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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

RECENT DEVELOPMENTS OF THE COMECON BANK AND THE CONVERTIBILITY OF THE ROUBLE

Note by the Economic Directorate(1)

NATO has shown interest on several occasions in the possible convertibility of the rouble and multilateralisation of East-West trade. The desirability of a genuine and reciprocal multilateralisation of trade and payments in East-West relations was mentioned last year in the recommendations of the report of the Committee of Economic Advisers (C-M(64)78)(2) on NATO countries' trade policy towards the Eastern European countries. Bearing this in mind, it has been suggested in the Sub-Committee(3) and in the Committee of Economic Advisers(4) that the new developments of the COMECON Bank should be closely studied. On 24th November, 1965, during the discussion in the Council on the report of the Committee of Economic Advisers C-M(65)88 entitled "Economic review of Eastern European countries and the Soviet-occupied Zone of Germany", the Belgian Representative recalled that one of the greatest obstacles to an expansion of East-West trade seemed to be the non-convertibility of the rouble, and the persistent bilateral character of trade and payments in East-West relations(5).

2. The UNITED STATES Delegation has already circulated two notes on this subject. The first one refers in particular to Polish suggestions that credit balances in intra-bloc trade should be made convertible into free currencies or gold(6). There has also been a study by the International

(1) The present note is a somewhat modified version of a "blue" circulated on 6th December, 1965.
(2) Paragraph 8(ii)(a) and Annex I, Item (iii)(b); see also AC/127-D/160, Annex I, paragraphs 68-71.
(3) AC/89-R/73, Item VI.
(4) AC/127-R/165, Item VIII.
(5) C-R(65)47, Item III.
(6) AC/89-WP/177

Monetary Fund which deals in detail with the "multilateralisation in trade and currency convertibility under the Soviet bloc economic system"(1). However, this study does not cover the latest COMECON decision on the subject.

3. The second note of the United States, AC/89-WP/177/1, states that the COMECON Permanent Commission for Foreign Exchange and Finance Questions, at its seventh session held in Budapest from 15th to 18th October, "adopted a resolution concerning the formation and use of part of the International Bank's basic capital in gold and freely convertible currency". According to the Yugoslav Agency TANYUG, these funds would be at the disposal of member countries for commercial transactions with the West, and the procedure would be worked out by the Bank's board next year.

4. Article 5 of the Bank's statutes(2) provides that "member countries are entitled to make subscriptions to the basic capital of the Bank in freely convertible currencies or in gold ... Subscriptions will be made according to a procedure and terms laid down by the Council". If the TANYUG report is correct, the Board of the COMECON Bank now seems to have been instructed to study the setting up of such a procedure.

5. As some newspaper articles seem to have overestimated the importance of this decision, and as both United States notes leave some questions unanswered, the Sub-Committee at its meeting of 6th December, 1965(3), felt that it would be interesting to have comments from the delegations, possibly assisted by the central banks of their respective countries, on the following additional points:

(a) would the subscriptions to the basic capital in freely convertible currencies have to be made in conditions analogous to Article III of the COMECON agreement(4), i.e. from surpluses in the balance of payments with the West?

(b) in this connection it would be of interest to know the size of the reserves in western currencies, and in gold, of the individual COMECON countries; can they be estimated?(5)

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(1) International Monetary Fund, document No. DM/65/60 of 21st October, 1965, by M.R. Wyczalkowski.
(2) See Annex IV to AC/127-D/165, page 14.
(3) AC/89-R/76, Item II.
(4) See Annex IV to AC/127-D/165, page 5.
(5) See AC/127-R/162, Item I(4), AC/127-WP/168, paragraph 8 and AC/127-D/185 for estimated gold reserves of the Soviet Union.

(c) if (b) is answered in the affirmative, would such a procedure merely result in COMECON members with a surplus in their balance of payments with the West giving (temporary) "currency aid" to those of their fellow members who have a deficit, or would it be less or more far-reaching?

(d) is the latest COMECON decision a routine matter in the application of the Bank's statutes, or is it partly or entirely an answer to the Polish suggestion considering that any conversion of credit balances in intra-bloc trade into free currencies or gold would require the Bank's disposing of such deposits?

(e) can it be argued that the Polish proposals have not been met, as they aim at revolutionising the whole process of fixing domestic and foreign trade prices by introducing the "full harsh competitiveness of the world market in the Communist bloc" ("Financial Times" of 11th November, 1965) via a genuinely convertible rouble?

(f) if these are the aims of the Poles, what are the long-term chances for their plans to meet with the approval of their COMECON partners, in particular the Soviet Union, which would probably have to give the backing to such a system (rouble as the world's third reserve currency)?

(g) if such a system was introduced, would it contribute towards a greater flexibility of the COMECON countries' trade policy, or rather towards a greater cohesion of the bloc?

(h) would the price systems envisaged in the economic reforms of all, or some, COMECON countries allow the introduction of convertibility? The IMF document referred to in paragraph 2 denies this, but might not the Czech reforms and recent Hungarian plans go in this direction?

(i) according to the "Financial Times" of 11th November, 1965, the COMECON Bank is already taking and placing dollar deposits in the western foreign exchange market; can this information be confirmed and, if so, what is the nature of these transactions? Is the Bank acting only for individual member countries, or on its own account?

(j) do the branches of the Narodny Bank in London and Beirut act as the COMECON Bank's agents?

(k) what is the total extent of the COMECON Bank's activities in East-West trade, and in which direction can it expand in the light of the recent decision?

(l) would such a new arrangement raise the credit standard of COMECON countries in general, or at least that of the smaller ones (Bulgaria, Rumania, Hungary) and affect the West's credit policy towards them?

(m) would the COMECON Bank's easier access to the facilities of the western credit market improve its position as a creditor for developing countries? Is the COMECON Bank already active in the latter business?

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