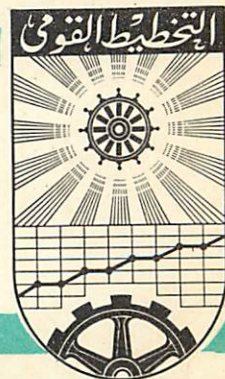


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### CREDIT PLANNING IN THE SOCIALIST ECONOMY

by  
Dr. Zdzislaw Fedorowicz

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## CREDIT PLANNING IN THE SOCIALIST ECONOMY

The credit plan in all socialist countries has the form of the summarised balance-sheet of all banks and indicates on one side (active) the increase of all kinds of credits to be granted by the banks within the planned period, on the other side (passive) the increase of all monetary means, deposits and the amount of cash in circulation, within the same period.

The estimation of the increase in credit must be based on the calculation of the need for credit, emerging from the financial activity of different economic units; the estimation of the monetary resources serving to cover the credit expansion must be based on the estimation of the increase of monetary savings and reserves made by the same economic units. In general, the need for credit arises when the value of goods and services which have to be appropriated by a certain economic unit (or a group of units in an aggregate plan) exceeds the monetary revenues available for purchase purposes; the formation of monetary savings and reserves occur in the opposite cases. That is why credit planning is possible only within the context of national budgeting, where the allocation of all material goods and services, the formation and the distribution of all monetary revenues are considered.

The credit plan, as well as the national budget, in the Polish planning practice are prepared for annual and quarterly periods. The simplified form of the credit plan, used for annual planning as well as for quarterly one, contains the following items:

### A. The active side.

#### I. The increase of credits granted to socialist enterprises

##### 1. Short term credits

- a/ on standard stocks
- b/ on over-standard stocks
- c/ on monetary settlements
- d/ others



## 2. Long term credits

- a/ Limited investment credits
- b/ non-Limited investment credits

## 3. Credits non-reimbursed in a due term

## II. The increase of credits granted to the private sector

## 1. short term credits

- a/ for private farming
- b/ for other private enterprises
- c/ for individual consumers

## 2. Long term credits (investment credits)

- a/ for private farming
- b/ for other private enterprises
- c/ for private housing: cooperative constructions  
individual constructions

III. Balancing itemB. The passive side.

## I. The change of deposits on enterprises' accounts

- 1. Current accounts
- 2. Funds of investment accounts
- 3. Others

## II. The change of deposits on private accounts and on saving-books

## III. The change on foreign accounts

## IV. The change on state's accounts

## V. The change of banks' own funds

## VI. The change of the amount of cash (bank-notes and change) in circulation.

"Short term credits granted to the socialist enterprises, especially credits on stocks is the main item responsible for credit expansion. The planned increase of short term credits granted to socialist enterprises is based on:

- a/ the estimated gross benefit of socialist enterprises within the planning



period. This estimate is made for the purpose of changing the state financial balance sheet by the ministry of finance. For the purpose of credit planning - as well as for the purpose of planning of the state budget implementation in quarterly periods the estimated gross benefit is divided as follows:

	The gross benefit
less	<u>the turnover tax</u>
equals	The net benefit
less	the payments to the state budget
less	the bonuses fund
less	<u>the increase of trust' reserve funds</u>
equal	the increase of funds of development : a/ for the increase of own floating funds b/ for investments

b/ the estimates of the increase in stocks. These estimates are made by banks' head offices departments, with the assistance of economic ministries, trusts etc. The plan of stocks is regarded as one of the most important parts of the credit plan. It is prepared by the branches, indicating in separate items the changes in the stocks of raw materials, half-finished products, non-finished production and finished products. It must be, however, underlined that in quarterly planning the plan of stocks is not verified by an input-output table. Only several items of this plan can be verified by the material balance-sheets established even for short term periods for the most important consumption goods, (the balance-sheets include about 80% of their total value), investment goods and raw materials being rationed.



The increase in stocks, minus the increase of enterprises' own floating funds (from the funds of development ) indicates enterprises' needs for credits on stocks. These needs may be diminished by the partial redistribution of the trusts' reserve funds, but this redistribution diminishes at the same time the planned increase of the trusts' deposits on bank accounts, so it does not change the balance of both sides of the credit plan and thus in most cases is not planned.

The distinction between the credits on standard stocks and the credits on over-standard stocks is made according to the respective fraction of enterprises annual plans, where the planned increase of standard stocks during the year is specified by quarters. The standard stocks are planned quantities which are not influenced by the plans' implementation. So, the increase of standard stocks being determined, the increase of credits on standard stocks may be deducted as the sum of (a) the constant percentage share of bank credits in financing standard stocks and (b) the difference between the rest of the standard stocks increase of enterprises' own floating funds. The rest of stocks are regarded as over-standard ones, and the rest of credits on stocks as credits on over-standard stocks.

The planning of the increase of credits on monetary settlements granted to the socialist enterprises is limited to only one kind of these credits, namely the credit on claims of the sale on instalments. This kind of credit is in fact granted to the private consumers, because it reimburses only the loans given to customers by the socialist commercial enterprises. Credits on the sale on instalments are planned within the plan of monetary revenues and expenditures of the population and from there are transposed to the credit plan.



No changes in credits on monetary settlements between socialist enterprises are usually planned. This principle results from the accepted method of planning stocks, according to which suppliers include in their calculation of stocks of finished goods also that part, which is sent to buyers not yet paid by them. The reason of adopting this method is the tendency to reflect as far as possible the physical side of the economic processes in the financial plan. So long as the physical plan does not distinguish "stocks on rails", the only way of binding strictly the plan of stocks with the credit plan is the artificial increase of credits on stocks and the reduction of credits on monetary settlements.

No changes in other short term credits granted to the socialist enterprises are planned, too. This kind of credit includes emergency loans granted for exclusively short time periods up to ten days to enterprises being in momentenous payment difficulties. Their amount in practice is never considerable, so there is no real need of planning their changes.

The planning of changes in long term credits granted to socialist enterprises for investment purposes, is based on the special plan of financing investments. In this plan, the monetary expenditures bound with the estimated implementations of the physical investment targets, are compared with all monetary resources destined to finance investments. The expenditures and the funds are separately balanced for centralised and decentralised investments.

Financing of centralised investments is based exclusively on budgetary funds, so the necessity of granting bank credits appears very seldom. It can happen, however, that the supplementary, over planned budgetary revenues are allowed to exceed the formerly planned expenditures on investment, on the condition that the supplementary quantities of investment goods are available at the same time. In such cases, awaiting the vote of supplementary budgetary expenditures by the parliament, the government may apply at the banks for credits; the reimbursment being assured by the over-planned increase of budgetary deposits on bank accounts. These credits may be granted only on



investment projects which have already started with the aim to accelerate their implementation; no new projects can be started with the help of these credits. In fact, these credits anticipating only the budgetary expenditures, have a short term character, however, they are classified according to their subject as investment credits. If credits on centralised investments are planned, they are included in the group of non-limited investment credits.

The limited investment credits are granted to the socialist enterprises for their decentralised investments, included in annual plans. The calculation of the need for these credits is made by the banks on the basis of estimates of the implementation of expenditures and of the accumulation of own investment funds by the enterprises. In a simplified form, this calculation is made as follows :

	Enterprises' own funds at the beginning of the planned period
plus :	the accumulation of the amortisation fund
plus :	the part of the development fund
plus :	the accumulation of other own means
less :	enterprises own funds at the end of the planned period
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equal :	investment expenditures covered by own means
less :	total investment expenditures
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equal :	the change in limited investment credits.

Non-limited investment credits, besides credits granted on centralised investments, include credits granted to enterprises on non planned and extremely effective investments. The amount of these credits is planned according to enterprises' applications, gathered by the bank offices, and according to the availability of investment goods, indicated in the plan of stocks and in the material balance-sheets.

The changes in the amount of credits, non reimbursed by the socialist enterprises in the due term, are not planned.

All credits granted to the private sector are planned within the



context of the plan of monetary revenues and expenditures of the population. This plan includes also formerly mentioned credits on the sale on instalments. Credits for private farming, short term and investment credits as well, are planned on the basis of requests, presented by the ministry of agriculture, and according to the estimated supplies of means of production to the private farmers. Credits for other private enterprises are granted upon requests presented by the committee of the small industry, handicraft and trade, which coordinates the entire state economic policy concerning the private sector, except private farming. The ministry of construction, which coordinates all construction projects of the socialist sector as well as of the private sector, and which is responsible for balancing construction projects with the capacities of building enterprises and with the supplies of construction materials, proposes the amount of credits to be granted on private housing.

Within the plan of monetary revenues and expenditures of the population all these credits, together with all other monetary revenues, are balanced with estimated supplies of all kinds of goods and services, allowing the entry of these items directly in the credit plan, without any special investigation.

The balancing item, the last one on the active side of the credit plan, may appear only after the comparison of total figures of the both sides of the plan, and may have either positive or negative value, balancing the planned increase of credits and the planned increase of monetary means at the disposal of banking system.

Planning of the passive side of the credit plan is based mainly on the same supplementary plans, which are used for the estimation of the items of the active side, or on the detailed financial plans bound with the state financial balance-sheet.

Usually, no changes of deposits on socialist enterprises current accounts are planned. This is based on the assumption that all financial settlements are performed immediately, without any delay between the occ-



urrence of a claim and its monetary settlement. So, for example, the total sum of the gross benefit is distributed among budgetary and enterprises special funds, though in practice, because of delays necessary for the calculation of the amount of the gross benefit and for the performance of monetary transfers, the part of the gross benefit remains always on enterprises current accounts. The same applies to the distribution of the amortisation fund and other monetary settlements performed by the socialist enterprises: these transactions are assumed to be completed within the planned period, and that is why no undistributed funds remain to cause an increase of deposits on current accounts.

The change of deposits on the accounts of investment funds are estimated within the already described plan of financing investments. These estimates are based on financial plans of enterprises, which indicate by quarters the accumulation of investment funds and expenditures on investments, balancing them by changes of bank investment credits and by changes of deposits on bank accounts. Of course, estimates made by the banks include necessary corrections of enterprises' annual plans, resulting from different deviations occurring during their implementation.

Planned changes in deposits on other accounts of enterprises include the changes caused by the accumulation of the trusts' reserve funds, and sometimes the changes on accounts of bonus funds. If there is a difference between the planned accumulation of the bonus funds (indicated in the plan of the accumulation and the appropriation of the gross benefit, see above) and the sum of bonuses paid to workers (estimated in the balance sheet of monetary revenues and expenditures of the population) - this difference must appear as a change in deposits on bank accounts of bonus funds, included in the category of "other" bank accounts.

The change in deposits on private accounts and saving books, as well as the change of cash savings, are planned within the balance sheet of monetary revenues and expenditures of the population, and from there they are transposed to the credit plan. The change of deposits on foreign accounts is a balancing item of all changes of deposits, occurred as well on



accounts held by foreign organisations and persons at Polish banks, as on accounts held by Polish banks abroad. The base of planning these changes is the balance-sheet of foreign payments.

The change of deposits on state's accounts is determined by the results of budgetary operations and is equal to the surplus of budgetary revenues over expenditures, established in the quarterly plan of the budgets implementation. This plan includes many of the above-mentioned partial plans and calculations, as for example the results of the appropriation of the gross benefit, current budgetary expenditures calculated within the state financial balance sheet, budgetary expenditures on investment, estimated within the plan of financing investment etc.

Planning of changes in banks' own funds is based on estimated revenues from interests paid by debtors and estimated current expenditures by the bank offices on services of different kinds. From the resulting surplus, 50% are paid as income tax to the state budget, and the other 50% are added to the own funds of the banks.

It is evident, that the credit plan is based on the same sources and partial financial plans, which serve for the estimation of the state financial balance sheet, and hence the credit plan may be considered as a transformed version of this balance-sheet. That is why the balancing item of the credit plan is always equal to the balancing item of the state financial balance-sheet. In both cases, this item is the result of independent planning of the production (reflected in the gross benefit) and the increase of stocks, because in short term planning the connection between those two quantities is not verified by the full balance-sheet (input-output table). Of course, it is always possible to adjust mechanically either the gross benefit to the increase of stocks or inversely, which makes the balancing item disappear. But such an adjustment does not raise the value of plans. The correctness of planning may be proved, when two independently made estimates give the same or almost the same final result. That is why planning organs do not adjust the plans mechanically, but try to explain the cause of the occurrence of the balancing item and try to minimize it.



The credit plan in the above described form can be easily compared with other aggregate financial plans, forming the system of national budgeting, but at the same time, it does not reflect adequately the real course of credit operations and monetary settlements. It has already been mentioned, that the construction of the state financial balance sheet and the credit plan is based on the assumption, that all monetary settlements were performed simultaneously with the physical phenomena. This is, of course a simplification, admissible in aggregate planning, for analytical purposes. But the credit plan has to indicate also operational targets for the bank credit policy, and for this purpose it must be transformed.

In the first stage the transformation of the credit plan into an operational one consists of the corrections made in different items to reflect the results of inevitable delays occurring between physical flows and monetary flows. Almost all items are corrected. For example, the budgetary revenues ( and, subsequently, the deposits on budgetary accounts ) are diminished by estimated payments from the gross benefit due for the last several days of the planning period and are increased by respective payments relating to the last days of the previous period; the difference between these payments corrects the planned deposits on enterprises' current accounts; the changes are made at the item of credits on monetary settlements at the expense of credits on stocks; the expenditures on investments are corrected in connection with deposits on budgetary and enterprises investment accounts on one side, and credits granted on claims to the construction enterprises on the other side etc.

In the second stage, the transformed credit plan must be divided among all banks, in order to indicate their specific targets in the planning period. This repartition is made according to the competence of each bank. For example, the changes in credits granted to private farmers are included in the credit plan of the Agricultural Bank, while the credits granted on centralised investments are included in the credit plan of the Investment Bank. The credit plans of special banks are balanced by the changes of the re-financial credit, granted to them by the National Bank of Poland. The



balancing item of the general credit plan remains in the specific credit plan of the National Bank.

The partial or specific credit plans, established for each of existing banks, serve as the basis for directives, given by the head office to the operational bank offices. Directives, indicating maximum amounts of credits, which can be granted by the bank offices within the planning period, are established for all kinds of credits to the private sector and for limited investment credit for the socialist sector. Short term credits for socialist enterprises in the Polish Banking practice are not limited, although in other socialist countries some kinds of these credits are limited by directives, too. In consequence, bank offices may grant credits limited by directives up to the established maximum level, and while granting short term credits, they are obliged only to observe general prescriptions for the adjustment of loans to the value of subjects on which credits are granted (stocks, claims) .

This principle of limiting some kinds of credits while the rest of them remain unlimited, results from their distinctive role as instruments of allocating material goods. All credits granted to the private sector, increasing the purchase power of private persons and enterprises, diminish the stocks of goods at the disposal of the socialist sector, which leads to the final allocation of these goods beyond the market. Investment credits granted to the socialist enterprises, lead also to the final allocation of investment goods beyond the market, diminishing stocks of available finished goods. Short term credits granted to the socialist enterprises on stocks of finished goods and on stocks of non-finished production, as well as credits granted on claims from sale, do not lead to the final allocation of material goods and thence do not influence the market equilibrium, which allows to grant them freely. The only kind of short term credits which directly diminish the stocks of available goods, are credits on stocks of raw materials, allowing to increase the purchase of goods for industrial intermediate consumption, but these credits are granted very carefully, upon the rigid calculation of the real needs of every enterprise requesting them.



This measure of restriction of credits on material stocks is assumed to be effective enough for the limitation of this kind of credits to be abolished.

, As a rule, directives limiting credits to be granted, are distributed by a ladder-like method, from banks' head offices through their provincial offices, up to the operating offices. The operating offices get one total limit for each kind of limited credits; no repartition of limits by branches is practised. Bank operating offices prepare by themselves the repartition of accorded limits among their customers, often by the assistance of the "customers representatives council", especially when the repartition of credits to private farms is concerned.

In some socialist countries ( for example in Czechoslovakia ) separate credit plan are established for short and long term credits. This practice aims to bind long term credits with long term deposits, and short term credits with short term deposits. Although this attempt may be theoretically right, it must be underlined, that almost all monetary deposits, including the increase of on saving deposits have, proved themselves in practice as long-term ones, because never their diminishment has been observed. This leads to the conclusion that no real need for the distinction between short and long term deposits exists in practice.