply conditions had improved sufficiently to make cer-

peculiar accounting arrangements that are a feature of socialist economies. For example, in each accounting period (which may be as short as five days), the proportion of the profits the given enterprise should achieve under its plan is automatically paid into the national budget. If this profit has not been earned, the depletion in working capital may have to be offset by a bank loan.

[8]For details, see Il'in and Koryagin [240]. See also Novoselov and Blyukova [196] and, on pawnshops as a source of consumer funds, Churkina [174].

TABLE 6.3

Short-term Loans of the State Bank, 1926–1971, by Major Segments of the Economy
(in millions of rubles, outstanding at the beginning of the year)

| | 1926[a] | 1933 | 1941 | 1951 | 1961 | 1966 | 1971 |
|---|---|---|---|---|---|---|---|
| Industry[b] | 85 | 414 | 2,844 | 7,606 | 14,805 | 23,692 | 36,132 |
| Agriculture (including *kolkhozes*) | 15 | 77 | 211 | 498 | 2,964 | 4,899 | 9.431 |
| *Kolkhozes* | | 7 | 12 | 43 | 666 | 365 | 2,452 |
| Procurement of farm products | | 118 | 328 | 624 | 2,890 | 4,900 | 8,059 |
| Transportation and communications | 15 | 41 | 116 | 326 | 477 | 681 | 1,428 |
| Wholesale trade | [c] | 61 | 449 | 1,535 | 3,508 | 4,199 | 8,854 |
| Retail trade | 25 | 293 | 1,446 | 5,547 | 15,288 | 23,589 | 31,084 |
| Total[d] | 150 | 1,045 | 5,530 | 16,670 | 41,195 | 64,689 | 100,062 |

SOURCE: *D.K.*, April 1970, p. 87, and September 1971, p. 44.
[a] October 1.
[b] Includes distributive organization of industrial ministries.
[c] In 1926 distributed among other segments.
[d] Includes segments of the economy not listed separately.

TABLE 6.4

Short-term Loans of the State Bank, by Purpose, 1941–1971, Selected Years
(amounts outstanding at the beginning of the year, in billions of rubles)

| Purpose | 1941 | 1951 | 1961 | 1966 | 1971 |
|---|---|---|---|---|---|
| Carrying of inventory | 3.3 | 10.2 | 30.2 | 48.6 | 75.9 |
| Production expenditures | 0.1 | 0.3 | 0.6 | 0.8 | 2.6 |
| On payment documents in collection channels | 1.8 | 3.9 | 6.7 | 8.8 | 11.5 |
| To meet payment obligations | 0.1 | 0.9 | 1.0 | 2.0 | 2.3 |
| For other purposes | 0.2 | 1.3 | 2.1 | 3.1 | 3.7 |
| Total | 5.5 | 16.7 | 40.6 | 63.4 | 96.0 |

SOURCE: [213].
NOTE: Detail may not add up to totals because of rounding.

tain relatively expensive items amply available. These were put on the list of goods eligible for credit sales, a list that has gradually lengthened over the past several years. Variations may occur among cities and regions, depending on supply conditions and on the accumulation of excess stocks for certain items. In 1960, annual credit sales amounted to not much more than three rubles per capita; a decade later, they were about five times as large. The share of all nonfood commodities sold on the installment plan increased from 1.8 percent in 1960 to 5.7 percent in 1967.[9] The importance of consumer durables, including motorcycles, has grown at the expense of clothing and footwear items, which still represent substantial expenditures in relation to the average Soviet income.

Terms available to individual purchasers depend on salary, level and structure of family expenditures, and other household characteristics, as well as on supply conditions. Differentiation in interest rates is related to maturity, the rate varied from 1 percent for loans up to six months to 2 percent for twelve-month loans (the maximum maturity available) in 1960. Loans are repaid either directly at the store from which the purchase was made, or by the

[9]For retail sales in 1961 and 1963, and details on share of credit sales for various consumer goods, see Il'in and Koryagin [240], as well as Goldman [236].

TABLE 6.5

Credit Sales of Consumer Goods, by Category, 1960, 1965, and 1971
(in millions of rubles)

| Year | Clothing | Household Goods[a] | Other | Total |
|---|---|---|---|---|
| 1960 | 364 | 223 | 47 | 633 |
| 1965 | 1,152 | 1,631 | 588 | 3,372 |
| 1971 | 1,146 | 2,187 | 1,434 | 3,766 |

SOURCE: [86], 1972, p. 395. No earlier data available.

NOTE: Data cover goods sold in state and cooperative stores. Details may not add up to totals because of rounding.

[a] "Goods of a cultural and household character" (TV, refrigerators, etc.).

employing enterprise, which may remit the full amount and then deduct installment payments from the purchaser's paycheck, possibly on more liberal terms than those extended by stores. Some large enterprises borrow from the State Bank in order to make immediate settlements with retail organizations for all purchases of their employees.

Housing shortages have plagued the Soviet economy since its beginnings, especially after the large-scale destruction of housing stock during World War II. Yet credit was not available for multiple dwellings until the early sixties. Indeed, prior to 1962, credit was available only for the construction of individual dwellings in rural areas and small towns. Since that year, however, the Investment Bank has been making long-term loans available to cooperatives formed for the purpose of building multidwelling apartments for their members in urban centers. This is an important change, given the long waiting periods involved in obtaining apartments in municipal housing and in dwellings erected by factories or various other large employers, such as government offices. Residential construction undertaken mainly by municipalities is financed via their budgets, and that by large enterprises, via their "enterprise funds."[10] The importance of cooperatives shows rapid growth in the housing picture: in 1966, about 6 to 7

[10] Since 1966, enterprises can obtain credit for the construction of dwellings for their staff in amounts matching the funds available for this purpose from retained profits allocated to the "fund for staff benefits" (see Chapter 5).

percent of all housing space was provided by housing cooperatives, and by the end of 1971, loans outstanding to cooperatives, at 2.3 billion rubles, had more than quadrupled their 1962 volume.

Construction of individual homes is permitted in rural areas on land made available by municipal authorities. Though credit granted for this purpose has been microscopic by U.S. standards, in the 1955–1966 period such construction accounted for no less than 27 percent of all dwelling space built.[11] In the years between the reforms of 1930–1932 and 1965, more than nine-tenths of the credit extended or outstanding each year was to the state-owned enterprises. The balance of this chapter deals with credit to the socialized sector, which, even after 1965, consisted overwhelmingly of short-term loans.

## *Credit Policy*

The closest that official Soviet doctrine has ever come to formulating a credit policy is the set of "five principles of socialist credit," spelled out in numerous monographs and textbooks. These stipulate that such credit should be planned, specific, secured, repayable, and with a fixed maturity. In actual practice provision is also made for supplementary "unplanned credits," extended in excess of the planned volume where a refusal to exceed set limits would merely aggravate the underlying difficulties. The requirement that each loan be made for a specific purpose and be identifiable as to end use resulted, under the initial modus operandi of the system, in the granting of separate loans for different specified purposes. The principle that the loan must be repayable serves to stress the distinction between credit and nonrepayable grants. While the bank is also expected to determine whether the expected flow of payments will be adequate to retire the loan, this is a purely formal rule, given the automatic nature of most categories of loans granted.

These principles provide the rationale for detailed administrative control, but no basis for a credit policy to regulate aggregate

[11] For details, see Gerashchenko [29], p. 343, Plotnikov [68], pp. 159–160, Yunik and Miseyuk [91], pp. 195ff, and Usoskin [89], Ch. 16.

demand. Soviet monetary theory denies that in a socialist economy there is room for credit policy. The *Finansovo-Kreditnyi Slovar'* (Financial and Credit Dictionary) was published in 1958 and 1962 by the official publishing house specializing in financial literature. It defines credit policy as a "system of measures in the area of credit designed to secure the economic interests of the ruling class." "Credit restrictions" are described as "limitations or reductions in the volume of credit, which are put into effect by capitalist banks and bourgeois states," and "credit expansion" is "enlargement of credit, put into effect by capitalist banks and the bourgeois state, which exceeds the growth of production, stimulates overproduction and the coming about of economic crises."[12] The dictionary is silent about its role in a socialist economy except to state that "in the Soviet Union credit policy corresponds to the tasks that the government places before the country in each phase of the construction of socialism and communism." Indeed, circumstances may make it necessary to tolerate modification of these principles as indicated, for instance, by the large amount of past-due loans or to ignore them altogether by using credit for payrolls and collective farm payments to members, for example.

In practice, the actual implementation of these five principles has resulted in arrangements whereby, once certain targets or conditions stipulated in the applicable plans are met, credit is available almost automatically and at a fixed cost. The enterprise obtains a loan by filing a request, which the bank official processes by merely ascertaining whether the nature of the underlying transaction qualifies the applicant for obtaining credit accommodations within the limits set in the underlying plans. These arrangements obviously provide no incentive for management and personnel of the banking system to improve service. On the other hand, the Bank cannot close an unprofitable account, either.

Before the Reform, access to bank credit did not depend on profitability; indeed, credit-worthiness is a concept hardly applicable to state-owned enterprises. In extending credit, the State Bank does not have to be concerned with risk exposure and risk

[12] [27], Vol. I, pp. 584–585 and 591.

appraisal. Neither its clients nor its own liquidity are relevant factors. Its criterion for measuring a borrower's performance is his success in meeting production, inventory, unit cost, profit, and various other real and financial targets stipulated in the economic plans.

A working capital shortage in any given enterprise can be remedied either by granting it more credit, or by adding to its working capital via transfers from the budget from other enterprises under the same ministry or from "higher echelon" organizations in the economic administration. Provision is also made for access to bank credit in order to finance unforeseen expenditures for real assets, such as bulges in raw materials inventories which occur when deliveries are ahead of schedule or above planned targets.

Geared to the flow of material output, actual changes in loans outstanding almost automatically reflect deviations from planned targets, shortfalls as well as "plan overfulfillment." On the other hand, accumulation of balances in the account of an enterprise may result in a request to repay a loan before maturity, or in the transfer of such "redundant" funds (by order of a supervisory administrative organization—a *glavk* or *ob'edineniye*) to some other enterprise or economic organization.

Rationing of credit, like that of material resources, operates via administrative decisions that filter down to individual borrowers through a pseudo-banking process. When aggregate credit demand exceeds the amount of credit provided for in administratively determined "credit plans," the State Bank determines the order of queuing.[13]

Changes in credit availability in the Soviet Union, which in nonsocialist countries are typically signaled by changes in the discount rate, have, instead, generally involved the addition of specific activities to the list of those eligible for bank financing, as well as other liberalizations of procedure. None of the instruments and techniques used in nonsocialist countries, such as fractional reserve requirements or the discount mechanism, are use. In fact, variations in the availability of credit over time have depended as much on the degree of flexibility in credit administration, including "bending" of rules, on the laxity of bank officials in apply-

[13]See Garvy in [110] and [117].

ing the rules, and on their readiness to respond to local and outside administrative pressures as on formal quantitative changes embodied in financial plans.

The principle of rewarding exceptionally efficient enterprises was established in 1954, while credit sanctions against poorly operating units date back to the credit reforms of the early thirties.[14] Successful enterprises are eligible for favorable treatment, which consists of reduced red tape and lenience in applying restrictive rules rather than lower rates. They may receive loans on favorable terms to meet contingencies (arising through no fault of their own) that result in a diminution of their own working capital, and may now also obtain additional loans for wage disbursements and inventories above plan limits under certain specified conditions.

Granting a privileged status, additional credit facilities, or more liberal terms involves assessment of the quality of an enterprise's performance. Before the Reform, this meant meeting the physical targets of production plans and the degree of success in maintaining the planned levels of costs per unit of output, as well as in achieving increases in labor productivity in accordance with targets set.

Credit sanctions, on the other hand, are direct administrative measures applied by the State Bank (and the two specialized banks) to loans as well as to current (clearing) accounts when the enterprise's overall performance is unsatisfactory. They are used to assure fulfillment of the economic plan rather than merely to safeguard the interests of the bank as a lender. The usual purpose of sanctions is to reduce the enterprise's volume of indebtedness to conform with the applicable norms. However, whenever this conflicts with the need to keep the particular enterprise operating, sanctions are unlikely to be pushed very far. Indeed, higher-echelon economic and local political authorities frequently intercede with the bank on behalf of enterprises in danger of being subjected to more stringent lending terms. Also, concrete measures for remedying the situation that caused the borrower to become a problem case is normally initiated by the economic organization supervising the enterprise's operations, such as a

[14] For details, including statistical data on the application of credit sanctions by the State Bank, see Shenger [74], essay XI.

ministry, or by the political authorities, if the enterprise is controlled by a local government unit.

A widely used form of sanctions is to put poor performers on a special regime including typically, pressure to liquidate excessive inventories or to complete production held up for lack of parts, increased control over all transfers of funds, and imposition of a rigid system of priorities for payments from the bank account. In some cases the Bank may require, for future loans or renewals, a guarantee by the higher-echelon authority supervising the enterprise, such as the ministry of the local administration, as the case may be. There are only few cases, however, where the guarantor actually has to make good on the obligations of the enterprise; more frequently, direct administrative action is taken to improve the delinquent's performance.

More extreme measures involve suspension of access to all liberal forms of credit, the take-over of collateral (goods), complete withdrawal of all credit facilities, and, as a last resort, the forced sale of the collateral and, ultimately, declaration of bankruptcy.[15] The more severe the sanction, the higher the level of bank authorities from which authorization to apply it must be obtained.

Short of extreme measures, credit sanctions, particularly penalty rates, have proved largely ineffective under the standard system. Where fulfillment of physical production goals and other "real" targets constitute the main success indicators, with management having only limited interest in the size of profits, payment of penalty rates is clearly not much of an inhibition. Moreover, in the last analysis, the increased interest cost is borne by the national budget and affects neither the most relevant success indicators (set in physical terms before the Reform) nor the income of the management group. Contrary to expectations, the Reform has not provided the machinery through which penalty rate payments can affect the compensation of managers and the fringe benefits of the staff.

However, a trend toward greater flexibility in credit administration has been developing since the mid-fifties. This includes a very gradual shift from the multiplicity of separate "objects" for credit extension (specific purposes) toward credit for broader

[15]Malein [58], pp. 113–132.

purposes, giving greater latitude to the managers of the local State Bank offices. Also, a gradual simplification in accounting has been taking place through merging the various special loan accounts and channeling receipts more directly into loan repayment transactions. Since the 1965 Reform the consolidation of subaccounts has made considerable progress. Logically, its ultimate outcome would be the complete consolidation of the current and separate loan accounts into a single account for each enterprise. This would facilitate the determination of the efficient allocation of a given unit's working capital and its overall need for bank financing. Proposals along these lines are currently under discussion.

Finally, even before the inauguration of the Reform, bank lending was used to achieve greater responsiveness to consumer preferences. Increasingly, the Bank has sought to induce retail trade organizations to reduce or liquidate low-quality inventories (if necessary, by cutting prices), by means not unknown in the rest of the world, such as refusal to renew loans or renewal at a penalty rate. Thus, as early as 1959 restrictive measures were introduced against trade organizations accumulating finished products for which there was insufficient demand. A year later, provision was made for the extension of special credits to trade organizations that take losses by marking down prices of goods which have become outmoded or whose quality has deteriorated.

On the whole, the increased lending flexibility introduced in the last years prior to the Reform mainly served to facilitate adjustments where discrepancies arose between physical plans and actual performance. Availability of credit continued to depend essentially on high-echelon administrative decisions rather than on negotiations between the borrower and the lending officers of a State Bank branch, so that application of the more liberal credit techniques remained of limited significance until 1965.

## *Credit to State Enterprises*

### SHORT-TERM CREDIT

Under the standard system, short-term credit performs three basic functions: it reduces the need for working capital by automatically financing peak working capital needs (mostly through inventory credits); it assures prompt replacement of working capital after completion of production (through semi-automatic crediting of collection float); and it provides an added means for controlling not only the financial performance of each borrowing enterprise, but of many other assets of its activities as well.

During the entire period between the credit reforms of 1930–1932 and World War II, the growth of short-term credit exceeded the increase in output.

Two basic types of inventory loans are made: one is geared to the level of stocks and the other to the flow ("turnover") of goods. Credit geared to the level of inventories, which was the predominant form through the early fifties, involves a separate application for each loan and is granted up to a "limit" set for each enterprise (comparable to a credit line granted by commercial banks in the West).

The proper amount of total working capital and the proportion in it of the enterprises' own resources, designated as "own funds," are determined by central authorities for each individual industry. The proportion of inventories of raw materials and of goods in production to be financed by the enterprises own working capital is governed by "norms" (*normatifs*) worked out in great detail for all industries, products and locations. Norms may be varied for individual enterprises and are revised from time to time, usually for specific industries. They are usually calculated in such a way as to require seasonal peak needs as well as some part of the basic year-round inventory to be financed by bank credit. Thus changes in the volume of credit are for the most part the counterpart of changes in the volume of inventories, unless planning authorities decide to change the relative share of enterprise funds and bank credit in the carrying of inventories. The setting and modifications of these norms are used as a means of achieving specific operating goals, such as a decrease in the inventory-output ratio or optimal degree of administrative control over the activities of individual enterprises. Indeed, much of the discussion in Soviet publications about credit tends to revolve around the proper determination of the proper share of credit in the financing of various types of inventories.

The original requirement that extension of credit be for a specific purpose involved compartmentalization of loans by purpose, with a rigid definition of the purposes that were permissable. As new purposes for granting credit ("objects of crediting") were added, the number of separate loan categories multiplied.[16] For each newly eligible "object" there was still detailed stipulation of the conditions under which the loan could be obtained, and of the mode of repayment. Credit could not be extended unless its purpose was specifically mentioned on an approved list. Actually, of course, the rigor of logic was frequently circumvented by the necessities of practice, and thus, in addition to the categories of loans that neatly fitted the planned movement of goods, various categories of "transitional," "special," "interim," and "extraordinary" credit were introduced. Basically there was no alternative to providing such funds if a chain reaction was to be avoided; whether they were provided under special headings or merely changed to an overdue credit account mattered little. The fact of the matter is that in spite of the lofty principles and elaborate procedures of "socialist credit," automatic extension of credit was required under the standard system to validate any distortion, whether it resulted from uncontrollable causes, administrative failures, misjudgment in planning, or mismanagement of real resources.

Flexibility of credit administration has been somewhat increased, since the late fifties, by authorizing bank offices to transfer unused credit quotas among territories and among enterprises of the same industry. Also, 5 percent of the total volume of planned credits earmarked for any major geographic area or ministry has been placed in an unassigned fund, from which loans are made to enterprises that perform exceptionally well.

The alternative method—gearing credit to output—was first tried in 1936. "Crediting on turnover," originally introduced in 1934 (but little used in the following thirty years), which requires establishment of a "special loan account," is similar to a revolving line of credit.[17] The bank pays the seller when shipping documents are forwarded to it by the buyer, and sales receipts, or a stipulated part of such receipts, are credited to the special loan

[16] According to Melkov [61], pp. 129–130, a pharmacy can obtain loans under 17 different purpose headings and an alcohol factory under not fewer than 23.

[17] For details, see Melkov [61], Chap. 3, and Pessel' [65], pp. 6–13.

account. The proportion of credit in the total working capital remains constant, but it fluctuates seasonally while the volume of credit changes over time depending on working capital needs.

Loans geared to turnover made very little headway until 1957, but in recent years they have accounted for 70 to 80 percent of all short-term inventory credit. Despite the Bank's efforts, and despite the all encompassing planning and the absence of cyclical fluctuations, the accumulation of excessive inventories has been a chronic problem, more severe at some times than at others.

Settlement credit (credit on shipment documents in anticipation of payment by the buyer) is closely geared to the shipments of goods, whether raw materials or finished products. Its granting depends almost entirely on whether the goods received (in the case of raw materials) or shipped (in the case of finished goods) conform to the production plan applicable to the given enterprise. The volume of settlement credit depends on the ability of the enterprise to ship goods produced in accordance with the plan; its extension on the basis of shipping documents is automatic.[18]

Some loans which the Bank issues are cancelled or taken over by higher-echelon economic organizations up to the ministerial level, but the volume of such loans is not reported. Figures for loans overdue refer to a situation in which the borrower's financial prospects have not as yet resulted in the intervention of administrative organizations which supervise.

The State Bank can hardly be left holding bad assets, since, with few exceptions (such as lending to *kolkhozes* and to other cooperatives) a higher-echelon organization can be asked to take remedial action and to guarantee the credit granted or past due. But bank assets can be slow, and the volume of overdue loans, resulting mainly from the inability of individual enterprises to control inventories of raw materials as well as, in the case of retail stores, of finished goods, has been a continuous problem. The

[18]In the early sixties, about 14 percent of all bank loans were advances or drafts and other payment documents in collection channels, while an additional 3 percent went to enterprises whose balances were inadequate to pay drafts received within the applicable time limits. Poskonov, [70], p. 111.

need to reduce the volume of overdue loans is a recurrent theme in financial periodicals and official statements.[19]

### MEDIUM-TERM CREDIT

In spite of the very limited use of medium-term for the financing of plant and equipment on the state-owned sector, the experience gained through the use of this technique has no doubt contributed to the shift from grant to loan financing which constitutes an important aspect of the reforms begun in 1965.[20]

"Loans for small mechanization" were introduced in 1932, but numerous restrictions surrounding their use prevented such lending from attaining much importance. In principle, only investments designed to improve technology, rather than break bottlenecks or increase capacity were eligible for credit financing. The specific purposes for which investment loans were available under the standard system include acquisition of machinery or equipment (1) embodying advanced technology (including automated equipment) and (2) to increase the output of consumption goods, mainly on the basis of locally available raw materials or by-products, and (3) for which, for one reason or another, no provision was made in the plan ("afterthought projects"). One frequently heard complaint was that investment loans were available to buy, for instance, an automatic lathe, but not to build another freight elevator which would have cut costs by a much larger amount.

In the five years immediately preceding the Reform (1960–1964), about one-third of all medium-term loans were for automation, and one-third for machinery replacement and acquisition of additional equipment. The remainder went largely for investment connected with the introduction of more advanced technology. However, some medium-term loans were also made for purposes not related to improving or enlarging production. For instance,

[19]For a discussion of past-due loans based on data for the Russian Federal Republic, see V. Zakharov [210]. The author remarks that while the Bank's statute provides for the foreclosure of collateral, this is very rarely done, even when loans long overdue are involved.

[20]For a detailed discussion of these loans, see Grossman in [143]. For a comparison of terms and conditions between 1938 and 1966, see Lavrushin [52], p. 56.

such credit served in the decade preceding the Reform to build movie theaters in numbers far exceeding those financed from budgetary (mostly local soviet) resources.[21] Stringent requirements were, and still are, attached to such loans, primarily to prevent consummation of projects which were rejected by the higher echelon economic and planning authorities for inclusion in investment plans. The provision that construction expenditure cannot exceed 15 percent of the total cost of the proposed project to be bank-financed serves the same purpose. Loans for investment purposes have a maximum maturity of up to three years, depending on industry; in practice they are amortized more rapidly, on the average within one year, since they are usually made available only for purposes profitable enough to permit relatively quick repayment.

The growth of modernization loans had been slow until the Reform because there was little inducement to borrow, even at nominal interest cost, as long as investment funds could be obtained free on a non-returnable grant basis (though perhaps only next year or later) by having the project included in the regular investment plan. Further reasons were the delays in obtaining such loans and the difficulties in acquiring materials and machinery from the authorities in charge of their allocation. Thus the use of bank credit to finance fixed investment remained negligible through the beginning of the 1960s and became of some importance only with the launching of the Reform.[22]

## *The Reform and Credit*

The Reform has affected the use of credit in two ways: it has extended loan financing of fixed investment, and it has further simplified financing of working capital along the lines initiated in this direction since the middle fifties. The supply of bank financing for both purposes was eased by making loans available in anticipation of retained earnings and depreciation allowances in future years, thus bridging the time gap between current spending

[21]See Barkovkiy and Kartashova [9].
[22]See Levchuck and Melkov [180].

and future income. However, all basic features of the standard system remain.

Since the Reform, the use of bank credit for carrying inventories is now less restrictive; greater emphasis is placed on credit on turnover. Such credit is made available to cover normally between 40 and 50 percent of the planned level of working capital. This percentage can vary for individual categories of working capital used by an enterprise (raw materials, fuel, parts, et cetera), with stipulated exceptions. By the time the Reform was initiated, the majority of industrial enterprises qualified for the use of such loans on turnover, but did not take much advantage of them. At the beginning of 1966, such loans represented only 3½ percent of all short-term credit extended by the State Bank.[23] Following the example of some other socialist countries, the State Bank had begun in 1972 to experiment with credit contracts with individual enterprises.[24]

While loans on turnover have expanded, they have by no means replaced special-purpose loans. Individual enterprises using loans on turnover may, and typically do, still obtain additional credits for carrying inventories in excess of planned levels (norms), for paying debit balances in clearings, and for other purposes. The amount of credit extended to an enterprise for working capital purposes remains linked to the degree its production plan has been fulfilled, but the total volume of credit available to it is subject to subsequent negotiations as new facts develop.

Such changes in credit practices as increased lending on the basis of total turnover are designed to provide greater flexibility in the use of borrowed funds, and to reduce detailed verifications and other "documentation." They also give plant managers somewhat greater latitude, as the role of the authorities interposed between the individual enterprise and the ministry concerned is reduced. Under the new system, enterprises determine their own working capital requirements, which, once approved by

[23] Chernyshova [22], pp. 44 and 66–67. See also Sotnikov and Mezhiborskaya [205], Zakharov [210].

[24] See Garber and Doinikova [176]. Among the voluminous Soviet literature on the significance of the Reform for credit and banking, see Rumyantsev and Banich [71], Bachurin [8], and Dzhavadov [25]. For the impact on credit of reforms initiated simultaneously in other socialist countries, see Atlas [7].

the higher authorities, cannot be changed during the year unless the production plan is modified. If an enterprise's working capital has been impaired because of losses or lower-than-projected profits, the shortfall will no longer be made good through budgetary appropriations but will have to be rebuilt from future profits. Enterprises that have depleted their working capital must now resort to bank credit, on which charges are relatively high and which must be repaid from future profits. Repayment of such bank loans, which have a maturity of up to two years, must come from profits that exceed plan targets. If a given enterprise does not have higher-than-plan profits, up to 30 percent of the resources earmarked for the "development fund" must be used to retire the debt.

All in all, the share of bank credit in the economy's total working capital at the end of 1969 was considerably higher—at 47.1 percent—than at the end of 1950, when it had constituted 40.4 percent (see Table 6.6). This was due more to the sharp reduction in accounts payable during the twenty-one years (from 20.1 percent in 1950 to 12.3 percent in 1969) than to the moderate decline in enterprise funds (from 37.9 to 34.4 percent). While bank credit showed an uptrend in all branches of the economy, the gain in its share of total working capital was particularly significant in manufacturing (at 44.3 percent in 1971, compared with 33.1 percent at the end of 1950), wholesale distribution (at 62.4, versus 52.5 percent in 1950), and organizations purchasing farm products (at 84.0, up from 64.3 percent during the comparable period).[25] The rise in manufacturing presumably reflects the greater use of credit (rather than budget grants) for working capital, one of the most significant developments in the credit picture since the early sixties.[26]

The role of credit in supplying working capital for the economy is still widely debated.[27] One of the problems is that, due to differences in profitability, the rules applying to profit retention

[25]Mitel'man [195], p. 22.

[26]On the changes in the role of credit in trade, see Gryzanov [38] and Orlov and Shimanskiy [63]. See also Podolski [139], Appendix D, for statistical data, 1940–1968.

[27]On the controversy concerning the proper ratio in an enterprise's working capital between its own resources and bank credit, see Seidenvarg [200] and the numerous references cited therein. See also Kartacheva [179], Lavrushin [51] and [52], Levchuk and Melkov [87].

TABLE 6.6

Structure of Working Capital of State Enterprises
(percentage composition at the end of year)

| | Total Economy | | | Industry | | Agriculture | | Trade | |
|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1960 | 1969 | 1960 | 1969 | 1960 | 1969 | 1960 | 1969 |
| *Sources* | | | | | | | | | |
| Own resources | 37.9 | 38.8 | 34.4 | 47.7 | 39.6 | 57.3 | 49.3 | 31.3 | 26.9 |
| Bank credit | 40.4 | 44.3 | 47.1 | 39.2 | 43.7 | 32.3 | 34.9 | 58.2 | 60.5 |
| Bills payable | 20.1 | 14.0 | 12.3 | 10.6 | 8.2 | 5.8 | 4.5 | 9.9 | 11.4 |
| Other | 1.6 | 2.9 | 6.2 | 2.5 | 8.5 | 4.6 | 11.3 | 0.6 | 1.2 |
| *Uses* | | | | | | | | | |
| Inventory | | 77.2 | 78.4 | 80.4 | 82.0 | 87.1 | 87.8 | 89.8 | 87.1 |
| Goods shipped and services rendered | | 9.2 | 7.0 | 11.2 | 8.5 | 0.4 | 0.7 | 3.9 | 4.7 |
| Bank deposits | | 6.2 | 7.0 | 4.8 | 5.6 | 5.2 | 7.2 | 3.7 | 3.8 |
| Accounts receivable | | 7.0 | 7.2 | 3.4 | 3.3 | 3.4 | 2.7 | 3.2 | 4.3 |
| Other | | 0.4 | 0.4 | 0.2 | 0.6 | 3.9 | 1.6 | — | 0.1 |

SOURCES: [86], 1968, pp. 750–751 and 1969, pp. 750–751; and [214].

and the policies of supervisory economic administrations result in excesses of working capital in some enterprises while others find themselves short and must borrow from the State Bank.

## *Credit for Agriculture Under the Reform*

Lagging productivity in agriculture—in large measure a result of a half century of neglect on the part of planners and of lack of incentives for those working on the land—has been one of the most persistent problems of the Soviet economy. It is not surprising, therefore, that the first move toward the Reform consisted of a series of administrative as well as policy changes concerning agriculture, announced in March 1965, six months before promulgation of the parallel measures affecting the rest of the economy. In particular, steps were taken to alleviate the credit burden on agriculture. About 1.5 billion rubles of the *kolkhozes'* long-term and over half a billion of their short-term bank debt were written off, and some other obligations were canceled or postponed. The various reforms introduced involved price increases for farm produce, administrative rearrangements, and various organizational changes, including the gradual shift of *sovkhozes* to a business accounting *(khozraschet)* basis. Many of these measures aimed at increasing the responsibilities of the chairman of the *kolkhoz* and the manager of the *sovkhoz* paralleling similar measures in industry, but administrative controls have actually been reduced only to a minor extent. The role of the State Bank in the farm sector, however, has increased[28] with the growth in direct lending to agriculture.

Financial incentives play a similar role in the changes affecting *kolkhozes* initiated in March 1965 as in various state-owned sectors under the Reform. These changes were a logical development of a series of significant modifications in the operations of *kolkhozes* introduced in 1953.[29] The gradual reduction in the use of the *kolkhozes'* own products in compensating members and for purchasing non-labor inputs as well as in discharging obligations toward the state was accelerated. Simultaneously, the income of *kolkhozes* was increased by an upward adjustment of procurement prices paid by state purchasing organizations for various types of farm products, with a 50 percent supplement paid for deliveries above plan targets, and by an increase in the output of individual plots.

A major policy change involved extending working capital credits directly to *kolkhozes* rather than via the state purchasing organizations, thus bringing *kolkhoz* officials into contact with the banking system.[30] Since 1967, all loans to *kolkhozes* have been

[28]See Kotchkaren and Glinsitkiy [182] and Levchuk [189]. Price changes and administrative efforts to raise productivity are, perhaps, of greater significance than changes of a purely financial character, which are discussed in this chapter. The shift toward direct lending by the State Bank has entailed large-scale experimentation with alternative methods of extending credit that involve about 3,000 collective farms differing in size, profitability, and location.

[29]For detailed discussion of Soviet agricultural policy, see Strauss [147] and Karcz and Timoschenko [125]; see also Clarke [226], and Diamond, "Trends in Output, Input and Factor Productivity in Soviet Agriculture," [152, Part II-B], Diamond and Krueger, "Recent Developments in Output and Productivity in Soviet Agriculture" in [153] and Volin [155]. For a review of the situation before 1958, see Golev [36] and Kartashova [43].

[30]Section 21 of the "Sample Statute for Collective Farms" (adopted by the Kolkhoz Conference held in November 1969) deals with relations with the State Bank, including opening of accounts and procedures for obtaining short- and long-term loans.

made from the State Bank's own general resources. Previously such loans were made from special budget appropriations, with the Bank acting merely as allocator and administrator with little interest in their repayment.

Official statistics suggest that a good measure of success was achieved in increasing the use of credit by *kolkhozes* during the first years following the shift to the new policy. By 1969, *kolkhozes* had become heavy users of credit; at the end of the year, 94 percent of them had some outstanding long-term indebtedness to the State Bank. Short-term credit financed more than one-third of all current production expenditures of the *kolkhozes,* including the wages of the membership. In 1969, *kolkhozes* received bank loans amounting to almost 13 billion rubles, including 1.9 billion rubles in long-term loans, which covered 28 percent of all investment in fixed assets and livestock. Fixed investment in *kolkhozes,* only an estimated 5 billion rubles in 1935, exceeded 40 billion rubles in 1969, but only a small part of the increment was credit-financed (bank credit is extended only for a limited range of construction projects).[31]

Greater stress is now placed on increasing the availability to, and the use of credit by, *kolkhozes,* and to provide appropriate incentives to this end. In the past loans were frequently regarded as disguised subsidies, and the State Bank kept many loans to *kolkhozes* on its books long past their original maturity dates by granting extensions irrespective of the effort made by borrowers to repay them. Given the minuscule amount of bank credit extended to *kolkhozes* in the four decades following the forced collectivization, a vast need remains for expanding the use of industry-produced inputs, such as fertilizers and insecticides, and for increasing investment in equipment, livestock, and farm dwellings as well as in such amenities as electric power, telephone lines, movie theatres, educational and recreational facilities.

[31]Bank credit is still, for instance, not available for the financing of irrigation, drainage, or the construction of feeder roads or roads entirely within the territory of a single *kolkhoz.* See Kartashova [43].

When medium- and long-term lending to agriculture was shifted to the State Bank in 1958 and the modest program of loans for small-scale technological improvements in industry was revitalized, the distinction between short- and long-term loans was underlined by making appropriations from the budget to the State Bank for dispensing such loans.

To stimulate capital formation from retained funds, taxation of *kolkhozes* was modified in 1966 by shifting the tax base from gross to net income. By exempting profits up to 15 percent of net income from taxation and by lowering the tax rate to 12 percent (instead of 12.5 percent previously applicable to *gross* income), the new system made the income tax, in fact, progressive. It lowered the total tax burden on *kolkhozes* by an estimated half a billion rubles a year, and encouraged modern farming methods.

Greater official concern with making *kolkhozes* conduct their affairs in a businesslike manner (rather than as the lowest administrative unit of a vast bureaucracy running agricultural production) has also led to a number of changes in internal accounting and financing.[32] Among these the allocation of part of the profits for a systematic increase in working capital is, perhaps, the most important.

*Sovkhozes* benefit from several changes in financing, too. They are now able to maintain two separate funds for financing fixed investments and other expenses designed to improve income in the long run. The "*sovkhoz* fund" and the "fund for the strengthening and widening of activity" receive 4 and 8 percent, respectively, of planned profits and 40 to 50 percent, respectively, of any additional (above plan) profits. These funds can be used for a wide variety of projects not included in the economic plan. The purposes for which these resources may be spent, however, are spelled out in great detail. Therefore, the second fund, for example, may be directed only toward investments in such projects as electrification and telephone and radiocommunications and the erection of field markers. Projects can be initiated only when centrally allocated ("funded") resources are not involved. This excludes a wide range of investment activities; it is not readily clear, for instance, how electrification projects can be financed from these *sovkhoz* resources when wire, transformers, and other equipment are on the scarcity list.[33]

[32]For a standard financial plan of a *kolkhoz*, see Solntsev and Fisenko [82], particularly pp. 280–282.

[33]See Yunik and Moseyuk [91], pp. 37–43.

## *Interest Rates*

The rigidity of interest rates reflects the view of policy makers that interest has no regulating function in a socialist economy. Their reluctance to vary interest rates may be traceable to the fact that it is considered a particularly objectionable source of "parasite income" in capitalist countries. As a result, interest is treated merely as a service charge intended to contribute to meeting operating costs of the banking system. No attempt was made before the Reform to use the level of interest rates and their differentiation to influence the aggregate volume or distribution of bank loans and real investment, or to achieve equilibrium between the demand for and supply of loanable funds. The Reform has done little toward moving the use of interest rates in these directions.

Rates are uniform for all loans made for an identical purpose. The somewhat greater differentiation in interest rates since the mid-1950s was not designed to influence the volume or distribution of credit, but, rather, to implement certain preferences as to social targets by the planning authorities.

Changes in lending rates are made infrequently, and are the result of high-level administrative decisions in the Ministry of Finance. Neither deposit nor lending rates are varied in response to credit demands, or in order to influence them; as long as demand for real resources is not dependent in any important way on availability of financial resources (including credit), interest rates do not need to be set at a level designed to clear the market for loanable funds.

The level of interest rates on short-term loans has been reduced significantly since the credit reforms of 1930–1932, when the rate charged ranged from 8 percent for loans for carrying inventories and for advances on drafts in the process of collection to 15 percent for loans past due; penalty rates on past-due loans have been high in order to achieve maximum speed in the turnover of borrowed working capital. (See Table 6.7.) By the end of 1965, the former were reduced to 2 percent and 1 percent, respectively, while the penalty rate was lowered to 5 percent. Since prior to the 1965 Reform interest was included with production costs, with

TABLE 6.7

Annual Rates of Interest on Short-term Loans

| Type of Loan | Following the Credit Reforms of 1930–1931 | 1934–1936 | 1936 | For Firms Operating in 1968 Under the Old System | Reform System |
|---|---|---|---|---|---|
| Planned inventory loans | 8 | 6 | 4 | 2 | 6[a] |
| Loans on drafts covering goods in transit | 8 | 4 | 2 | 1 | 1 |
| Other loans | 15 | 8 | 6 | 5 | 8 |

SOURCE: [13], p. 85 and Mamonova [190].

[a] Equals or approximates the rate charged on funds owned by a given enterprise and thus differentiated by industry and location. This rate applies to enterprises charged 6 percent for funds owned, which is the case for the majority of enterprises.

profits normally set on a cost-plus basis, enterprises had no desire to lower rates. As a result of the Reform, to induce enterprises to avoid building up excessive inventories interest is now charged against actual gross profits and thus diminishing funds available for bonus payments and other enterprise uses. Later interest rates have been raised for all categories of loans (including inventory credit), except for loans on drafts covering goods in transit.[34]

Since the Reform was initiated there has been considerable discussion about the level at which interest rates ought to be set, and whether and how they should be manipulated. These discussions have yielded little convincing reasoning as to the desirable term structure of rates and differentiation by purpose or branch of industry. Every specific end use, or type of borrower, continues to command one specific rate, determined by the central authorities and uniformly applied without regard to the financial position of the borrower. The differentiation of rates according to purpose has been increased, but not depending on prospective economic effectiveness of the credit.

[34]Several Soviet economists have been advocating a more flexible use of interest rates, as well as a greater differentiation of rates within a wider range, from 2 to 10 percent, for example. Some steps in this direction were taken in 1972. See Sotnikov [205], pp. 8–9 and Mamonova [190].

The rate applicable to any given transaction continues to be determined by the loan's formal characteristics and does not depend on the judgment of bank officials. The new system is merely designed to remove some of the most obvious defects of the standard system and to adjust lending rates to the new fixed charge for fixed and working capital. The only change is that rates are now set at the same level as the capital charges applied to the particular industrial branch concerned. Evidently, loan rates lower than the charge on owned working capital would induce enterprises to seek maximum financing of inventories and other working capital needs through bank credit. The new minimum lending rates for plan-approved uses are equal to the applicable capital charge (normally 6 percent, but for some enterprises as high as 10 percent and as low as 3 percent). The rates for loans carrying inventories in excess of the applicable "norms" are similarly differentiated. Interest costs for various purposes other than carrying planned inventories worked out in 1972 to about 7 percent (as compared with the uniform charge on short-term loans of 2 percent prior to the Reform). Even higher rates apply for loans past due.

In a modest way, the Bank can now also use variations in rates to achieve what before was considered the proper object of administrative action. Thus, poor performers, who previously merely needed the guarantee of higher-echelon authorities to obtain additional loans on which regular rates were charged, now have to pay 20 percent above these rates. Similarly, exceptional loan accommodations to enterprises experiencing temporary financial difficulties will now involve a 1 percent surcharge. Altogether, the Bank's interest in the level and structure of interest rates continued to be greatly reduced by the fact that the bulk of its interest receipts is payable directly to the budget. There is little evidence that any reliance on rate flexibility, as contrasted with rate differentiation, is intended.