



S. Yoshimasa

The monetary policy in the Netherlands East Indies under the Japanese administration

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SHIBATA YOSHIMASA

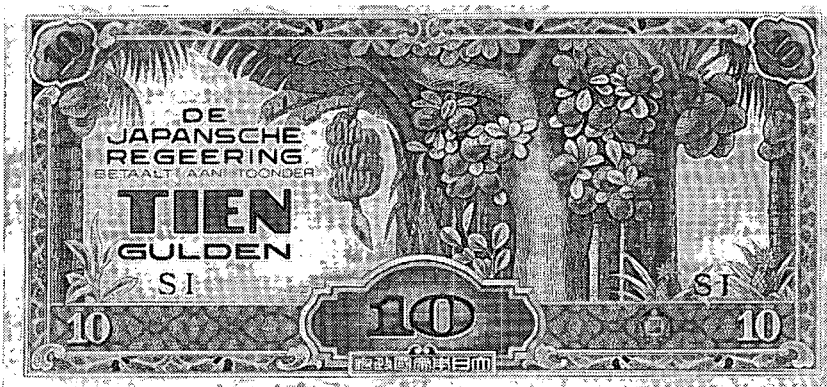
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Introduction

When the Japanese Army invaded the Netherlands East Indies in 1942, a Japanese military administration, which was to control the area until the end of the war, was instituted. During the military occupation the Japanese Army in the Indies issued an enormous number of military notes, with a face value of either a guilder or a cent. Directly after the invasion, all the Dutch banks were sequestered by the military administration, but later a few banks were permitted to reopen. The Japanese government founded the Nanpo Kaihatsu Kinko (Southern Development Bank, SDB) expressly as a source of funds for those Japanese businesses which applied to establish themselves in the Southeast Asian area. In 1943 the SDB was designated a bank of issue, its currency replacing the military notes as legal tender. The unfortunate upshot of this move was a huge rise in inflation in the areas controlled by the military administration.

Although there is a painful lack of materials about the military administration in Southeast Asia, there is enough data in some official publications to enable us to trace the outline of the economic policy it implemented (*Heisa* 1960a, 1960b). In this article my aim is to subject this monetary policy to a thorough scrutiny. Some articles have already analysed the military note system and the SDB, but these have not gone into details about the functioning of the monetary policy of the Japanese military administration in Southeast Asia as a whole, presumably hampered by the lack of data available (Iwatake 1981; Namikata 1991). Even in Japan it has proved impossible to find any great wealth of information about the military administration. The more specific goal of this paper is to examine the monetary policy pursued by the military administration in the Netherlands East Indies. My efforts in this will be largely confined to the sequestration policy implemented for enemy banks, the business activities of the SDB, and the issue of SDB notes, expatiating on the materials that I have been able to locate in Japan.¹

¹ Any analysis of the monetary policy is of course intimately bound up with public finance under the military administration. My aim is to analyse the issues as part of an entire system. See for more information on this issue Hikita 1995.



Japanese military notes in circulation as of 11 March 1942 (RIOD, Indonesian Collection)

The issue of military notes

The issue of military notes was commenced in all the occupied countries of Southeast Asia almost immediately after the landing operations had been completed. This was not a new practice. After the outbreak of the Sino-Japanese War in 1937, the Japanese Army had issued troops with military notes in Central China, although in this particular case the face value of the military notes was in yen.² The experience gained when these notes were issued was utilized five years later in Southeast Asia. In 1942 Java was occupied by the 16th Army, while Sumatra was occupied by the 25th Army whose headquarters were located in Singapore. The military administrations or Gunseikanbu for each area fell under these respective headquarters. The Department of Finance was under the command of the director of the Gunseikanbu, who was the official in charge of all financial matters pertaining to the military administration.³ Eventually the Singapore headquarters was moved to Sumatra in April 1943. The other areas of the Netherlands East Indies were occupied by the Japanese Navy, which set up its headquarters at Makassar in Celebes. The military administration in the naval territory was known as Kaigun Minseifu.

Even before the outbreak of World War II, the Japanese government had prepared various denominations of foreign currency, namely guilder military notes for the Netherlands East Indies, Straits dollars military notes for the Malay Peninsula and North Borneo, rupee military notes for Burma, peso military notes for the Philippines, and pound military notes for the Australian Trust Territories. The rate was fixed on a parity with one Japanese yen, with the exception of the pound note which was fixed at ten yen. The enforcement of this fixed rate led to the appreciation of the value of the yen in comparison to its previous rate. This tender symbolized a form of prestige for the Japanese military administration in its role as occupier of the areas which it had invaded. The Japanese government supplied a large amount of guilder military notes for the landing operations of the 16th and 25th Armies and for those of the Navy in Eastern Indonesia. By mid-January 1942, notes to the value of 81,783 million guilders had been printed by the Printing Bureau of the Ministry of Finance, of which the Ministry of Finance distributed 58,873 thousand guilder notes to the troops stationed in Java, Sumatra, and other parts of the Netherlands Indies during the military operation.⁴

² In several papers I have written I have already discussed the monetary policy pursued during the the Japanese military occupation of China. See Shibata 1980 and 1984.

³ Initially the organization of the military administration began as Gunseibu, which had a financial bureau known as Zaimukyoku. In July 1942 the Gunseibu was renamed Gunseikanbu and the Zaimukyoku became the Zaimubu.

⁴ Ministry of Finance, Financial Bureau, 'Gaika gunpyo ni kansuru tokubetsu sankosho' [Special reference materials for foreign currency denominated military notes], January 1942. Ministry of Finance, Financial History Record, no. Z511-624.

In March 1942, the number of notes in circulation with the denomination of one guilder was estimated at 26,445 thousand guilders in Java and 5,567 thousand in Sumatra (Shibata 1995:242-3). On 7 March 1942, the Java Military Administration promulgated an ordinance which ordered the cessation of all banking operations in Java and coerced the circulation of the military notes, but still permitted the circulation of notes issued by the former Javasche Bank (the Java Bank), as well as government notes issued by the Dutch colonial government. The authorized value of the military notes was on a parity with both former legal tender.⁵

On 6 December 1941, it was estimated that the number of notes issued by the Javasche Bank had an approximate value of 316 million guilders,⁶ which meant that the issue of military notes substantially increased the cash supply in the Netherlands Indies. Therefore, the logical consequence of the issue of the military notes was the triggering off of a rash of inflation, which afflicted Java and Sumatra in particular, but did not leave the other areas unscathed. The same story was repeated in the other territories which were occupied by a Japanese military administration during World War II. Despite the risk, by March 1943, the rate of price increase had not run wild, because the military administration had not played fast and loose with the military notes, but had given the matter of their circulation proper consideration. By the end of August 1942, the Japanese military administrations in Southeast Asia had issued 110 million currency units in military notes from the military sector in Japan. This amount included 40 million pesos in the Philippines, 20 million Straits dollars in the Malay Peninsula and North Borneo, 40 million rupees in Burma, and 10 million guilders in the Netherlands Indies. Statistics show that this amounted to only 9% of the money in circulation.⁷ After this the issuance of military notes was gradually stepped up, only to be terminated at the end of March 1943. When this halt was called, the amount of military notes issued was estimated at 353 million guilders, 303 million Straits dollars, 172 million pesos, 270 million rupees, 5.3 million pounds, making a total of 1,152 million currency units.⁸ The percentage of the guilder in this increased from 9 to 30%.

An overview of the economic situation in the Netherlands Indies allows

⁵ This ordinance promulgated in Java was published in the official Gazette or *Osamu Kampo* (Kurasawa 1989). Other ordinances I mention also refer to this reprint edition.

⁶ Banknotes liabilities (see Table 1) included the Javasche Bank notes held in branches outside Java. 6,958 thousand guilders of the Javasche Bank were excluded from the estimation of the liabilities account to avoid accounting bank notes held by the branches.

⁷ See 'Nanpo senryo chiiki niokeru gunpyo hakkodaka gaisu' [Issue of military notes in the Southern occupied areas in round figures] at the end of August 1942.

⁸ Southern Development Bank, Note Issuing Division, 'Nanpo Kaihatsu Kinkoken getsusmatsu hakkodaka' [The banknotes issued by the Southern Development Bank as of the end of each month], Ministry of Foreign Affairs, Diplomatic Record Office, Diplomatic Record, no. Kai-1-6.

us to pinpoint several factors, namely: that the Netherlands Indies was a relatively well-developed colony; that there was already sufficient cash circulating in the regional economies; and that war damage was not extensive. All of which meant that the Java Military Administrations Accounts Department which was introduced to compute the revenue and expenditure was able to collect cash in the form of taxes and fees from the regional economies, and to disburse any administrative costs accruing. This provides a foil to the situation in Burma, which had never had a bank of issue established while under British dominion and had also suffered heavy war damage. These circumstances forced the Japanese military administration to expend a huge amount on military notes during the occupation of Burma, for example for the purchase of agricultural products. In spite of such measures the economic system in Burma remained in a precarious state.

The policy of the sequestration of banks

The Japanese military occupation began with the sequestration of all established banks. The principal target was the bank of issue, which was the first to feel the blow as the military operation commenced. This sequestration policy was not a new idea, it had been applied in Manchuria in 1931 and in China after the outbreak of the Sino-Japanese War in 1937. In Java, the 16th Army had already taken steps to sequester the banks by 5 March 1942. It promulgated the ordinance announcing the moratorium on 11 April, after the military administration had given notice of its 'Main Principal for the Reorganization of Financial Institutions' in March 1942. This terminated the role of the Javasche Bank as bank of issue. This shows just how fundamentally the sequestration of the banks was implemented.

The Java Military Administration did not limit its attentions only to the Javasche Bank. It closed all the other Dutch banks, including the big three, namely: the *Nederlandsch-Indische Handelsbank NV* (Netherlands Indies Commercial Bank), the *Nederlandsch-Indische Escompto Maatschappij NV* (Netherlands Indies Discount Bank), and the *Nederlandsche Handelmaatschappij* (Netherlands Trading Society), even though it was not a bank in name. Its hand also fell on all the credit unions of the *Algemeene Volkscredietbank* (People's Credit Bank). Java was the economic heartland of the Netherlands Indies and there were more than ten banks concentrated in Java, especially in Batavia and Surabaya. Besides the banks just mentioned, we should add names as the Plantation Bank, the Amsterdam Commercial Union, the Netherlands Indies Mortgage Bank, the Java Mortgage Bank, the Post Office Savings Bank to the list. Nor was this all, there were still nine savings banks such as the *Algemeene Spaar- en Depositobank*, and other smaller-scale financial institutions like village

banks. Bringing up the rear of the list were the pawnshops.⁹ The Javasche Bank was the largest bank in the Netherlands Indies and the oldest colonial central bank in Asia. It had numerous branches both inside and outside the Indies, of which all in the Indies were seized and closed. Three of the former large banks were not only engaged in commercial finance, but they were heavily involved in plantation financing as well. The Dutch commercial banks raised their funds from the deposits made by Dutch companies and the Dutch community in Java, whereas small banks like the credit unions, village banks, and the Post Office Savings Bank, raised their money from deposits made by the indigenous people. The war damage suffered by financial institutions in Java was not nearly as grave as that in Burma, nor was the operation carried out as stringently as that employed against the British banks in Malaya. All British and Chinese banks were seized including the Hongkong and Shanghai Banking Corporation of which the head office was in Hong Kong, the Chartered Bank of India, the Australia-China Bank, of which the headquarters were in London, and the Bank of China with its head office in Shanghai. The Java Gunseikanbu considered these banks to be enemy banks and therefore marked for liquidation. Besides the large banks mentioned above, there were other, smaller Chinese banks in Java including the Batavia Bank, the Oei Tiong Ham Bank which had its head office in Semarang, the Hua Tong Bank in Java, and the Hua Qiao Bank (Overseas Chinese Bank) of which the head office was located in Singapore.¹⁰

Before the outbreak of the Pacific War there were four Japanese banks in Java, namely: the Yokohama Specie Bank (YSB), the Taiwan Bank, the Mitsui Bank, and the China and Southern Bank.¹¹ The YSB and the

⁹ Java Military Administration, Financial Bureau, 'Tochi kison kikan oyobi korera ni taisuru sochi hoshin gaiyo' [Outline of policy measures for existing financial institutions in this area], 5 April 1942. Pawnshops were reopened under the military administration and they were administered under the Public Pawnshop Special Account, though this special account transferred funds to the General Account of the military administration as a contribution to the General Account.

¹⁰ Java Military Administration, Financial Bureau, 'Kinyu kikan no gaiyo' [Outlook on financial institutions]. The Gunseikanbu did launch an unsuccessful plan to integrate all the sequestered Chinese banks, with the exception of the Bank of China, into one new, big pro-Japanese Chinese bank.

¹¹ The YSB was founded in 1899. Later, following the enactment of the Yokohama Specie Bank Act, the YSB became a specie bank which was entitled to financial support from the government. The YSB founded a branch in Surabaya in 1918 and from there expanded its business in the Netherlands Indies. The Taiwan Bank was founded in 1899 specifically to develop the colony of Taiwan. The Taiwan Bank founded a Surabaya Branch in 1915. Both the YSB and the Taiwan Bank were so-called *tokushu ginko* (special bank) which were founded on enactment of a special bank act regulating the relations between the bank and the government. The Mitsui Bank was founded in 1876 as a support for the Mitsui Zaibatsu group of businesses. It founded its Surabaya branch in 1925. The China and Southern Bank was established by Taiwanese capitalists in 1919. Its capital came from Taiwanese entrepreneurs, whose aim was to expand their business among the overseas Chinese in Southeast

Taiwan Bank were special banks established by special legislation. The money invested in the Taiwan Bank came directly from the Japanese government. Among the Japanese banks, the YSB was the largest foreign exchange bank and in this capacity it had made a special agreement with the Javasche Bank concerning the settlement of all foreign exchange transactions.¹² The Taiwan Bank was the second largest Japanese bank in Southeast Asia. While the Mitsui Bank was the channel for supplying funds to the Mitsui Zaibatsu group of businesses, the principal role of the China and Southern Bank (Ka'nan Ginko), founded by Taiwanese capitalists, was to supply a flow of commercial finance to Japanese businesses generally. The assets of all Japanese banks had been frozen in July 1941. This was a counter measure in retaliation to the asset freezing imposed by the United States and Britain.

When the Japanese troops landed in Java, with them came bankers from the YSB, who returned to the island, with the mission of re-opening the former branches and establishing new ones in other parts of the island. It was the YSB, not the Gunseikanbu, which was in charge of the implementation of the sequestration policy. The other three Japanese banks were re-opened in 1943 and straightaway began to supply money to Japanese businesses. The statistics assembled at the time of the sequestration enable us to analyse the liabilities and assets of the Dutch banks in Java (see Table 1). The Javasche Bank exercised huge financial power as the supplier of money in Java. On its final day of business in March 1942, the assets of the Javasche Bank in Java included large sums in loans to both the government and private sectors. It also held liabilities in the government-loan gold reserve and other accounts in the branch offices outside Java as well as in the banknotes it had issued. At the outbreak of the war the banknote account and the government-note account both rose rapidly as the Javasche Bank then withdrew loans from the private sector and supplied the colonial government with enormous amounts of money to cover wartime emergency measures. On the balance sheet, the Javasche Bank had enough gold reserves to cover notes and liabilities, but when the crunch came the Japanese Army was only able to seize gold to the value of 501,000 thousand guilders. Conscient of the threat of invasion, the Javasche Bank had shifted its gold reserves of 104 million guilders to South Africa and Australia to avoid running the risk of confiscation by the Japanese Army. Even before the war, 378 million

Asia. See *Wagakuni no* 1985 and Post 1993:144-6.

¹² On 24 December 1940, with an eye to smoothing the path of trade with the Netherlands Indies, the YSB concluded an agreement with the Javasche Bank about the settlement of all foreign exchange transactions between the yen and the guilder, Ministry of Finance, Financial Bureau 'Kin'yu kyoteitou kankeishu' [Collection of financial agreements], pp. 517-20.

guilder's worth of gold was reserved in the United States and 273 million guilder's worth in South Africa.¹³

The three largest commercial banks to which I referred earlier were all solid institutions. They had various branches in Java and Sumatra as well as other parts of the Indies. The results of the investigations carried out into them by the Java Gunseikanbu show that the *Nederlandsche Handelmaatschappij* had more than 280 million guilders in assets, the *Nederlandsch-Indische Handelsbank NV* more than 158 million guilders, and the *Nederlandsch-Indische Escompto Maatschappij NV* something more than 99 million guilders. These banks not only lent money to a great variety of businesses, they also invested in their own subsidiary agrarian enterprises. Taken as a whole, the assets of these three banks were the equivalent to 59% of the total assets of the *Javasche Bank*.¹⁴

A huge amount of cash was confiscated by the Japanese Army in Java when all of the banks were sequestered. All in all, 27 million guilders were seized from financial institutions and another 12 million from governmental bodies. Facing the threat of war in 1942, the Netherlands Indies colonial government established a Wartime Bank Account in the Bandung branch of the *Javasche Bank* to build up a guilder reserve in the event of war. After the occupation, this was seized along with the branch at which it was established, when the amount of cash which fell into Japanese hands amounted to 483 million guilders, considerably more than the amount of cash seized from all the banks and government bodies (see Table 2).

In Sumatra, where the banks were concentrated in Palembang, Padang, and Medan, the Gunseikanbu operated the same policy. Medan housed a branch of the *Javasche Bank*, of the three large commercial banks which I have mentioned in connection with Java, as well as branches of the Chartered Bank of India, the Australia and China Bank, credit unions, and two Chinese banks. In the smaller city of Padang were a branch of the *Javasche Bank*, one Dutch commercial bank, credit unions, and the Padang Savings Bank. Faced with the imminent threat of closure, both branches of the *Javasche Bank* took in large deposits from other banks, hereby being able to accumulate most of the cash in Sumatra. On 12 March 1942, in Medan each of the ordinary banks had 1,283 guilders in cash, 28,786

¹³ Java Military Administration, 'Java ginko no shoyu kinka ni kansuru genzai madeno chosa hokoku' [Investigation report of gold coins and gold bullion owned by the Java Bank], 10 June 1942.

¹⁴ Java Military Administration, 'Oranda Boeki Kaisha, 'Ran'in Shogyo Ginko, Escompto Ginko 3 ko no shisan husai no gaiyo ni tsuite' [Outline of the balance sheet of the Netherlands Trading Society, the Netherlands Indies Commercial Bank, and the Escompto Bank, 1942]. For example, the largest of the three, the Netherlands Trading Society had raised funds of 228 million guilders in current deposits from Dutch deposit holders and had cash and deposits of 148 million guilders in other banks, loans of 48 million guilders, securities to the tune of 25 million guilders, bills worth 16 million guilders, and investments of 15 million guilders.

thousand guilders in deposits, and 6,091 thousand guilders in loans on bank accounts, whereas the Medan branch of the Javasche Bank had 6,091 thousand guilders in cash and its deposits amounted to 5,784 thousand guilders. In fact the amount of cash is far too low.¹⁵ The situation was virtually the same in the Padang branch of the Javasche Bank. On 10 December, 1941, this branch had 8,749 thousand guilders in cash, but between 11 December and 25 February it sent away 6,875 thousand in cash to avoid this being seized by the Japanese Army, which meant that the amount of cash available in the branch on 16 March had dropped to only 165 guilders. Outmanoeuvred by such prescient forethought, the Japanese Army made a very poor harvest of banknotes in Padang.¹⁶ We can infer that the Medan branch implemented very much the same policy. By playing its cards right the Javasche Bank was able to excise a potential money supply under the occupation. In the initial phase of the sequestration, all the banks in Sumatra were closed, just as had happened in Java. Likewise in Sumatra it was the YSB which was charged with the investigation of the banking accounts, taking over this function from the military administration in Java.

In those areas which were occupied by the Japanese Navy, Dutch banks had branches in Celebes, South Borneo, and some of the other islands. The Javasche Bank had branches in Banjarmasin in South Borneo, Pontianak in West Borneo, and Makassar and Menado in Celebes. Needless to say, all these branches were sequestered by the Japanese Navy. The Taiwan Bank was appointed to conduct the financial affairs of the military administration in the Navy territory, thus it, not the military administration, was in charge of fulfilling the role of the YSB in Java and Sumatra. We may safely assume that the bank accounts of the branches in the Navy territory were not as large as those in plantation and oil rich Sumatra.

The military administration felt burdened by the task of having to issue military notes in the Netherlands Indies, therefore the Financial Bureau of the Office of the Java Military Administration petitioned Tokyo to allow the Javasche Bank to re-open and re-issue its banknotes as legal tender under its supervision. This would make the issuing of military notes superfluous. The Bureau believed that such measures would alleviate the problems of monetary control in Java, but its request fell on deaf ears at the Ministry of Finance which rejected the proposal submitted from Java. This despite the fact that the director of the Financial Bureau of the Office of the Java Military Administration had himself been detached from the Ministry of Finance.

During the second phase of the sequestration policy some banks were indeed permitted to reopen under the control of the military administration.

¹⁵ YSB, 'Zai Medan tekisei ginko' [Enemy banks in Medan], 1942 and YSB, 'Zai Padang tekisei ginko' (Enemy banks in Padang), 1942.

¹⁶ YSB, 'Zai Padang tekisei ginko' [Enemy banks in Padang], 1942.

Therefore, on 3 October 1942, the Java Gunseikanbu promulgated an ordinance permitting credit unions to reopen. Post office savings banks could also open their doors for business again. The ordinance for the liquidation of enemy banks and the lifting of the moratorium was promulgated on 20 October and this paved the way for the liquidation of Dutch and other foreign banks. Deposit holders, with the exception of enemy nationals, were allowed to withdraw their deposits within certain limits. In the spring of 1942, the Java Gunseikanbu had nurtured plans to merge the three large commercial banks and divide them into two types of bank, namely: a bank for commerce and industry and a bank for agriculture. Such a step was deemed necessary as the three banks were expected to make a huge loss because of the deposits they had paid into the Javasche Bank and the loans that had been granted a large number of businesses which had also been seized. This plan, along with that of re-opening the Javasche Bank, came to naught.¹⁷ Once again we are on fairly firm ground in assuming that this was simply because the Ministry of Finance rejected the proposal. The other Dutch commercial banks were liquidated at the same time and deposit holders who were not enemy nationals were permitted to withdraw their money.

The Gunseikanbu implemented the same policy in Sumatra. Credit unions and Chinese commercial banks which were managed by overseas Chinese were permitted to re-open. Here the Gunseikanbu had to control the issue of two denominations of military notes, Straits dollars for the Malay Peninsula and guilders for Sumatra, which made cash exchange between the two denominations inevitable. The military administration had to try to juggle to keep the value of both military notes on a par. Despite their best efforts, disparity was a foregone conclusion in a situation which was exacerbated by the erratic supply of goods in the occupied areas, trade imbalances in both territories, and disparate military and personal expenditure in each area. All this conspired to make it extremely difficult for the military administration to keep a parity between the two denominations of military note, forcing them to construct a small range of premiums.

Financial controls similar to those in force in Java and Sumatra were implemented in other parts of the Netherlands Indies. The Taiwan Bank founded various branches and it was entrusted with a number of functions similar to those of the Southern Development Bank (SDB), which I will discuss in the next section. Besides these branches, a few credit unions were founded by merging some of the small local banks. In October 1943, such mergers gave rise to the Celebes Credit Union, which had a head office in Makassar. In April 1944, the South Borneo Credit Union was established with a head office located in Banjarmasin. Finally in April 1945,

¹⁷ See Java Military Administration, Financial Bureau, 'Tochi kison kinyu kikan oyobi korerani taisuru sochi hoshin gaiyo' [Outline of policy measures for existing financial institutions in this area], 5 April 1942.

the Lesser Sunda Credit Union was founded. The sole function of these banks was to withdraw money from circulation and to increase deposits. The presidents of the credit unions were appointed by the directors of the military administration, and their capital was invested via the military administration account (*Taiwan* 1964).

The foundation of the Southern Development Bank

The SDB was founded in March 1942 following the enactment of the Southern Development Bank Law. I assume that the plan to establish a special financial institution was first mooted in the Japanese government around the end of 1941, but at that time the government was toying with another plan, namely the establishment of central banks which would be empowered to issue banknotes in the occupied areas. Therefore, at the time of its foundation, the SDB was not planned to function as a central bank. The head office of the SDB was located in Tokyo, and a former bureaucrat from the Ministry of Finance was appointed as its president. Although the SDB law legalized the issue of debentures, SDB debentures were not issued until April 1943, the state of the debenture market urging caution. In Java, SDB branches were set up in Batavia and Surabaya. The Palembang representation of the Singapore branch of the SDB was located in a branch of the YSB. In fact, the SDB utilized both the YSB and the Taiwan Bank to establish its representations and branches, which means in fact that its business was actually conducted through these banks. In 1943 the Palembang representation became the Sumatra branch of the SDB. Earlier, in 1942, the South Borneo branch had been founded in Banjarmasin with representations in Pontianak, Samarinda, and Tarakan. The Seram branch, which had a representation in Singaraja in Bali, was also founded in 1942, while the West New Guinea branch was set up in Manokwari in 1943. The South Borneo, Celebes, and other regional branches were run by representatives of the Taiwan Bank (see Table 3).

When it launched its business operations, the SDB had to seek ways to raise funds for loans. In Java this caused little difficulty as there was already sufficient money in the domestic economy, allowing it to raise funds from its own deposits. To allow the SDB to raise funds formally it was permitted to borrow from the Provisional Military Expenditure Special Account. Even so the Java branch only had to borrow 200 thousand guilders in 1942 and it was able to redeem this sum a year later. This forms a striking contrast to the South Borneo branch which had to borrow 1,628 thousand guilders from the Special Account, the Seram branch which borrowed 100 thousand guilders, and the Celebes branch which chined in for 655 thousand guilders in the period from April until the end of 1942. Also outside Indonesia, the borrowing of the Java branch was very modest compared with the sums claimed by the Philippine branch, 12,200 thousand pesos, and the Burma branch which applied for 21,610 thousand

rupees. The Java branch lent money to the tune of 1,622 thousand guilders as of the end of October 1942, and it increased this to 8,222 thousand guilders in March 1943, while during the same period the cash held by the bank rose from 6,642 thousand guilders to 72,965 thousand and current deposits swelled from 21,030 thousand guilders to 38,452 thousand.¹⁸

From the balance sheet of the SDB (see Tables 4 and 5) at our disposal, it is clear that the volume of the balance sheet of the Java branch was far larger than that of the other branches in the Netherlands Indies, and that it was raising funds from deposits which included current deposits and military administration accounts deposits. This evidence permits us to draw the conclusion that the Java branch functioned as a deposit bank for the military administration, while the sum it expended on loans fell far short of the cash account. In contrast, the fund raising of the South Borneo and Celebes branches was dependent on their borrowing from the Special Account.

This leads to the question of what sort of loans were made on the Java branch in Java itself (see Table 6). The largest loans went to the manufacturing sector, which included food-processing industries. Mining was the second largest debtor. Loans to mining in mineral-rich Malaya and Sumatra were larger than those made in Java because several Japanese companies were appointed to operate mining enterprises in the Malay Peninsula and Sumatra. All in all, the SDB lent an enormous amount of money to Japanese businesses planning to start operations in the Netherlands Indies. In December 1942, for example, the Kawasaki Heavy Industry Company borrowed 1,210 thousand guilders, which made it top borrower in Java. The second largest borrower was the Taiwu Industrial Company, followed in third place by the Yoshiwara Oil Manufacturing Company. The fourth, fifth, and sixth places in the league table were occupied by the Harima Shipbuilding Company, the Ishihara Industry and Shipping Company, and the Toyo Warehouse Company. In the same period in South Borneo, the Taiwan Bank borrowed 944 thousand guilders, which put it in front. It was followed by the Nanyo Lumber Company. In Celebes the International Electric Communications Company was the front runner, coming in second was the Sumitomo Mining Company, with the Mitsui Agricultural and Forest Company in third place (Shibata 1995:292-6). These data lead us to the conclusion that the Java branch of the SDB was not as active as its confrères in Malaya and the Philippines, and that the main reason for this seeming inertia was that the demand for resource development in Java was not as great as that needed in Sumatra and the Malay Peninsula. At the beginning of the occupation, Java was harvesting too much agricultural produce, such as sugar, rubber, and other crops, for

¹⁸ Ministry of Finance, Overseas Finance Bureau, 'Nanpo Kaihatsu Kinko ni kansuru sankosho' [Reference materials concerning the Southern Development Bank], February 1943, Financial History record, no. Z384-31.

Japanese demand, though in the secondary sector the shipbuilding business in Surabaya was important and some Japanese companies were engaged in it. Troubles arose in the agricultural sector when the compulsory crop switchover was introduced. It proved very difficult for the military administration to implement its policy in the Javanese agricultural structure. It met with a similar setback when the implementation of its monetary policy turned out to be a rather ineffectual means of transforming the industrial structure.

The issue of the Southern Development Bank banknotes

Originally the Japanese government had planned to establish central banks in all the occupied areas. A plan compiled by the General Headquarters of the Southern Army around May 1942 shows that two central banks were to be set up in April or May 1943. These were to bear the names the Malayan Central Bank and the East Indies Central Bank. The former was to conduct business in the Malay Peninsula, North Borneo, and Sumatra, and the latter in Java, South Borneo, and the other parts of the Netherlands East Indies. The central banks were to issue banknotes and to collect the military notes at parity value and remove them from circulation. The entire capital of both central banks was to be invested by the Japanese government and their executives were likewise to be appointed by the government. This policy of the founding of central banks in occupied areas was one of the principal lines of planning. The directors of the Financial Bureau of the Java Military Administration agreed that such a plan was essential and that the central bank should be set up as soon as possible on the grounds that a new central bank would be most suited to the economic situation in Java and, from the point of view of currency control, it was hoped that the banknotes would replace the military notes. The plan submitted by the General Headquarters of the Southern Army also considered founding two new central banks, one each in Burma and the Philippines.¹⁹

Despite such contingency planning, the Japanese government was unable to decide the precise status of the occupied territories, for example whether the government should permit them independence or whether they should be merged into the occupied region. Faced with this uncertainty, the Ministry of Finance, therefore, rejected the plan to found new

¹⁹ The Daihonei Seihu Renraku Kaigi [Co-ordinating Committee of the General Headquarters and Government] prepared a draft for the foundation of central banks in the occupied areas, 'Nanpo shochiiki ni taisuru tsuka kinyu seido no kihon hoshin nikansuru ken' [Main principles of the currency policy for the Southeast Areas], 23 February 1942. After examining the draft the Ministries of the Army, the Navy, and Finance decided on, 'Nanpo senryochi tsuka seido nikansuru ken' [Currency system in the Southern Occupied Areas], 8 August 1942, after which the possibility for the establishment of central banks in the occupied areas was postponed, being relegated to a minor problem.

central banks in these areas. Strangely, such an important policy change was implemented without any amendment to the SDB law. As a result, paradoxically, the law authorized not only the issue of banknotes, but also the issue of bank debentures, because the SDB was in fact restricted to raising funds in Japan and in principle foreign exchange transactions were prohibited. This was the one and only occasion in the history of Japanese banking that the prerogative of issuing banknotes and bank debentures was given to one single bank in Japan. As of April 1943, the SDB embarked on the issue of SDB notes and bank debentures, which put it in a position to raise funds by banknote issue in the occupied areas and by bank debentures issued in Japan itself.²⁰ The appearance of the SDB notes was exactly the same as that of the erstwhile military notes. The government continued printing the same bills and supplying them to the SDB. The SDB reclaimed the military notes still in circulation in the occupied areas as its own liabilities and redeemed former borrowings from the Special Account. The SDB became the fountainhead of cash not only for businesses, but also to the government and the military administration. At the same time, the Chinese Federal Reserve Bank began to supply its notes to the Japanese government through the Bank of Chosen (Bank of Korea), as well as the Central Reserve Bank of Central China, using the YSB as its channel (Shibata 1980).²¹ The difference between the SDB system and that in force in occupied China was that the SDB lent notes directly to the government, because, apart from Burma and the Philippines, the Japanese government did not establish any puppet governments in the occupied areas. After the issue of the SDB notes, the Provisional Military Expenditure Special Account was able to borrow funds from the SDB instead of having to resort to the issue of military notes.

Once the SDB notes were issued and put into circulation, the number of notes increased rapidly (see Table 7), rising from 353 million guilders in March 1943 to 674 million guilders at the end of the year; then leaping on to 1,976 million guilders at the end of the next year, finally to reach a total of more than 3,153 million guilders at the end of the war. All this spelled hyperinflation in the Netherlands Indies, though the price index never reached the same heights it achieved in the Philippines. The real value of the SDB note deflated as the price index shrank smaller and smaller, only to become junk notes after the Japanese surrender in August 1945.

The SDB set up several branches and representations in the Netherlands Indies after the decision on its status in April 1943, although the actual running of its business was entrusted to the YSB and the Taiwan Bank.

²⁰ The SDB issued debentures in Japan and raised funds from the Deposit Fund of the Ministry of Finance and the Central Bank of Agriculture and Forestry Cooperatives.

²¹ The Chinese Federal Reserve Bank was founded in 1938 and the Central Reserve Bank in 1941.

The SDB became not only the supplier of funds for development projects and equipment, it was also the bank's bank, which meant that the YSB and the Taiwan Bank found themselves in the invidious position of being in competition with the bank of issue while simultaneously they had to borrow funds from the SDB. For example, the loans outstanding from the SDB exceeded the loans from the Taiwan Bank in South Borneo, simply because the SDB was able to supply a much larger amount of money and the Gunseikanbu promoted such development financing. The enterprises encouraged by the Japanese government in the areas of occupation, for example those concerned with mining, manufacturing, communications, and transportation, were all engaged in development activities (see Table 8). On the other hand, the SDB was also supplying funds for the purchase of goods in Sumatra, Borneo, and the other islands in the Navy area, because such areas could not borrow enough money without the intervention of the SDB, besides which the collection of foodstuffs policy assumed ever greater significance as the war wore on. Inevitably, the growing demand for SDB banknotes meant that inflation hit the Netherlands Indies, bringing stringent monetary control in its wake. On 15 January 1944, the Java Gunseikanbu promulgated an ordinance to expedite control of funds.

The Gaishi Kinko (Overseas Funds Bank) was established as a system for supplying funds to the government in March 1945, following the enactment of the Overseas Funds Bank Law of 1945. This Overseas Funds Bank was an attempt to seek an adjustment between the limited budget of the Provisional Military Expenditure Account and the real expenditure demand, brought on by the high rate of inflation prevailing in occupied China and Southeast Asia. The Overseas Funds Bank was intended to supply a quadrupled fund to the government budget for the Southern Army and Navy. By taking such measures the government was able to expend five times the budget for procurement in the occupied areas. Therefore the Overseas Funds Bank was able to alleviate the burden of budget expenditure (*Heisa* 1960a:254-5). Despite all good intentions, by then it was too late to adjust the Southeast Asian expenditure of the Provisional Military Expenditure Special Account, meaning that only a slight budget adjustment could be implemented in April. We do not have data to determine which funds were allocated in Southeast Asia.

The SDB did not just supply the government with foreign currency notes through its head office, it also paid directly into regional military administration accounts. We can trace evidence of such loans in Java, Sumatra, and South Borneo (see Tables 5 and 6). This enables us to state that it did function as the government's bank. In this capacity the SDB received funds for the military administration account deposits and administered them in Java, Sumatra, and other locations throughout the Archipelago.

Conclusion

After the completion of its landing operations, the Japanese Army introduced various measures by which it could substitute the prevailing Dutch financial system by a pro-Japanese one. Military notes were initially distributed to cover military expenditure and military administration costs, later they also replaced the notes issued by the Javasche Bank. The introduction of the military notes into monetary circulation in indigenous society as a substitute for the former currency proceeded smoothly. The Javasche Bank was sequestered and liquidated. All the other Dutch banks were closed and later only the credit unions were permitted to reopen.

Under the Japanese occupation a large number of Japanese companies were encouraged to launch into business in the Netherlands Indies, and it was one function of the SDB to supply these companies with the requisite funds. Then in April 1943, other earlier plans having been shelved, the SDB was designated bank of issue, after which its activities expanded enormously. This promotion reduced the roles of the YSB and the Taiwan Bank to that of mere bit players in the financial world of the Netherlands Indies.

Not unnaturally, the Japanese military notes and the Japanese financial system had a tremendous impact on the Indies. The Japanese financial control inflicted a great deal of damage on Dutch banks, which were unable to conduct any business throughout the whole of the occupation period. Those who had previously borrowed from Dutch banks were forced to quit their businesses or take to their heels. This leads us to assume that they would have been faced by a gigantic task had these banks endeavoured to reconstitute their banking businesses after the Japanese surrender in 1945.

Under the military administration system, the borrowing of funds from the SDB was strictly limited to Japanese companies which flocked to the Indies during the occupation. Although under the aegis of the military administration, cash flowed indirectly into the indigenous economy through the Japanese companies but the SDB never targeted non-Japanese businesses as potential customers. As far as it has been possible to investigate the identity of the borrowers from the SDB in the Netherlands Indies, all were Japanese enterprises. Plainly, the SDB was not interested in lending money to Dutch or indigenous businesses.

As soon as the Japanese surrendered, the name of the SDB was supposed to be expunged from the minds of all the non-Japanese people. None the less the Japanese Army and the military administration left a huge amount of SDB notes behind them in the Netherlands Indies. In the first stage of the post-war period, the British Army utilized these notes to cover their occupation expenditure, being faced with the problematical task of transporting enough cash from Europe in the short run. This explains why the Supreme Commander of the Allied Forces authorized the use of SDB notes as legal tender in Java. This was rescinded on 7 March 1946, when the circulation of SDB notes was terminated. The government of inde-

pendent Indonesia had authorized the use of SDB notes in the first stages of its rule. After this the Allied powers collected the SDB notes at a fixed rate of three cents to a one guilder SDB note. Nevertheless, after the outbreak of the Indonesian War of Independence, the SDB notes remained in circulation in Indonesian society. In Sumatra, entire branches of Japanese banks were closed by the Allied Powers and between mid-October 1945 and the end of the year, the British Army liquidated them (Nihon Ginko Chosakyoku. 1970:823-5).

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Table 1. Balance sheet of the Javasche Bank (in 1,000 guilders)

	5 March 1942	6 December 1941
<i>Assets</i>		
Overdraft	20,912	182,315
Loans to government	220,224	18,159
Discount bills	26,723	23,628
Securities investment	29,749	28,948
Foreign exchange		25,981
Coins	19,780	19,383
Gold	378,895	443,656
Real estates and others	4,719	5,068
Other accounts	<u>200,548</u>	<u>44,582</u>
Total	901,550	791,720
<i>Liabilities</i>		
Capital	9,000	9,000
Reserves	24,789	24,760
Bank notes	372,890	309,670
Government notes	74,439	40,702
Bills	308	122
Government deposits	74,514	81,609
Other deposits	343,352	322,741
Others	1,561	1,561
Profits	<u>697</u>	<u>1,555</u>
Total	901,550	791,720

Notes: Batavia head office account was on 5 March, the others on 9 March 1942. Including Madura.

Source: Java Military Administration, Financial Bureau, 'Java kinyu jiko sanko shohyo' [Reference tables of the Java financial matters], 20 June 1942.

Table 2. Seized cash in Java (in 1,000 guilders)

<i>Financial institutions</i>	
Bank notes	21,232
Government notes	1,306
Coins	1,133
Unqualified	<u>3,862</u>
Total	27,533
<i>Governmental organizations</i>	
Bank notes	1,670
Government notes	2,167
Coins	1,205
Unqualified	<u>7,455</u>
Total	12,497
Grand total	40,030
<i>War-time bank account of the Java Bank in Bandung</i>	
Bank notes	483,500
Government notes	6,400
Coins	<u>18,890</u>
Total	508,790

Source: Java Military Administration, Financial Bureau, 'Senshu genkin uchiwakehyo - senji kinko wo nozoku' [Cash seized during the war - excluding the wartime bank account], and 'Bandung Java Ginko senji kinko hokan uchiwakehyo' [Reserved cash in the war-time bank account of the Bandung Branch of the Javasche Bank], 3 March 1942.

Table 3. Branches of the Southern Development Bank in the Netherlands Indies as of the end of March 1943

Branches	Month of Business Beginning	Place	Entrusted Bank
Java branch	July 1942	Jakarta	
Surabaya representative	November 1942		
Palembang representative	October 1942		YSB
South Borneo branch	August 1942	Banjarmasin	TB
Balikpapan representative	September 1942		TB
Pontianak representative	September 1942		TB
Samarinda representative	September 1942		TB
Tarakan representative	October 1942		TB
Celebes branch	September 1942	Makassar	TB
Menado representative	July 1942		TB
Seram branch	August 1942	Ambon	TB
West New Guinea branch	March 1943	Manokwari	TB

Notes: YSB means Yokohama Specie Bank and TB means Taiwan Bank. After April 1943, Palembang became Sumatra Branch.

Source: Southern Development Bank, Department of Operation, *Showa 17 nendo gyomu hokokusho* [Annual report 1942]. Tokyo, Diplomatic Record Office, no. 1-3-2.

Table 4. Balance sheet of the Java and Sumatra branches of the Southern Development Bank (in 1,000 guilders)

	Java	Branch	A/C	Sumatra
	November	March	November	Branch A/C
	1942	1943	1943	November
				1943
<i>Assets</i>				
Loans to military administration A/C	-	-	3,000	9,400
Loans	1,622	8,222	37,521	16,015
Overdraft	-	-	5,617	3,298
Deposit to government A/C	-	-	659	27,582
Deposit to military administration A/C	-	7,091	3,915	16,427
Deposits	13,537	-	-	3,124
Cash	6,642	72,965	37,705	21,711
Specified cash	-	-	-	1,224
Others	54	23	152	114
Head office A/C	-	-	124,009	-
Losses	31	299	-	-
Total	21,886	88,600	212,578	98,895
<i>Liabilities</i>				
Current deposits	21,030	38,452	71,017	1,124
Notice deposits	-	6,000	26,846	-
Time Deposits	-	1,000	7,500	-
Military administration deposits	-	42,683	105,430	41,789
Specified deposits	-	-	-	3,724
Head office A/C	6	141	-	52,142
Others	850	324	1,358	63
Profits	-	-	427	53
Total	21,886	88,600	212,578	98,895

Source: See Table 3, and Ministry of Finance, Overseas Finance Bureau, 'Nanpo Kaihatsu Kinko ni kansuru sankosho' [Reference materials on the Southern Development Bank], December 1942 and January 1944. Tokyo, Ministry of Finance, Financial History Record Z381-31 and Z384-34.

Table 5. Balance sheet of the Southern Development Bank in other areas under Navy occupation (in thousands of guilders)

	Southern Borneo Branch A/C			Celebes Branch A/C		
	1942 October	1943 March	1943 November	1942 October	1943 March	1943 September
<i>Assets</i>						
Loans to military	-	-	350	-	-	-
Administration A/C	-	-	-	-	-	-
Loans	425	4,393	15,211	145	7,662	22,341
Deposits	8	785	812	2	590	-
Cash	-	-	46,197	-	400	42,939
Head office A/C	-	-	-	-	9	-
Others	-	-	10	-	-	-
Total	434	5,179	62,580	147	8,662	65,280
<i>Liabilities</i>						
Special borrowings	425	5,077	-	145	8,101	-
Current deposits	-	-	152	-	410	688
Notice deposits	-	-	542	-	-	80
Time deposits	-	-	-	-	-	200
Head office A/C	-	9	61,593	-	-	63,853
Others	-	82	-	-	125	-
Profits	8	9	292	2	24	459
Total	434	5,179	62,580	147	8,662	65,280

Table 5. (continued)

	Seram Branch A/C			West New Guinea Branch A/C	
	1942 October	1943 March	1943 September	1942 March	1943 September
<i>Assets</i>					
Loans	50	280	3,853	351	163
Deposits	3	2	-	7	-
Cash	=	=	<u>6,033</u>	=	<u>3,552</u>
Total	53	282	9,886	358	3,715
<i>Liabilities</i>					
Special borrowings	50	266	-	351	351
Current deposits	-	-	74	-	-
Notice deposits	-	-	4,175	-	-
Time deposits	-	-	100	-	-
Head office A/C	-	-	5,447	-	3,360
Others	-	15	-	7	-
Profits	<u>3</u>	<u>1</u>	<u>90</u>	=	<u>4</u>
Total	53	282	9,886	358	3,715

Source: See Table 3, and Ministry of Finance, Overseas Finance Bureau, 'Nanpo Kaihatsu Kinko ni kansuru sankosho' [Reference materials on the Southern Development Bank], December 1942 and January 1944. Tokyo, Ministry of Finance, Financial History Record Z381-31 and Z384-34.

Table 6. Loans of the Southern Development Bank by purpose as of end of December 1942 (in thousands of currency units)

	Japan	Philippines	Malaya, Sumatra	Java	Burma	South Borneo	Celebes	Seram	Total
Purchase of goods	-	-	-	-	11,950	944	-	-	12,894
Reconstruction and development									
mining	1,966	13,980	1,450	800	500	-	235	-	18,931
Agriculture and forestry	500	5,730	420	310	260	368	420	90	8,098
Fisheries	620	70	-	-	-	-	-	-	690
Manufacturing	4,412	1,940	1,800	2,103	1,270	40	460	40	12,065
Transportation	-	235	2,645	233	580	-	-	-	3,693
Insurance	-	-	70	70	-	-	-	-	140
Culture	<u>0</u>	<u>60</u>	<u>270</u>	<u>100</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
Total	7,498	22,015	6,655	3,616	14,610	1,352	1,115	130	56,991

Source: Ministry of Finance, Overseas Finance Bureau, 'Nanpo Kaihatsu Kinko ni kansuru sankosho' [Reference materials on the Southern Development Bank], December 1942. Tokyo, Ministry of Finance, Financial History Record, Z381-31.

Table 7. The Southern Development Bank notes issued (in 1,000 guilders)

End of Month		1,000 Currency Units SDB Guilder Notes	Total of SDB Notes in Southeast Asia
1943	March	353	1,152
	April	345	1,143
	June	355	1,498
	September	537	1,820
	December	674	2,397
1944	March	895	3,345
	June	1,200	4,777
	September	1,633	7,159
	December	1,976	11,237
1945	March	2,429	13,723
	June	2,743	16,745
	July	3,153	18,233

Source: Southern Development Bank, Department of Bank Notes, Bank Notes Division, 'Nanpo Kaihatsu Kinkoken kaku getsumatsu hakkodaka' [The bank notes issued by the Southern Development Bank as of the end of each month]. Tokyo, Diplomatic Record Office, no. 1-1-6.

Table 8. Loans of the Southern Development Bank by purpose as of end of November 1943 (in thousands of currency units)

	Japan	Philippines	Malaya	Sumatra	Java	Burma	North Borneo	South Borneo	Celebes	Seram	Total
Purchase of goods	-	-	-	23,100	272	39,800	-	5,934	4,096	2,150	75,516
Reconstruction and development mining	27,882	58,091	16,570	2,128	4,230	7,070	100	867	2,415	-	119,353
Manufacturing	46,725	68,157	20,123	3,373	13,847	5,727	100	3,981	3,583	702	166,318
Agriculture and forestry	5,172	51,301	6,171	530	5,586	755	571	2,745	5,615	348	78,872
Fisheries	13,460	2,430	1,730	10	1,292	625	300	-	50	630	20,527
Communications and transportation	18,336	7,164	17,830	4,635	4,805	3,885	50	1,263	1,611	674	60,254
Culture	0	765	720	58	913	637	-	296	281	108	3,778
Others	<u>15,542</u>	<u>10,557</u>	<u>9,710</u>	<u>343</u>	<u>1,066</u>	<u>4,649</u>	<u>23</u>	<u>2,500</u>	<u>1,510</u>	<u>700</u>	<u>46,603</u>
Sub-total	127,117	198,465	72,854	34,177	32,011	63,148	1,144	17,586	19,161	5,312	571,221
Loans to banks	<u>-</u>	<u>13,000</u>	<u>20,000</u>	<u>3,500</u>	<u>8,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,400</u>
Total	127,117	211,465	92,854	37,677	40,911	63,148	1,144	17,586	19,161	5,312	616,621

Notes: 'Total' column contains West New Guinea branch account which contained goods purchase of 163 thousand guilders and agriculture 80 thousand guilders.

Source: Ministry of Finance, Overseas Finance Bureau, 'Nanpo Kaihatsu Kinko ni kansuru sankosho' [Reference materials on the Southern Development Bank], February 1943. Tokyo, Ministry of Finance, Financial History Record, Z381-32.