

Anteroom to the Forint: Monetary Law Aspects of the Temporary Period of Issuing Money in Hungary under the Supervision of the Temporary National Government (1944–1945)

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Abstract:

This study presents the destruction of the Hungarian currency caused by the Second World War. The devastation caused by Nazi collaboration and the Soviet Red Army had an impact on the Hungarian “pengő”. The occupying Soviets tried to take advantage of all this and interfered with the circulation of money to increase their own political influence. They printed their own banknotes, which were later used to pay by the Hungarian National Bank. The Provisional Government tried to stop inflation after the war and then tried to resist Soviet pressure and to restore cash flow in Hungary, as well.

Keywords: Second World War; Red Army; Hungarian currencies; pengő; monetary law; Arrow Cross Party; issuance of money; legal currencies

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Hungary and the Status of its Currency at the End of WW2

The most chaotic and versatile period of Hungarian monetary history in the 20th century is the period from the end of 1944 to August 1, 1946. The main reason is that the Hungarian Kingdom fought on the side of the Germans in the war, therefore could not avoid war destruction. From 1944, bombings became constant, the country turned into a battlefield, foreign armies marched through the country and one of the bloodiest and longest city fights in the war was fought for the capital, Budapest. The severe economic situation following the end of WW2 was constantly accompanied by a muddled financial situation. Public administration, public supplies, and the restart of the economy had to be done in a completely destroyed and plundered country. A basic condition for these was having an appropriate cash in circulation, which would be value certain for everyone and can fulfil its ancient function to mediate between the seller and the buyer, while also providing for revenues and taxes for the state.

Hungary had been occupied by the Soviet Army at the end of WW2, subsequently the country belonged to the occupation zone of the Soviet Union, which from that time controlled all political processes in the country. The Allied Control Commission established by the winning powers for each country was practically controlled by Soviets in Hungary, and they achieved that the allied forces only had a consulting role in the commission. Therefore, Moscow could intervene into Hungarian internal affairs and economic policies through the ACC, as well. The Stalinist leadership (on the pressure of the Western powers) allowed the initiation of a multiparty democratic system, however they also started to support the Hungarian Communist Party, which had a low support among the public to obtain power, by uniting it with the left-wing social democrats under the name of Hungarian Workers' Party (HWP), and through this, to introduce a Stalinist-type single-party dictatorship, which rounded off within a few years, by 1949.

From October 1944 there were parts of the country with several currencies in circulation at the same time (Hungarian pengő, the war pengő issued by the Red Army, the Soviet rouble, local city currencies), and in this article I would like to introduce these one by one, and the legal basis why there were considered lawful currencies at the time.

In principle, in the whole area of the country, the single, *de jure* currency was the pengő, based on the Act XXXV/1925. Act V of 1924 on the establishment of the Hungarian Central Bank and its patent declares that the exclusive right of issuing banknotes is transferred to the Hungarian Central Bank from the state. As a result of the Romanian change of sides the Soviet troops entered the borders of Hungary already in September 1944. By December the same year, they were able to control the complete Eastern part of the country until the line of the Danube. On October 16, 1944, as a result of a coup a government collaborating with the Germans led by Ferenc Szálasi¹ was established, which also used their right to issue banknotes to finance the war, for instance on November 4, 1944, they issued a new, 1000 pengő banknote. However, it was not an acceptable currency on the area of the country controlled by the Soviets. Thus, from the autumn of 1944 the Hungarian pengő was not a uniformed convertible currency of the country anymore.

Dissolution of the Monetary Unity: the Red Army's Currency Issuance in Hungary

The treaties of The Hague in 1899 and 1907 also dealt with the money supply of armies and occupied territories as well. The allied forces proceeded according to these during the time of WW2. These treaties were adopted by the Hungarian legislation via Act XLIII/1913: "The occupying army must pay for in-kind services, as far as it is possible, by cash, and if it is not, by giving a receipt, and the payment of the debt must be performed within the shortest possible time." Paying by cash can occur in the currency of the occupied state (pengő obtained as loot), the money of the occupying country (in this case, Soviet roubles), or a currency issued specifically for this purpose, the so-called "occupation currency". In the first two cases cash payment is only possible when the occupying power has looted

¹ The extreme-right government of Hungary collaborating with the Germans, which grabbed power through a coup with the help of the Germans on October 16, 1944. Its initial center was Budapest. However, they transferred their seat to Transdanubia in December 1944. Officially it was dissolved on March 28, 1944, their members left the territory of Hungary on March 29. The head of the government and the state was Ferenc Szálasi (1897–1946), who called himself "leader of the nation", similarly to the Nazis.

a significant amount of public money in the occupied territories, as the army which keeps a certain territory occupied is entitled to confiscate the cash, etc. owned by the state. (Article 53 of Act XLIII/1913: “The army, which occupies a territory, can only confiscate the cash and values owned by the state, (...) as well as movable assets, which can be used for military operations.”) The occupying power uses its own, home currency as rarely as possible, as it is not their interest to increase their home payment turnover (already drained by war) superficially by taking it to territories occupied by them. There is the third case then, issuing and using an occupation currency. The currency of the occupied territory and the occupation currency issued as a lawful currency with an equivalent value did not have to be exchanged into any other value, as any kind of debt could be paid for with it, without any restriction.²

The Red Army issued such military banknotes during WW2 in Czechoslovakia, Poland, Hungary, Romania, Manchuria and North Korea. It is interesting though, that due to Hungarian hostile and losing role, and meanwhile demonstrating it, unlike military currencies in Czechoslovakia and Poland, in Romania and Hungary the name of the country was not indicated. In the case of these currencies only the language and the currency name referred to their residence. These notes are called banknotes by mistake, it is a lot more exact if we call them a bill, as they were issued by the Red Army Command, and not by a central bank having the right of banknote printing. As they were not issued by the Hungarian Central Bank, as a central banknote issuing bank, they are practically emergency currencies. However, due to the obligation to accept these (which was coerced by the presence of the Red Army), they are a transition between the two categories. These bills were probably prepared in advance in the Soviet Union, however, there are several urban legends and stories that they were printed in the printing houses of certain bigger Hungarian cities (e.g., the 5 pengő note in Szeged³) with the plates brought from the Soviet Union between 1945 and 1946. The war pengő was equivalent to the Hungarian pengő and had the following denomination: 1, 2, 5, 10, 20, 50, 100 and 1000 pengő. There was practically no collateral behind these bills, which increased the inflation of the Hungarian pengő even further. Based on the data from the Allied Control Commission (ACC), 4.8 billion pengő worth of war pengő was put into circulation until January 1946. It was typical that the Soviet command obliged the local city management or the Temporary National Government to “exchange” the 1000 war pengő notes. This “exchange” actually meant a denomination change or exchange, as the Soviets always requested smaller denomination pengő notes in exchange. For instance, at the February 22, 1945, session of the ministerial council of the Temporary National Council finance minister István Vásáry⁴ announced that “he would make available 10 000 000 pengő to exchange the Russian 1000 pengő notes.”⁵

² KUPA, M. Felszabadulásunk pénzei [Currencies of our liberation] (1944–1945). *Honismeret*, 1985, XIII. évfolyam, 2, pp. 9–10.

³ HUSZKA, L. – NAGY, Á. Pénzforgalom Szegeden [Money in circulation in Szeged] 1944–1945-ben. *A Móra Ferenc Múzeum Évkönyve*, 1987, 1, p. 357.

⁴ Smallholder party politician, deputy mayor of Debrecen from 1925, and mayor from 1928 to 1935. Minister of Finance of the Temporary National Government between December 21, 1944 and July 2, 1945.

⁵ Minutes of the Ministerial Council session on February 22, 1945: In: SZÚCS, L. *Dálnoki Miklós Béla Kormányának (Ideiglenes Nemzeti Kormány) Minisztertanácsának jegyzőkönyvei 1944. december 23. – 1945. november 15.* [Minutes of the Ministerial Council of the Government of Béla Miklós Dálnoki (Tempora-

As a result of the events at the front and wartime destruction, many settlements were isolated, resulting in supply problems, which also had an adverse effect on cash turnover. In the case of Kiskunhalas, the local Soviet command required the exchange of the 1000 war pengő notes. The city council, which had cash flow problems, especially smaller denomination problems, with its decision on January 12, 1945, decided that in the value of the 100 pcs of 1000 pengő banknotes they would issue emergency currency with smaller denomination in a manner that they would print 1000 pcs of 100 pengő notes.⁶ The issue of the emergency currency actually took place in January, 1945: each bill was provided with a unique serial number, a city seal and signature by hand. However, the emergency currency of Kiskunhalas did not live long, as following its issue the heads of the city were reprimanded for the issue of the bill, and its immediate withdrawal was ordered. Of the 1000 bills 993 were destroyed, from the remaining 7 bills 3 are owned by the Thorma János Museum in Kiskunhalas, while we know nothing about the whereabouts of the remaining 4.

During this period, emergency currencies or instruments replacing money were used at the following settlements to overcome the shortage of smaller denominations: Budapest, Debrecen, Gödöllő, Kalocsa, Kaposvár, Mezőtúr, Mohács, Pécs.⁷ However, it was not the interest of neither the Soviet occupants nor the Temporary Government that local governments issue various emergency currencies or coupons, as it would have decreased the influence of the war pengő issued by the Soviets, and a basic condition of the revenues and taxation of the Temporary Government was that citizens only pay with bills issued and managed by them. An article was published in one of the communist dailies at the time, *Néplap*, where the author argues against the various emergency currencies. Through historical examples (assignatas from France, the Kossuth bills, the emergency currencies after WW1) he explains that these currencies have serious inflating effect, which deteriorate trust in the pengő. The author himself showed a surprising expertise and objectivity, as he acknowledges in a communist political paper that the war pengő issued by the Red Army only adversely increased banknote turnover, and unlike the press of the age, uses specialist vocabulary.⁸ As of the local emergency currencies, the one issued in Mohács is an exception, as the heads of the city managed to obtain permission to issue it from the local Soviet military authorities.

On the territories controlled by them, the Soviets informed the Hungarian residents on leaflets and posters about the command that: “1) In the territory of Hungary, besides the Hungarian pengő, the pengő issued by the Soviet Military Command is also in circulation. The exchange rate of the aforementioned currencies is the following: a war pengő is equivalent of one Hungarian pengő. 2) Each citizen, each authority, industrial and trade venture

ry National Government), December 23, 1944 – November 15, 1945]. A. kötet. Budapest: MOL, 1997, p. 219.

⁶ RÁDÓCZY, G. Egy eddig ismeretlen szükségpénz [A so far unknown emergency currency]. *Numizmatikai Közlöny*, 1968, LXVI–LXVII. évfolyam, pp. 99–100.

⁷ About the emergency currencies in more detail: ADAMOVSZKY, I. *Magyar szükségpénz katalógus, 1723–1959* [A catalogue of Hungarian emergency currencies 1723–1959]. Budapest: Adamo-ker Bt., 2008.

⁸ HALPERN, R. Szükségpénzt? [Emergency currency?]. *Néplap*, 1944, I. évfolyam, 16. Szám, december 13, szerda, p. 3. It is worth mentioning about the history of the article that István Vásáry after the liberation of Debrecen proposed that the city should issue a local emergency currency, which was opposed by the communists. I. Vásáry belonged to the right wing of the Smallholders, and he was expelled from the Smallholders' Party on the pressure of the Hungarian Communist Party on March 12, 1946.

is obliged to accept these currencies, keeping the prices which were valid at the time when the troops of the Red Army entered the territory of Hungary.”⁹ Refusing this command and the falsification of the bills was deemed to be an offence subject to martial law by the occupying power everywhere anytime, which was also indicated on the bills. According to data from the Allied Control Commission (ACC), until January 1946 4.8 billion pengő worth of bills were printed, the withdrawal of which was first proposed at the Ministerial Council session of the Temporary Government on September 4, 1945. The proposal of financial minister Imre Oltványi¹⁰ was approved by the Ministerial Council, in which it was provisioned that the pengő bills issued by the Red Army Command would be withdrawn from circulation from September 16, 1945. According to the plans, until November 15, 1945, a significant majority of the taxes could be paid with such bills. The exchange would have been executed by the Hungarian Central Bank and its branch institutions. Annex 49/a of the proposal of the Ministerial Council contained the request which was written on the subject to the ACC. In this, the finance minister requested the ACC to approve the exchange and withdrawal of the 4.8 billion worth nominal value war pengő put into circulation could be executed as soon as possible. The Temporary Government declared that they would cover the occurring freight costs. In addition, they requested the ACC to disregard the takeout of the further instalments of the exchange value of the 1000 pengő notes with 2 billion 300 million nominal value (issued by the F. Szálasi government) deposited by them, so that the Hungarian Central Bank could have the necessary banknote amount to exchange the war pengő bills. However, the Ministerial Council approved the proposal in vain, as the ACC only envisaged the approval of the exchange, which then took place months later, in February 1946 in the form of a finance ministerial bulletin, in February 23, 1946 as an issue of the Hungarian Official Gazette.¹¹ The obligation of the Hungarian Central Bank was confirmed by the Armistice Treaty of January 20, 1945: “During the period and under the conditions stipulated by the Hungarian government and the Allied (Soviet) General Command each currency found in the territory of Hungary issued by the Allied (Soviet) General Command shall purchase and exchange, and the currency thus withdrawn shall be submitted to the Allied (Soviet) General Command without delay.”¹²

Based on the same principle, the Soviet rouble had to be exchanged as well, the acceptance of which was obligatory for the public. Its exchange rate was set at 2.5 pengős at the Ministerial Council session on February 3, 1945. In this respect, at the Ministerial Council session on May 4, 1945, foreign minister János Gyöngyösi¹³ briefed about the execution of the armistice obligations on January 20, and as a part of this, he also mentioned the problem of the rouble. The exchange rate of the rouble was not uniformed between the liberated countries, therefore in Rusinsko (Rusin land / Kárpátalja) and Romania rouble could be bought cheaper than in Hungary, therefore, it was smuggled into the country

⁹ HUSZKA – NAGY, *op. cit.*, p. 372.

¹⁰ Smallholder Party politician, finance minister of Hungary between July, 21, and November, 12, 1945, the director of the Museum of Fine Arts between 1949–1952.

¹¹ Minutes of the Ministerial Council session on September 4, 1945: In: SZŰCS, *op. cit.*, B. kötet, pp. 185–187.

¹² Agreement about the armistice treaty concluded between the Alliance of Soviet Socialist Republics, the United Kingdom of Great Britain and Northern Ireland, the United States of America and Hungary, January 20, 1945.

¹³ Smallholder Party politician, foreign minister of Hungary between December 22, 1944, and May 31, 1947.

in huge quantities (mostly through Northern Transylvania), and it became a subject of speculation. Therefore, he requested the rouble to be withdrawn on a fixed rate as soon as possible, thus eliminating its role as a currency.¹⁴ Eventually, the finance ministry communicated with its announcement nr. 65555/1945 IV that using rouble in Hungary as a currency is forbidden from July 15, 1945; exchanging it into Hungarian pengő at a rate of 1:2.5 was possible in any financial institution until August 15.¹⁵ Until that day, less than 2 million pengő worth of roubles were exchanged, therefore it can be seen that it was not significant regarding cash turnover in Hungary. The reasons for this were the following: on one hand, it was not in the interest of the Soviets to distribute their own currency on the territory of a foreign country, as it would have increased inflation in the mother country, and it was also difficult for the Hungarian public to manage the currency due to language problems and the complexity of the rouble monetary system. For instance, banknotes with the denominations 10, 30, 50 and 100 roubles introduced in 1937 were in circulation as 1, 3, 5, 10 “chervoniec”. One chervoniec was the equivalent of 10 roubles. For the external user it could seem as if two currencies were in circulation at the same time in the Soviet Union. At the time of WW2, mostly roubles dated from 1938 (1, 3, 5 roubles) and the 1937 chervoniec notes (1, 3, 5, 10 chervoniec) could be in circulation in Hungary. The 1938 roubles depicted soldiers (the 1 rouble note a miner, the 3 rouble note infantry soldiers, the 5 rouble note a pilot), while the chervoniec notes had simpler ornamental motifs and the portrait of Lenin.

We have to note that there were exceptions between the obligatory acceptance of the currencies of the occupying armies in the case of Hungary, as well. Hungary was occupied by Hitlerian Germany on March 19, 1944, however there was no effective legislation which would have allowed the occupying German army to issue banknotes or coerce the currency of the mother country on the public or merchants. There were even cases when payment in other currency than the pengő was forbidden. An excellent example is the case of the city of Miskolc, where the German command stationing there requested the mayor of the city to issue a notice in which they call the attention of the public and merchants not to accept foreign currency, only pengő from German soldiers: “(...) and in case of any purchase by the members of the German defense forces staying in or passing the city they are not allowed to accept a currency from a foreign state, or a bill proving the fact of purchasing on credit. Members of the German defense forces are only allowed to use Hungarian currency (pengő, fillér), and only Hungarian currency can be accepted from them. Anybody who accepts payment from members of the German defense forces or anybody else in foreign currency commits a punishable offence and shall bear any resulting legal consequences and material damage.”¹⁶ Similar to the allied forces, the Germans also issued occupation currencies, mostly on the Eastern front, for instance on the territory of the Ukraine they issued bills called karbowanez.

¹⁴ Minutes of the Ministerial Council session on May 4, 1945: In: SZŰCS, *op. cit.*, A. kötet, pp. 179, 400–401.

¹⁵ Minutes of the Ministerial Council session on February 3, 1945: In: SZŰCS, *op. cit.*, A. kötet, p. 171.

¹⁶ Members of the German defense forces passing or staying in Miskolc can only use Hungarian currency for purchases. *Magyar Jövő*, 1944, XXVI. évfolyam, 70. szám, március 28., p. 5.

Issuance of money by the Hungarian Temporary Government

At the fifth Ministerial Council session of the Temporary National Government on January 18, 1945, finance minister I. Vásáry briefed that the government has scarce revenue sources, and a majority of them comes from the alcohol and tobacco trade. The finance minister explained that taxation among the present circumstances is impossible. One form of getting revenues might be by the so-called coerced credit, which is possible via stamping banknotes or exchanging money. However, this would not solve the issue of sums fleeing abroad and then seeping back, therefore the only way to solve the problem was to issue new money.

By sums taken abroad they meant the 1000 pengő banknotes dated from February 24, 1943, which were not put into circulation officially, but taken abroad by the Arrow Cross, of which almost 8 billion pengő worth of banknotes were printed, however only one and a half billion nominal value worth of 1000 pengő notes could be put into circulation in Hungary officially. The rest were taken abroad by the F. Szálasi government, therefore putting it into circulation in any manner was illegal, thus the Hungarian government could not be obliged to change it back, which was confirmed by the Prime Minister's Decree nr. 4260/1945 based on the Prime Minister's Decree 4500/1931 on the control and regulation of payments with foreign countries: "Banknotes issued by the Hungarian Central Bank, and coins of pengő, including banknotes and coins withdrawn from circulation, can be imported to Hungary only with the approval of the Hungarian Central Bank. Regarding the application of the present decree, import means any form of taking the money through the borders into the country." Based on these it can be declared that in the case of the 1000 pengő notes we can talk about banknotes not put into circulation, but simple bills, and to exchange them could not be the obligation of the Hungarian government. However, seeping back was significant, therefore the only solution seen by the minister was to print new banknotes. According to the minutes of the session, the drawing of the banknotes had been ordered, the banknote paper was available, and even the printing houses were mapped in the neighbourhood. It is interesting that the finance minister still took the printing house in Nagyvárad (Oradea) into consideration.¹⁷ Primarily, they wished to print 100 pengő banknotes, however they also planned to print new 10, 20 and 50 pengő notes. They needed approximately 6–7 billion pengős, and they estimated the time necessary to print them to be 3.5–5 months. The Prime Minister, Béla Miklós¹⁸ proposed that as the process would take 5 months, it would be useful to print the necessary cash abroad. Imre Nagy¹⁹ agreed with the Prime Minister saying the only way to get money was coerced loan and to issue new banknotes, he suggested they should turn to the Soviet Government with their request.²⁰ At the end of the session it was decided that the finance minister and the

¹⁷ The city became part of Romania following the Trianon Treaty in 1920. The Second Vienna Award returned the city to Hungary in 1940, and the city remained under Hungarian rule until the end of 1944. As a consequence of the armistice Hungary had to give up its territories taken back after 1937, therefore the minutes are interesting that they still consider the printing house there.

¹⁸ Hungarian military official, politician, the 37th Prime Minister of Hungary between December 22, 1944, and November 15, 1945.

¹⁹ Communist politician, economic politician, university professor, ordinary member of the Hungarian Academy of Sciences. Between 1953 and 1955 and during the 1956 revolution he was the head of the Ministerial Council, and the minister of agriculture in Hungary between December 21, 1944, and November 15, 1945.

²⁰ Minutes of the Ministerial Council session on January 18, 1945: In: SZÚCS, *op. cit.*, A. kötet, pp. 121–122.

Prime Minister would write a letter to the Soviet government, which they would hand to General Ivan Susaikov.

On the Pest side, the siege was over, and the reorganization of public administration began. The Budapest National Committee was established, and its operative organ consisting of five members (representatives of four democratic parties and the trade unions) appointed smallholder party politician I. Oltványi (earlier the managing director of the Hungarian Mortgage Credit Bank) as chair of the Hungarian Central Bank. The Temporary National Government discussed the appointment of I. Oltványi on various occasions, as according to Article 26 of Act V of 1924 on the establishment of the Hungarian Central Bank and its patent: “The chair is appointed by the head of the state on the proposal of the finance minister.” Eventually, based on the proposal of the Ministerial Council on March 12, the National Main Council performing temporary head of state duties appointed I. Oltványi as chair of the Hungarian Central Bank officially on April 17, 1945.²¹ At the February 3, 1945, session finance minister I. Vásáry announced that according to information received so far the banknote printing house of the Hungarian Central Bank in Pest is almost intact: plates, paper, ink were all available so that the National Government can print own money. Therefore, he read out a transcript intended to be sent to the Soviet command, in which they announce their request for the banknote printing house, and thank, and also cancel the planned printing of the banknotes from the Soviets, as well as request them to give back the 400 million pengős taken from Hungary. Communist politicians Imre Nagy and József Gábor opposed the transcript saying if they could not print banknotes on their own, there might be a risk that the Soviets would not help in producing banknotes for a second attempt. After the debate they agreed that they would not cancel the order of the banknotes from the Soviets, however they request them to free the Hungarian Central Bank urgently so that banknote printing could be started in Hungary as soon as possible.²² The Soviets hindered the planned production of the range of pengő banknotes until March several times, which was noted by finance minister I. Vásáry at the Ministerial Council sessions, however the new, temporary range of pengő banknotes could not be realized. Literature knows only one piece of this range, the 100 pengő, of which only one specimen survived, on the front of the banknote there is the statue of Saint George by the Kolozsvári brothers, while on the back there is the portrait of Ferenc Rákóczi II.²³

The banknote printing house was ready to produce again by March 1945, their first task was to print banknotes as soon as possible, to which, as an emergency solution they used already existing plates. This is how the 50 and 100 pengő banknotes dated on April 5, 1945, based on the plates of the 50 and 100 pengő notes of 1926, were printed, which mainly differed from its predecessor in 1926 in its color shade. There was an idea that the Banknote Printing House would stamp over the 50 fillér and 5 pengő notes already produced, but not put into circulation, found on stock and put into circulation as 20 and 100 pengő notes. However, except for a few sample prints, this did not materialize. The 5 pengő note with the 1939 date withdrawn earlier was put into circulation again without over stamping or

²¹ BOTOS J. *A Magyar Nemzeti Bank története II. Az önálló jegybank 1924–1948* [History of the Hungarian Central Bank II. The independent central bank 1924–1948]. Budapest: Presscon Kiadó, 1999, pp. 301–302.

²² Minutes of the Ministerial Council session on February 3, 1945: In: SZÚCS, *op. cit.*, A. kötet, pp. 170–171.

²³ RÁDÓCZY, G. *A legújabb kori magyar pénzek (1892–1981)* [Hungarian currencies in contemporary history (1892–1981)]. Budapest: Corvina Kiadó, 1984, p. 103.

any other distinctive sign.²⁴ The announcement about the issue of the new 100 pengő was approved on the May 4, 1945, session of the Ministerial Council, and it was communicated in the May 9 issue of the Hungarian Gazette. Finance minister I. Vásáry at the May 18 session of the Ministerial Council requested approval to the issue of a total 15 billion pengő banknotes, based on the proposal of the Ministry of Finance nr. 65 064/1945 IV, in the following denomination distribution: 500 pengő notes for 5 billion, 100 pengő notes for 7 billion, 50, 20 and 10 pengő notes for 1 billion each. The 500 pengő note was put into circulation with the May 31 announcement, the 50 pengő note was put into circulation with the June 5 announcement in the Hungarian Gazette. Due to the acceleration of the inflation, the 20 and 10 pengő notes were not issued.²⁵ For the 500 pengő notes, earlier printing plates were used. The designer, Ferenc Helbing worked with his 1 million crown plates, made in 1923, brought from Vienna. When the Arrow Cross 1000 pengő banknotes were deposited and to exchange them, the 1000 pengő banknote with the new design appeared on July 16, 1945, which was also made based on a plate produced before 1925. From July 21, 1945, the post of the finance minister was taken over from I. Vásáry by his peer in the party, the head of the Hungarian Central Bank, I. Oltványi. At the September 4 session of the Ministerial Council, I. Oltványi in his talk before the agenda forecast the withdrawal and exchange of the war pengő banknotes issued by the Soviets in the autumn of 1945, which had been approved by the Ministerial Council, however, due to the delay of the approval of the ACC, it only took place in February 1946. With respect to that, the finance minister announced on September 4 that it would be necessary to issue new 5000 and 10 000 pengő banknotes. However, we have no information about even designs regarding the 5000 pengő banknotes, while the ACC only approved the 10 000 pengő banknote on October 12, thus it was put into circulation with the announcement in the Hungarian Gazette on October 17, 1945.²⁶ Similarly to the previous banknotes, the 10 000 pengő banknote was also a redesigned version of a 1925 plate, and this was the last currency issue of the Temporary National Government.

It is worth mentioning the coins of this disturbed period, by which we can present a financial phenomenon which generally characterizes temporary bad economy and political instability, the so-called Gresham's law. Already Copern's work about financial reforms, *Monetae cudendae ratio* finds that in a system where there are two currencies in use, the worse currency always pushes out the good one, and this became the basis of the later Gresham's law. Market stakeholders who own both currencies will spend the worse one as they want to get rid of it, and put aside the better as reserve. Thus, the worse currency will circulate in the economy, pushing out the better one, which will accumulate as a reserve out of circulation at the stakeholders of the economy. The phenomenon creates a ripple effect as the circulation speed of the bad currency increases, while that of the good currency decreases, and this will cause further money excess and accordingly, depreciation, while in the case of the latter it will cause further need for money and resulting appre-

²⁴ KUSCSIK, P. *Magyarország papírpénzei 1900–1946* [Banknotes of Hungary 1900–1946]. Pozsony: Detail Kiadó, 2017, p. 122.

²⁵ Minutes of the Ministerial Council session on May 4 and May 18, 1945: In: SZÜCS, *op. cit.*, A. kötet, pp. 395, 395, 428.

²⁶ Minutes of the Ministerial Council session on September 4 and October 12, 1945: In: SZÜCS, *op. cit.*, B. kötet, pp. 179–180, 343.

ciation. This rule is also proven by the fact that when there is a war conflict, the population tries to accumulate coins with metal content (see WW1 and WW2), and tries to spend the banknotes issued to replace them. The merchants were not willing to accept, or accept on a worse exchange rate (if they accepted at all) the banknotes born out of emergency. This occurred several times during the 20th century in Hungary, first in the weeks and months after the breakout of WW1 in 1914. The government tried to coerce the acceptance of the worse quality banknotes and coins via central decrees, however it was less efficient at the time, and distrust was general towards money not containing precious metals.

However, in 1944–45 the presence of the Soviet Red Army was sufficient to coerce the acceptance of the war pengő.²⁷ Yet during this period only the Soviet occupation currency had smaller denominations in cash circulation, 1, 2 and 5 pengő notes, and the aluminium 1, 2 and 5 pengő coins issued during the war were in circulation, as their predecessors containing silver were used as precious metals in exchange trade and on the black market, as their silver content was worth more than their nominal value. For this reason, they were popular in barter, as their accumulation meant a certain value security.

Effects of the Deterioration of Money: the Disappearance of Coins

The Temporary National Government also tried to issue their own pengő coins, moreover as on the 5 pengő coins in circulation there was the portrait of governor Miklós Horthy.²⁸ At the Ministerial Council sessions, the issue of the coins was first mentioned on April 27, 1945. Here finance minister I. Vásáry requested and was given approval to produce new 5 pengő coins. The works have been delayed. As next it was mentioned on the June 8, 1945 session, where I. Vásáry presented that new aluminium 5 and 2 pengő coins will be issued, and it is announced in the Prime Minister's decrees 3020/1945 and 3030/1945 published on June 9, in which instead of the previously decided 360 million pengő altogether 510 million pengő should be issued on nominal value. It was at the same time decided that the 5 and 2 pengő coins made of aluminium and the 5 pengő made of silver must be gradually withdrawn from circulation, and instead of the 5 and 2 pengő aluminium coins to be withdrawn in accordance with paragraph 1 of the present decree, new 5 and 2 pengő aluminium coins must be produced. The amount to be minted from the various denomination was regulated by ministerial decree, taking proportions into consideration.²⁹ However, due to the rate of inflation only the new aluminium 5 pengő coin was put into circulation, while the building of the Hungarian Parliament was depicted with the inscription "Hungarian state change" on the back instead of governor M. Horthy. An interesting feature is that the inscription is not "Hungarian royal change", although the Hungarian Kingdom was dissolved officially only half a year later, on January 31, 1946, as on this day the

²⁷ This reminds me to a story, which I was told by my grandmother when I was a child. Her brother went to the nearby market to sell eggs and other produce. The city dwellers wanted to pay him with "Russian" pengő, and her brother did not want to take it. After that, they called the "comissar", who hit him in the stomach with the stock of his rifle, gave him the "Russian pengő", and then chased him away from the market.

²⁸ He was the commandant in chief of the National Army in the revolution against the proletariat dictatorship following the Hungarian Republic proclaimed following WW1. Following the restoration of the kingdom, he consolidated state power, and he was the governor of the Hungarian Kingdom from March 1, 1920, to October 16, 1944.

²⁹ *Magyarországi rendeletek tára 1945. 1946. 79. évfolyam, I–VI. füzet* [Catalogue of Hungarian decrees 1945. 1946, year 79, issues I–VI]. Budapest: Szikra irodalmi és lapkiadó vállalat, 1946, p. 172.

national assembly approved Act I of 1946, which was announced immediately and became effective. On the next day, on February 1, the national assembly elected Zoltán Tildy as President of the Hungarian Republic. The 5 pengő coins were in circulation between September and December 31, 1945. The 2 pengő coin only had a few sample mints, they were never put into circulation. Regarding its design it is a lot more sophisticated than the 5 pengő coin, although the same artist, István Iván designed both coins. On the front there is also the inscription “Hungarian state change”, and there is a man facing us, with a scythe and a wheatgrass, on the back a Hungarian coat of arms with the crown, below a dove of peace flying left, with an oil branch in its beak. The planchets were made of the axles of wrecked tanks.³⁰

Following the occupation of the country by the Soviets in 1945, communists who had been underground before, with the support of the Soviet military command quickly took over positions in law enforcement, the police. The first democratic national assembly elections in Hungary after WW2 were held on November 4, 1945. The Independent Smallholders’ Party won with a great majority (57%), before the three left-wing parties (Social Democrats 17%, Communists 17%, Farmers’ Party 7%). However, the Soviets coerced that a coalition government was formed, and the ministries were not distributed in proportion of the elections, but the interior ministry went to the communist party, and they maintained control over armed law enforcement which they had taken over from 1945. The finance ministry was filled by the Smallholders’ Party. The Temporary National Government moved to the “liberated” Budapest in spring 1945, and then prepared and organized the national assembly elections. Its mandate terminated on November 15, 1945, when following the election of the new National Assembly, the new government was established led by Smallholders’ Party politician Z. Tildy. All things considered it can be said that no matter how they tried by taking emergency measures and issuing money, the Temporary Government could not curb inflation. Although in principle the country had a currency with a set exchange rate, practically the US dollar and gold became the only currencies.

Following the lost war in 1945, the general shortage of goods and accelerated inflation led to the dominance of barter trade. In November 1945, the value of money in banknotes was approximately 4–5 million dollars in average. Meanwhile, according to the estimation of the Hungarian Central Bank, the value of gold and dollar in circulation reached approximately 1 million dollars! That the dollar was increasingly significant not only in wholesale, was shown in retail trade by the fact that the exchange rate of the small 1 dollar denominations due to the increased demand exceeded the exchange rate of the bigger dollar denominations by 10 per cent in average, which was just the opposite before the war. The appreciation of the dollar is well illustrated by the following figure: while in 1939 a bicycle could be purchased for 18.5 dollars, in the beginning of 1946 it cost only 4 dollars.³¹ The population tried to save their remaining assets in such banknotes, therefore, they were hidden and guarded as treasure, and such banknotes are discovered still in many places even today. Besides the dollar, the black market price of gold and scrap gold also skyrocketed. This, and “speculation” with various currencies caused further tension and

³⁰ RÁDÓCZY, *A legújabb kori magyar pénzek (1892–1981)*, pp. 125–126, 131.

³¹ AUSCH, S. *Az 1945–1946. évi infláció és stabilitás* [Inflation and stability in 1945–1946.]. Budapest: Kossuth Könyvkiadó, 1958, p. 113.

increased social and urban-rural hostilities. One of the most precious gold types of the age were the so-called Napoleon gold coins, these meant the 10 and 20 franc coins, more rarely 50 and 100 franc coins issued by Emperor Napoleon III. Of course, the 10 and 20 crown coins minted in the earlier Austro-Hungarian period were also popular.

Conclusion

The analysis above is a good example why I call the period between the autumn of 1944 to December 1945 the most chaotic period of Hungarian monetary law history. Due to military operations in Hungary, several jurisdictions deemed themselves legitimate. This of course affected the status of the Hungarian pengő, by which at the same time even four different currencies were in circulation, which rendered the already muddled financial situation even more chaotic. When we consider Europe, the neighboring states had similar problems at the time. In Czechoslovakia, which had its territory restored, even in the summer of 1945 there were four different currencies in circulation: the German imperial mark, the Slovakian crown, the protectorate crown and the Hungarian pengő, and of course war crowns issued by the Soviets were also introduced. In the case of Yugoslavia, the currencies of three occupying states were in circulation in parallel with the currency of the partisans of Josip Tito: German imperial mark, Italian lira, Hungarian pengő, the bills of the Croatian and Serbian puppet states sustained by the Germans were still in use. Therefore, the Hungarian situation is not unique at all, however what makes it special in the region is the extreme depreciation and inflation, however, this is a different topic.