Office Memorandum

TO : Mr. L. A. Whittome

DATE: December 18, 1978

FROM : Geoffrey Tyler

SUBJECT : Poland--Relations With the GATT

The attached report prepared by Mr. Allen from the Geneva Office is of some interest, since many of the factors and data it deals with are relevant to Romania. Very briefly, the main subjects of discussion:

(1) The incidence of restrictions on Polish exports, especially those by the EEC.

(2) The fulfillment of Poland's commitment to increase its imports from GATT members at specified rates. In 1976 and in 1977 there is apparently some doubt about whether the required growth occurred.

(3) The incidence of counter-purchase obligations in trade of GATT members with Poland. Poland took the usual line that there are no formal requirements for counterpurchases, but that enterprises in Poland, as elsewhere, take into account their own interest.

Attachment

Report on the Meeting of the Working Party on Trade with Poland

1. Introduction and summary

The Working Party on Trade with Poland met on October 16, 1978 under the chairmanship of Mr. P. R. Barthel Rosa of Brazil to conduct the Tenth Annual Consultation under Poland's Protocol of Accession. 1/ The Working Party examined data on Poland's trade with contracting parties and discussed the impact on such trade of the world economic situation, the Polish balance of payments, and discriminatory quantitative restrictions still maintained by a few contracting parties. The Working Party also discussed the fulfillment of Poland's commitment to import at a specified rate from contracting parties.

The Working Party considered the question of the termination of the transition period under the Protocol of Accession. Such a termination would involve the elimination of discriminatory quantitative restrictions by those contracting parties still applying them. These countries, the European Communities, Norway and Sweden, maintained that the time was not ripe to eliminate such restrictions and, therefore, the transitional period could not yet be brought to an end.

In view of the difficulty of some of the issues raised, in particular the consequences of Poland's possible failure to fulfill its import commitment, it was decided to adjourn the meeting for a fortnight. However, in the absence of fresh instructions from Warsaw, the Working Party's activities remained suspended at the time of writing this report.

2. Polish exports

The representative of Poland presented certain statistics on his country's trade with GATT contracting parties. 2/ He pointed out that Poland's exports to GATT contracting parties had continued to grow in 1977, although at a slower rate than in some years in the past. Exports would have been higher

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1/ The document convening the meeting was GATT/AIR/1498.
2/ GATT document L/4683 and Add.1.

in 1977 but for the current world economic situation, restrictions maintained by some GATT contracting parties inconsistent with GATT Article XIII (Non-discriminatory Administration of Quantitative Restrictions), and protectionism in general. Thus Poland's expectations with regard to its exports had not been fulfilled. The representative of the European Communities noted the steady growth of Poland's exports to the Communities in 1977, which had been 8 per cent above those of the previous year. This had occurred despite "protectionist trends".

The representative of Poland turned to the notifications by contracting parties of discriminatory restrictions still maintained on imports from Poland. 1/ His authorities had examined these notifications and found that there had been minimal liberalization recently. In the case of some partner countries, no progress had been made for many years. He hoped that the contracting parties involved would show the appropriate political will. Allowing restrictions inconsistent with Article XIII to be maintained throughout the transitional period, as provided for in Article 4 of the Protocol of Accession, had been a substantial concession by his country. Contracting parties had other means at their disposal for protecting themselves against any flood of imports from Poland. Firstly, there was Article XIX safeguard action. Secondly, Poland adhered to the Anti-Dumping Code. Finally, the General Agreement as a whole offered an appropriate framework for settling any dispute which might arise. There was therefore no justification for maintaining restrictions inconsistent with Article XIII. Such discriminatory elements poisoned trade relations. As the Polish representative had said in previous meetings of the Working Party and of the Council, the long transitional period disturbed the balance of Poland's rights and obligations under the General Agreement. Eleven years could not be considered "a reasonable time".

The representative of the European Communities said that in the case of the EC, the quantitative restrictions in question applied to 112 full tariff positions and 77 partial positions. Many of these positions involved textiles, an area in which an arrangement on access was now under negotiation. Over the years, there had been a steady fall in the number of EC restrictions and a steady increase in the size of quotas. Each year, quotas were increased by 5 per cent automatically, but with the possibility that individual EC countries might increase access to their markets by more than 5 per cent. Imports subject to such restrictions played only a small role in the Communities' trade with Poland, affecting

1/ GATT document L/4626 and Add.1.

about 23 per cent of imports. The Communities had continued their policy of liberalizing such restrictions despite the current world economic crisis. He drew attention to the contrast with Poland's imports from contracting parties which had actually declined in 1977.

The European Communities did not accept that quantitative restrictions were having a detrimental effect on trade. In view of the present economic situation, the arguments the Communities had put forward at previous meetings of the Working Party remained valid, and there was no case for fixing a termination date for the transitional period.

Most other members of the Working Party called for an early date to be fixed for the end of the transitional period. The representative of Japan said Poland had been a member of the GATT for over ten years, had fulfilled its commitments and was entitled to terminate the transitional period. The representative of Canada said that the provisions of GATT Articles VI and XIX, plus the Protocol of Accession itself, provided contracting parties with adequate safeguards, and there was thus no need for discriminatory quantitative restrictions. This view was supported by the representatives of Australia, Austria, Czechoslovakia, Finland, Hungary, Romania, and the United States.

The representative of Poland drew attention to the format of the Communities' notification of its remaining quantitative restrictions. The mere enumeration of tariff headings and statistics on actual imports from Poland under those headings was inadequate. It did not permit any evaluation of the claim that quotas had been increased, and thus prevented the Working Party from making a full examination of such restrictions, as provided for in Article 3(a) of the Protocol of Accession. He was disturbed that the representative of the Communities was implying that because Poland's imports from the European Communities had not risen in 1977, this had affected the Communities' attitude towards the elimination of discriminatory quantitative restrictions. His delegation could not accept that these restrictions could be used to pressure Poland into extra concessions. He commented that Poland's imports still had only a marginal share in the trade of those partner countries still maintaining restrictions, and that Poland had shown a positive spirit in dealing with partner countries when problems arose, but only when measures of a nondiscriminatory nature were proposed.

The representative of the European Communities recalled that of Poland's exports to contracting parties, some 50 per cent went to the Communities. As the list of quantitative restrictions was reduced, more and more sensitive products were reached. He confirmed the Communities' intention to eliminate quantitative restrictions, but argued that it was difficult in the present world situation. He rejected the possibility of using Article XIX safeguards to achieve the same end, since Article XIX was heavy-handed in its implementation. He denied that the Communities were linking the elimination of quantitative restrictions to concessions from Poland, but recalled that in 1975 the Communities had offered Poland the possibility of a bilateral solution to this issue.

The representative of Poland wondered why for many of the restrictions on the EC list there had been no imports from Poland at all. He wondered what possible justification there was for retaining restrictions on these items. However, he did not agree either with the justification for restrictions on those items where there were imports from Poland. Finally, he drew attention to a 1977 agreement between Poland and the Communities restraining Poland's exports of lamps, and discussions that were continuing on a similar agreement to deal with exports of electric motors.

3. Poland's imports

The representative of Poland drew attention to the steady and dynamic growth of Polish imports from contracting parties in the period 1968 to 1976. If Poland had strictly applied the 7 per cent growth rule laid down in the Protocol of Accession, its 1977 imports from contracting parties would have been US$2.3 billion. Its imports in 1977 were actually US$8.6 billion. Thus for many years Poland had overfulfilled its GATT concession established in the period 1972-74. It was in this context that the two per cent decline in imports from contracting parties in 1977 must be viewed.

The growth in Poland's imports from contracting parties over the years had occurred despite the maintenance of discriminatory quantitative restrictions and the existence of the transitional period. In the first half of the 1970s, Poland's foreign trade policy had been oriented towards a high growth in imports. In the second half of the 1970s, the policy was to adjust imports to the requirements of the Polish economy and of the balance of trade. This new policy might temporarily lead to a stabilization of imports. The decline in imports in 1977 had been associated with adjustments in Poland's investment policy, investment goods having constituted the bulk of imports in the first half of the 1970s. This decline also reflected the economic situation of trading partners, but he admitted that the 1977 total was lower than his authorities had expected. Over the next few years, his authorities intended that imports should increase faster than exports, bearing in mind the need for an equilibrated balance of trade.

The representative of the United States said that his authorities noted with concern the decrease of Poland's imports from GATT contracting parties in 1977. In the light of the nature of the Polish foreign trade regime, he feared that it represented a change in trade policy. He said that his delegation had done some preliminary calculations on the size of Polish imports, which indicated that Poland might not have met its import commitments for either 1976 or 1977. He appreciated that this might have been caused partly because of overfulfillment in previous years, but whatever the cause, it was a serious matter. It raised the whole question of the balance of concessions under paragraph 5 of the Polish Protocol of Accession. Poland's failure to meet its import commitment was the equivalent of the United States' or some other contracting party's raising bound duties. If it was correct that Poland had not fulfilled its import targets, it was the Working Party's duty to make recommendations. He asked why the commitment had not been met, whether any import shortfall in 1976 and 1977 would be made up on 1978, the third year of the reference period, and what changes of policy the Polish authorities intended to make in order to meet the targets. He would also like the Working Party to discuss what should be done about this situation. The representative of the European Communities expressed full agreement with the U.S. statement.

The representative of Poland said there had been no shifts in Polish policy with respect to trade with the contracting parties. As far as the evaluation of the fulfillment of Poland's commitments was concerned, his delegation had already made many comments and given a considerable amount of information. The present consultations were taking place in the final year of a three-year period, and it would not be possible to evaluate Poland's fulfillment of its commitment until the period was completed. He suggested that this matter be left for consideration until the next annual consultation.

The representative of the United States said that his authorities were fully aware of Poland's economic problems: there was a debt burden and foreign exchange shortage. They were also aware that part of the reason for the under-fulfillment of the import target was the overfulfillment which occurred in previous years. But the Working Party could not just ignore this matter or merely express its regrets. Poland's failure to fulfill its target was equivalent to other contracting parties' altering their bound tariff rates. The import commitment for the 1979-81 period would be based on the results of the 1976-78 period. Thus, unless this shortfall could be made up in 1978, it would affect the target for future years. He was aware that this was a complicated problem and said that the U.S. delegation was prepared to look for a realistic solution. He proposed an adjournment for bilateral consultations during which it might be possible to decide how the Working Party could fulfill its mandate.

The representative of Poland said that he did not oppose discussions in principle, but stressed that Poland's basic import commitment was for a growth of 7 per cent a year. He had given illustrations of the extent to which the Polish Government had contributed to increasing trade between Poland and contracting parties. By 1976, Poland had fulfilled its obligation for many years in advance. At the same time, however, he was prepared to recognize that other delegations were concerned over this matter. As to the question of a balance of rights and obligations, since Poland had imported far more from contracting parties than its concession implied, within a larger context the Working Party could conclude that Poland had overfulfilled its GATT obligations.

The representative of Czechoslovakia felt that any consultation on the fulfillment of the Polish import commitment should be a balanced one. The commitment had clearly been overfulfilled for a number of years and, while imports were now stagnant, this was undoubtedly a temporary phenomenon. It was unreasonable to expect an indefinite expansion of imports without any consideration of the Polish financial situation. Discriminatory restrictions maintained by trading partners had played a significant role in depriving Poland of convertible currency earnings. He called for delegations to adopt a pragmatic and reasonable approach to the matter, and do nothing hasty on the basis of purely temporary developments.

4. The Polish foreign trade system

The representative of Canada noted the intention of the Polish authorities to eliminate their trade deficit with some convertible currency countries by 1980. He asked what measures were contemplated to achieve this goal. The representative of the United States said that he understood that the Polish Ministry of Foreign Trade insisted that foreign trade organizations maintain a balance between their income and expenditures of foreign exchange, and that the issuing of import licences was based on this balance. If this system actually operated, it would mean that many foreign trade organizations would insist on barter in their foreign trade, especially within a very limited product range. Such a system would also discriminate against those foreign suppliers who were unwilling or unable to accept goods in part payment. It was also against Poland's own interests, since it would tend to raise the price of imported goods. He asked for a clear statement of how the regulations governing the foreign exchange balance worked, and what the policy of the authorities was with respect to counterpurchases. 1/

The representative of Poland said that there were no particular instruments of foreign trade policy which were designed to achieve balance in trade with certain trading partners. The main determinant of Polish imports was the availability of foreign exchange, but the level of imports was also linked to overall economic development. He was unable to disclose any particular foreign trade measures which differed from those applied by other countries, whose imports were also determined by the same two factors. The available foreign exchange was used in accordance with the objectives and requirements of the economic units: the foreign trade organizations acted as the agents of these units and on the basis of nondiscrimination. As far as counterpurchasing was concerned, there were no regulations designed to encourage or discourage the employment of such transactions. Counter-purchases were the result of market conditions and took into account the interests of trading partners. The advantages and disadvantages of such transactions were judged by the partners involved.

The representative of the United States said that he understood that the level of imports were determined by the general availability of foreign exchange. He asked what determined the availability of foreign exchange for an individual foreign trade organization. In other words, how did a foreign trade organization obtain an import licence? The representative of Poland said that he was not prepared to give details of the functioning of this system. The organization of Polish foreign trade was not the subject of consultation. It was a difficult system to describe but, basically, foreign trade organizations imported those products ordered by such economic units as had foreign currency at their disposal. Foreign exchange was allotted to economic units in order for them to fulfill their tasks.

1/ Purchases the foreign seller was required to make as a condition of sale.

The representative of Canada asked how far foreign exchange allotments were tied to the export performance. The representative of Poland recalled that the holder of foreign exchange was actually an economic unit, a ministry, or an industrial association which acted as a producer or supplier. The provision of foreign exchange was a technical question dealt with by the banking system. The whole mechanism was based on the availability of foreign exchange from exports. Thus some economic units might be allocated higher foreign exchange quotas if they had higher export performance. To this extent, there was a close link between export earnings and the availability of currency for imports.

5. Poland's balance of payments with contracting parties

The representative of Poland presented some tables showing Poland's balance of payments with contracting parties. He noted that the trade deficit had reached a peak in 1975, and had narrowed in 1976 and 1977. The balance on freight, insurance, travel, and other invisible items had improved over this period, while that on investment income had worsened. Private transfers were another dynamic element in the balance. Foreign liabilities continued to grow, but the rate of increase was declining. Thus in 1975, the foreign liabilities of monetary institutions grew by US$3417 million, in 1976 by US$3139 million, and in 1977 by US$2113 million. Foreign assets had grown over the period 1974-76, but had fallen in 1977. Thus the adverse balance on goods and services in 1977 was covered by a surplus on unrequited transfers, an increase in foreign liabilities and a small decline in foreign assets.

The representative of the European Communities said that he understood the Polish data were based on the IMF system of balance of payments accounting. However, they lacked an entry for errors and omissions. He also noted that the Polish figures lumped together all the transactions of monetary institutions. Under the IMF system, this item was broken down into 17 distinct suppositions, and he felt that such a breakdown would be very useful in this case, too.

6. Transitional period

The representative of Poland noted that several trading partners continued to maintain restrictions on imports from Poland which were justified only under the transitional arrangements of paragraph 3:c of the Protocol of Accession. He proposed that the transition period be terminated as from January 1, 1979, thus fulfilling the requirements of the Protocol.

The representative of the European Communities said that his authorities were unable to accept this. There were still problems with those products now subject to quantitative restrictions. When in the past the economic situation had been better, his authorities had proposed a compromise to deal with such restrictions. This compromise had been rejected by some contracting parties, and now the economic situation had deteriorated to such an extent that even the Communities could not accept its initial compromise proposal. He suggested that it would be best for both sides not to press for the termination of the transitional period. He reiterated his view that the quantitative restrictions maintained by the Communities had not substantially hurt Polish exports and that the Communities were liberalizing such restrictions year by year at the greatest rate possible. The representative of Poland noted the position of the Communities with regret.

7. Other matters

The representative of the European Communities said that delegations had never had a chance to examine the Polish import tariff. He reminded participants that the Communities had proposed the establishment of a small working party on this matter at the time of the last consultation with Poland.

The representative of Poland remarked that the import tariff had been published. Thus Poland had fulfilled the requirements of Article X of the GATT. Both the tariff law and the tariff duties were available from the Brussels Customs Cooperation Council. The tariff had come into operation on January 1, 1976 after a long period of examination. Poland was still experimenting with its tariff and would give appropriate information to contracting parties at the proper time.

8. Concluding remarks

The representative of the United States suggested that the meeting be adjourned to allow for informal consultations on the issue of whether Poland had fulfilled its import commitment, and if not, how the matter should be dealt with. The question of the termination of the transitional period could also be taken up when the meeting was resumed, and the Working Party could then adopt its report. The representative of Poland said he would have to refer the matter to Warsaw but hoped the Working Party could finish its work at the end of October. By the end of the first week of December no reply had been received from Warsaw, and participants continued to await the resumption of the Working Party's activities.

F O

CONFIDENTIAL

Office Memorandum

TO : Mr. Tyler

DATE: October 20, 1978

FROM : James Wein JW

SUBJECT : Poland--Balance of Payments with GATT Members

The attached table shows Poland's balance of payments with GATT members, from data supplied to the GATT by the National Bank of Poland. The coverage is roughly that of the convertible area. 1/ On trade account, the deficit in the attached table roughly approximates the overall trade deficit although there was a moderate surplus with the nonconvertible area in 1975 and a deficit in 1977. (Only trade account data are published, so that similar comparisons for other accounts cannot be made with the data available at present.)

Export growth since 1975 has been steady at a rate of about 10 per cent annually; imports, however, have hardly grown. The slow rate of import growth reflects the campaign for import restraint, with emphasis on convertible area imports, which has been mounted in the last few years as part of the effort to minimize foreign borrowing. A much slower rate of investment has helped make the slower growth of imports possible. The notable features on invisibles account are the growth of the debit balance for investment income, presumably reflecting higher interest payments on external debt, and the growth of transfers, most of which are private remittances from relatives, and Poles working abroad. The enterprise capital and government items are relatively small (on a gross debits and credits basis as well as net) but the nature of the enterprises involved--whether foreign or domestic or both--is not clear; nor is it clear if foreign borrowing on behalf of enterprises by the foreign trade bank is in some cases included. The numbers for long-term enterprise capital seem larger than can be accounted for by foreign direct investment of which we are aware. With a reduced overall deficit, the need for net borrowing has also decreased.

Attachment

1/ Czechoslovakia, Hungary, Romania, and Yugoslavia are GATT members.

Poland--Balance of Payments with GATT Members

(In millions of U.S. dollars)

	1975	1976	1977
Exports, f.o.b.	5,247	5,744	6,317
Imports, f.o.b.	-8,285	-8,528	-8,519
Trade balance	-3,039	-2,784	-2,202
Services			
Freight and insurance (merchandise)	204	188	213
Other transportation	-219	-180	-205
Investment income	-427	-572	-804
Other	-40	-29	-38
Total services	-482	-593	-834
Goods and services balance	-3,521	-3,377	-3,036
Transfers	375	560	628
Current account balance	-3,146	-2,816	-2,408
Enterprise long-term capital	79	83	99
Enterprise short-term capital	-7	-89	-124
Government	-61	-66	-62
Overall balance	-3,135	-2,889	-2,494
Monetary institutions			
Assets	-282	-250	381
Liabilities	3,417	3,139	2,113

Source: GATT (based on information received from the National Bank of Poland).

Office Memorandum

TO : Mr. Whittome

DATE: June 2, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Poland

The first Deputy Finance Minister, Mr. Krazk, recently gave an interview to the Financial Times. In an article in the issue of June 1, 1978, there is the following comment on possible membership of the IMF.

> "As for reports that Poland was considering rejoining the IMF Mr. Krazk said that "at present we have no attitude to this matter, but we are studying the pluses and minuses. We have people trained in that field, but membership involves a number of factors, including of course our membership of COMECON.""

February 22, 1978

Briefing Note on Poland

The Polish economy continues its passage through a period of serious economic difficulties, exacerbated by the destruction of crops by rain and floods in the summer and autumn of 1977 and by a failure of its export drive, owing to adverse conditions in world markets.

In 1970, Poland embarked on an ambitious and very costly program of modernizing her industries, to be financed mainly by foreign credits. It was envisaged that such credits would be paid off by increased production and exports. The results of the program have been disappointing: investments were carried out on too broad a front and one important branch of the economy--agriculture--was neglected. With the onset of severe shortages of food and political unrest, the authorities were compelled to adjust the program drastically. Severe cuts in investment expenditures and a restrictive fiscal policy was ordained and there has been a movement in the large economic organizations toward greater incentives for efficiency and profits. In recent months, the authorities have shifted their emphasis toward re-equipping the agricultural sector and providing more incentives for farmers, toward an improvement of housing standards, and toward a rapid increase of production of goods for the internal markets, presumably foodstuffs and consumer items.

The economic plan for 1978, approved by parliament last December, forecasts a rise in nominal personal income of 2.8 per cent, which will be 1.8 per cent in real terms. A slowing in industrial growth of 6.7 per cent (estimated 10 per cent in 1977) and further attempts to curb the rise in imports are key features of the plan. The national income is expected to rise by 5.4 per cent, the slowest rate of the decade, with most of the increase stemming from increased labor productivity. The plan reflects a shift toward wage payments and consumption at the expense of investment; and even in the latter there is greater provision for consumer directed investment, particularly toward food production. It would be well nigh impossible to realize an inflation rate of only 1 per cent if workers' wage expectations were to be satisfied in 1978 and particularly if food price increases on the scale proposed in June 1976 (which sparked off riots) were to be re-introduced.

The slowdown, it is hoped, will improve the trade balance, with a 10.3 per cent growth in exports and one of 3.9 per cent in imports in 1978 reducing the 1977 deficit by zlote 2 billion (US$600 million) to zlote 7.5 billion (US$2.3 billion) in 1978. The foreign debt is estimated at US$10-12 billion and constitutes a major problem. Debt servicing is estimated to amount to 25 per cent of Poland's hard currency earnings (the ratio for Soviet Union, Hungary, and Czechoslovakia amounts to 20 per cent, 15 per cent, and 10 per cent, respectively), which is putting the economy under very considerable strain. Poland has made some efforts recently to reschedule debt but the terms requested by the authorities have been considered too soft by the creditors. One of the measures taken to improve future debt profile has been a switch in importing toward the Soviet Union and other COMECON countries.

Table 1. Poland: Foreign Trade

(In millions of foreign exchange Zlote at current prices)[1/]

	Exports (f.o.b.)	Imports (f.o.b.)	Balance
1965	8,911.4	9,361.2	-449.8
1970	14,190.5	14,430.1	-239.6
1971	15,489.3	16,150.7	-661.4
1972	18,132.7	19,612.4	-1,479.7
1973	21,355.1	26,102.8	-4,747.7
1974	27,624.8	34,822.9	-7,198.1
1975	34,160.7	41,650.7	-7,490.0
1971-75	116,762.6	138,339.5	-21,576.9
1976	36,700[2/3/]	46,145[2/]	-9,445[4/]
1977	...	...	-9,500[4/]

Sources: Central Statistical Office, Statistical Bulletin; U.N. Statistical Indicators of Short-Term Economic Changes in ECE Countries, January 1977; and press reports.

1/ f.e. Zl 3.32 = US$1.
2/ Press report.
3/ Figure reported as Zl 36.7 billion.
4/ Estimate.

F.O.
LAW of

Office Memorandum

CONFIDENTIAL

TO : Mr. L. A. Whittome

DATE: February 2, 1978

FROM : A. Pfeifer

SUBJECT : Poland

Mr. Dale called on February 2. Mr. Cross had received a message from the U.S. Embassy in Warsaw reporting that Senator Adlai Stevensen of Illinois had been in Poland and that the Poles had understood from him that Mr. Witteveen would be delighted to have Poland in the Fund.

Mr. Dale had told Mr. Cross that Mr. Witteveen had not taken any initiative in that direction and that it would be helpful if the U.S. Embassy were to point out that membership entailed obligations as well as rights.

11/18/77

INTERNATIONAL MONETARY FUND
Washington, D. C. 20431

Mr. Whittome

With the Compliments of

Joseph Gold
General Counsel
and
Director, Legal Department

cc: EED

1. EED
2. PO
3. LAW

The First Canadian Bank
Bank of Montreal
Incorporated in Canada with limited liability
Office of the
Group Vice-President
246 Bishopsgate, London, EC2M 4PA
Telephone: 01-638 1722

November 15th, 1977

Joseph Gold, Esq.,
General Counsel and Director,
Legal Department,
International Monetary Fund,
Washington, D.C.,
U.S.A.

Dear Mr. Gold,

I have just returned from a business trip to Warsaw where I learned from the Polish authorities that they are contemplating to apply for Polish membership with the Fund. I was told that such contemplation in Poland usually takes a long time, but that they were seriously interested in pursuing the idea. When I mentioned that I had been a member of the Legal Department of the Fund in the past this aroused some interest and subsequently led to a rather detailed discussion of the requirements for statistical and other information applicable to members of the Fund. As you know, all Comecon countries are reluctant to provide macro economic information in the detailed way the Western countries provide it as a matter of routine. The Polish authorities seem to be prepared to adopt a more liberal approach in the future. As a matter of fact during my visit to Warsaw I was able to obtain a wide range of information which the Polish authorities had not made available in the past.

I do not assume that my letter of today contains anything of news value to you. Nevertheless I thought I should write to you about it.

Hoping that you are well, I remain, with kindest personal regards to you and my friends in the Legal Department,

Sincerely,

Franz

Franz Ballmann.

Front Office

/Poland

July 19, 1977

MEMORANDUM FOR THE FILES

Subject: Conversation with Management Consultant—
Romania, Poland, GDR

I spoke with a Mr. Jaliman of McKinsey and Co., who is working on a project for the Belgian Government involving projected steel production in Eastern Europe. I gave him projections for Romanian steel output that had appeared in the Romanian press, and referred him to some sources where parallel data for Poland and the GDR might be found.

J. Wein

J Wein

cc: Mr. Finch
Front Office
Mr. Tyler

April 4, 1977

MEMORANDUM FOR THE FILES

Subject: Poland—Conversation with Commercial Banker

A Mr. Foster of the South Shore Bank in Quincy, Mass. rang to ask about the Polish balance of payments. He said they were working up a two-year Polish credit.

I explained to him that Poland was not a member of the Fund, and referred him to the Monthly Bulletin and Statistical Yearbook for trade data. Regarding the rest of the balance of payments and external debt, I said that perhaps various U.S. Government organs such as the Department of Commerce or the staff of the Joint Economic Committee might be able to help. I also mentioned some of the East-West trade publications.

J. Wein

cc: Mr. Tyler

Office Memorandum

cms has copy for Hungary

TO : Mr. Whittome

DATE: August 29, 1974

FROM : Emine Gürgen EG
Janos Somogyi So.

SUBJECT : Reforms of the Price and Exchange Systems in Hungary and Poland

II. Poland

1. The reform of the price system

In Poland, prices are fixed administatively in the socialist sector. There are several types of prices. Their common basis is the factory price, which consists of the average total planned cost of production for a branch, plus a profit margin, usually calculated as a percentage of cost. The transfer price is the price at which producers sell their products (consumer or producer goods) to the wholesale trade centrals or socialized industrial enterprises. The difference between the transfer price and the factory price is the turnover tax or state subsidy. For the majority of producer goods, the transfer price equals the factory price. The wholesale price is the transfer price of a good plus a mark-up to cover the cost of distribution and a small profit margin of a trade central. Similarly, the retail price is the wholesale price plus a mark-up to cover the cost of distribution and a small profit margin for the retail outlet.

The system of factory prices dates back to 1954. During the 1960 price reforms, the manner of determining factory prices was revised. Previously factory prices did not ensure profit if transfer prices were set too low to cover costs plus the profit margin. After 1960, factory prices were made to equal average cost plus profit, irrespective of the level of the corresponding transfer prices, thus ensuring profit to all producers. This was significant in that the rate of profit could now be differentiated to promote or curtail production, that is, factory prices could now perform an economic incentive function. Also, the factory price could be changed once a year when profit exceeded the upper limit imposed, or when transfer prices of inputs were increased.

Importance was attached to the function of factory prices in export production. The factory price served as a tool for computing export profitability by the deduction of the factory price from the foreign currency price received by the foreign trade central converted at a specific exchange rate. However, this introduced a dilemma for the producer. When setting prices for goods that were produced for both domestic and export purposes, a higher factory price for a more modern product improved the profitability of the enterprise and increased the general premium fund, but, at the same time, it reduced the calculatory profit of exports and thus the premium fund for export production.

Factory prices served as a tool for computing the turnover tax and output subsidies, and were used for settlements between the producer and the foreign trade central. Despite the changes introduced in the 1960s, factory prices continued to perform their calculatory functions rather than the incentive functions stressed by planners, especially during the 1966-70 Five-Year Plan. The profit rate preferences incorporated in factory prices were not strong enough to fulfill successfully the plan directives of accumulation and assortment. In practice, there were significant discrepancies between the costs submitted as a base for factory prices and the reported costs. Hence, the rate of profit assumed in the factory price differed considerably from the reported rate.

Some changes also took place in transfer prices in the 1960s. However, the revision of the transfer prices of producer goods was rather insignificant. In fact, only the prices of metallurgical products were raised. By the end of 1970, stable prices under changing production conditions had become unsuitable for economic calculation. The 1970 reform aimed at (i) bringing transfer prices closer to actual production costs by introducing the charge on fixed assets as a price determining factor; and (ii) taking into account world prices in determining the prices of producer goods, especially the transfer prices of raw materials and, to a considerable extent, the prices of machinery and equipment. However, the prices of basic raw materials were not to change more frequently than once every five years unless there was a sustained change of the prices of individual raw materials on the world market. The transfer prices of machinery and equipment could change once every two or three years. This increased price flexibility was introduced basically with the purpose of updating prices as a basic tool for economic calculation.

In trying to reflect world market prices in the transfer prices of imported goods, the reference was not really to prices of the world market, but to prices at which the foreign trade centrals purchased or could purchase these goods abroad. Two categories of commodities were distinguished. Imported raw materials and materials of particular significance to the economy (a list of 13 groups of articles was established) would have stable transfer prices determined on the basis of the world market prices within the last two years, after eliminating temporary factors of fluctuations and correcting them for the forecast price trend for the next few years. Foreign currency prices determined in this way were to be converted into transfer prices by using a specific exchange rate. The prices of about 20 per cent of imported raw materials, machinery, and equipment were set as so-called "transaction prices." These prices would depend on the actual foreign currency price paid and the exchange rate used for the given import region. This was undertaken to encourage importers to search for the cheapest source of imports. Previously, the same price had applied for the goods regardless of the source of supply.

The principle of basing prices of raw materials on world market prices was not fully implemented because the prices of raw materials that were exclusively domestically produced or whose domestic production was only partly supplemented by imports were set on the basis of domestic production costs.

The above measures were considered to be the first stage of price reform. The second stage was to start in 1971, and planners were to revise transfer prices over time. All temporary transfer prices were to be verified and approved. The scope of comparisons with world prices was to be broadened to include those products for which foreign prices could not previously be collected. However, there is no information on the actual implementation of this stage of the reform.

In the area of consumer prices (retail prices), no significant measures were taken over the past decade to improve the existing system. There were some sporadic increases in the prices of certain consumer goods such as fuels, meat, alcohol, and some services, accompanied by some price reductions, but in general, consumer prices remained stable for extended periods of time. Thus, the concept of prices set to clear the market were undermined, even if equilibrium had been achieved when the prices were initially set. The retail prices were revised at the end of 1970. This was more a step to alter the distribution of income under the existing level of consumer prices. By increasing the prices of foodstuffs and the cheaper consumer goods and reducing those of durables, the price revision overcame to some extent the price discrimination in favor of the lower income groups. However, this revision was not accompanied by a regulation of wages to counteract its impact on the lower income groups, nor was it followed by any methodological reform of retail price formation to allow for greater flexibility. The measure prompted protests from the population, which led to a change of Government. At the beginning of 1971, the new Government announced the reversal of the price increases mentioned above. It was decided that prices of foodstuffs be lowered to their pre-December 1970 level and be frozen for one year. Subsequently, the price freeze was continued and has recently been extended through 1974.

It has been reported that the strongly rising prices on world markets have substantially interfered with the process of planning and the efforts to establish a closer link between domestic and foreign prices, attributing a more active role to prices, and reducing the impact of levies and subsidies on the economy. In the course of the gradual adjustment of domestic prices to world market prices, in 1974 the authorities are expected to reset the domestic prices of imported raw materials for light industry.

2. The exchange and trade system

The official exchange rate of the zloty was 4 zlote per US$1 until December 1971, when the gold equivalent of the zloty remained unchanged and the relation of the zloty to the U.S. dollar became 3.68 zlote per US$1. There was a further change in the official rate in 1973 to 3.32 zlote per US$1. An official rate with premium of 19.92 zlote per US$1 applies to noncommercial transactions with convertible currency countries. In addition, there are special noncommercial rates for residents of Poland and other socialist countries. Information is scant and contradictory with respect to the exchange rates used for foreign trade transactions. On the basis of the available material, it appears that three shadow rates of exchange are used for the conversion of foreign trade receipts and payments. The three rates apply to the socialist area and the developed and the less developed non-socialist areas, respectively. The application of these rates is complemented by a system of foreign trade taxes and subsidies to bridge the still existing gaps between domestic and foreign prices. A direct link between domestic and foreign prices exists for a number of imported raw materials and capital goods. The export receipts of enterprises of the machine building and chemical industries and of enterprises authorized to undertake independent foreign trade activity, consist directly of the foreign prices converted at the shadow rates of exchange. Until 1970, all export and import prices were fully independent of actual prices charged or paid in foreign currency by the foreign trade organization to the foreign buyer or seller.

In January 1971, regulations concerning the functioning of foreign trade organizations were modified in an effort to raise the efficiency of foreign trade transactions and to increase the value of exports. There was an attempt to establish more direct links between export producers and foreign buyers and to provide incentives to exporters to meet foreign competition. Until then, the responsibility for exports had been divided between the Ministry of Foreign Trade, which sold abroad the planned export volume, and the industrial ministries, which made the planned export output available to the export organizations. Under the new regulations, some of the specialized foreign trade enterprises were transferred to the jurisdiction of the industrial ministries whose products they handled. Authority to engage in foreign trade transactions was also granted to a number of industrial associations and to a few of the largest industrial enterprises. The effectiveness of these measures was not apparent in the first year and a half of their application. There were unresolved problems in the division of functions and authority among the Ministry of Foreign Trade, the industrial ministries, and the Foreign Trade Bank, and in the functioning of the incentive system, which is basically a bonus system, providing payments from state funds. Recently, there have been suggestions that Polish enterprises showing a favorable balance of payments with the West, should be allowed to retain a substantial amount of the hard currency they earn in trade transactions and be allowed to deal directly with Western companies by drawing on their own hard-currency funds. It is not known at this point, however, whether or not this suggestion will be adopted.

cc: Mr. Sturc
Mr. Evensen
Mr. Tyler
Mrs. Mitchell

Mr. Albin Pfeifer

Room 9-120

#3

SM/74/178

July 16, 1974

To: Members of the Executive Board

From: The Acting Secretary

Subject: Meeting of the GATT Council of Representatives

Attached for the information of the Executive Directors is a report by the Fund observer on the meeting of the GATT Council of Representatives held in Geneva on June 21, 1974.

Israel
Cyprus
Israel
Spain
Malta
Poland
Italy. pp. 4-5

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers[1]

July 15, 1974

A meeting of the GATT Council of Representatives was held on June 21, 1974 and was chaired by Ambassador P.S. Lai of Malaysia. It was attended by Mr. Edgar Jones and Mr. Jack P. Barnouin as the Fund observers. This report provides a summary of the proceedings.[2]

1. Uruguay--import surcharges

On October 24, 1972, the GATT Council authorized import surcharges introduced by Uruguay on a number of products covered by the Uruguayan schedule XXXI. At the request of the Uruguayan Government, the Council decided to extend this authorization, which is due to expire on June 30, 1974, until the end of the 30th Session of the CONTRACTING PARTIES. The decision adopted by the Council also stipulates that the balance of payments aspects of the import surcharges will be examined in consultation with the Fund before the 30th Session of the CONTRACTING PARTIES.[3] In support of the request of his Government, the representative of Uruguay stressed that the balance of payments of his country remains under severe pressure as a result of a rise in the prices of imported raw materials and a decline in the prices of some of Uruguay's major exports. He also noted that the preferential treatment granted to imports transported by ships under the Uruguayan flag which was originally involved in the import surcharge scheme has been totally eliminated, and that Uruguay has fully complied with the requirements set forth in the Council decision of October, 24, 1972.

2. Reports on the consultations held by the Committee on Balance of Payments Restrictions with a number of developing countries

The Council took note without discussion of the reports prepared by the Committee on the consultations with Peru and Tunisia,[4] Yugoslavia,[5] Greece,[6] and Israel.[7] The Chairman of the Committee noted that the report

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1/ All GATT documents referred to in this report are on file in the Secretary's Department.
2/ The agenda is contained in C/W/242.
3/ C/W/241.
4/ BOP/R/76.
5/ BOP/R/74.
6/ BOP/R/75.
7/ BOP/R/73.

on the consultations with Israel did not mention the reintroduction of a temporary import deposit scheme by the Israeli Government because this measure had been adopted by the Israeli authorities after the conclusion of the consultation with the Committee.

3. Introduction of an import deposit scheme by Israel

The representative of Israel informed the Council that his Government has reintroduced a temporary import surcharge deposit scheme on May 24, 1974.[1] This scheme covers all imported goods subject to customs duties and charges of 35 per cent and over. In order to release such goods from customs, the importers are required to maintain 20 per cent of the value of the imported goods deposited with the Israeli Treasury for a period of 12 months. The only exceptions under the scheme relate to shipments with a value not exceeding IL 5,000, to goods imported for personal use by immigrants and residents, to goods imported by Government agencies and to goods imported for re-export.

In his explanatory statement, the representative of Israel stated that the reintroduction of an import deposit scheme had become necessary because of an acceleration in the rate of domestic inflation and of an unexpectedly large increase in imports. In this connection, he noted that the value of Israel's imports had risen at an annual average rate of 39 per cent during the first four months of 1974 or at about twice the rate originally forecast by his authorities. He further indicated that the scheme will be phased out as soon as the balance of payments situation improves and he expressed the willingness of his authorities to consult with the Committee on Balance of Payments Restrictions on the application of the scheme in accordance with GATT procedures.

In response to this statement, the representatives of a number of contracting parties expressed their understanding of the financial difficulties faced by Israel, but also stressed that the introduction of new trade restrictions by the Israeli authorities was regrettable especially in view of the present world economic situation.

The Council decided to refer the matter to the Committee on Balance of Payments Restrictions.

4. Association between the European Economic Community and the Republic of Cyprus

The Working Party on the association agreement between the European Economic Community and the Republic of Cyprus met on February 22 and on March 21, 1974. Some members of the Working Party expressed the opinion that this arrangement constituted a preferential trading agreement that

1/ L/4042.

was not in conformity with Article XXIV of the General Agreement. In their view, the association agreement did not involve a plan or schedule to establish a customs union as required by Article XXIV:5(c); the trade coverage was clearly inadequate in the light of the requirement of Article XXIV:8(a)(i) that substantially all the trade between the parties be covered by the agreement; and the rules of origin were unduly complex and restrictive with respect to third party suppliers. The parties to the association agreement, supported by several other members of the Working Party, argued that this agreement conformed fully to Article XXIV of the General Agreement. In their view, the trade coverage was high and was more likely to increase than decrease at the end of the first stage and, the rules of origin were neither unduly complex nor restrictive. Since the Working Party could not reach a unanimous conclusion as to the compatibility of the association agreement with the relevant provisions of the General Agreement, it limited itself to reporting the conflicting opinions expressed by the representatives of the CONTRACTING PARTIES to the Council.

The Council adopted without discussion the report of the Working Party.1/

5. Implementation of the Association Agreement between the European Economic Community on the one hand, and Israel, Spain, and Malta on the other

The Council took note of the reports submitted by the European Economic Community on the application of the agreements between the Community on the one hand, and Israel, Spain and Malta on the other.2/ These reports were submitted in keeping with the recommendations of the Council regarding the biannual reviews of customs unions. The representative of one contracting party stated that the reports presented by the EEC were clearly insufficient to make a comprehensive assessment of the effect of the association arrangements on third parties. The representative of the EEC replied that the association agreements with Israel and Spain were in the process of renegotiation and that, therefore, the EEC had been prevented from supplying more detailed information to the Council on the operations of these agreements.

6. Reports on the Central American Common Market and on the Latin American Free Trade Area

The Council took note of the report submitted by the Secretariat of the General Treaty of Central American Economic Integration (SIECA) on the implementation of the Central American Common Market3/ and of a

1/ L/4009.
2/ L/4033, L/4034, and L/4038.
3/ L/4023.

report prepared by the GATT secretariat on the implementation of the Latin American Free Trade Association.[1] These reports were submitted to the Council in keeping with the recommendations regarding the biannual reviews of customs unions.

7. Annual consultation with Poland

The Protocol for Accession of Poland to the General Agreement provides for annual consultation between this country and the GATT during a transitional period. At the request of the Polish representative, the Council decided to set up a working party to conduct the seventh Annual Consultation with Poland. In this connection, the representative of Poland noted that the major topic of previous consultation discussions had been the termination of the transitional period during which certain European Contracting parties are authorized to maintain discriminatory restrictions against Poland's exports. He stressed that in the view of his authorities this transitional period should be terminated on December 31, 1974.

8. Other business

The representative of Finland informed the Council that his Government had recently signed with the Governments of Bulgaria and Hungary two agreements for the removal of obstacles to trade in conformity to Article XXIV of the General Agreement, and was willing to consult with appropriate bodies of the GATT in accordance with the procedure regarding free trade agreements. The Council took note of this statement of the representative of Finland.

The representative of the United States raised the question of possible discrimination in the application of the Italian import deposit scheme. He noted that according to recent press reports, import deposits under the Italian scheme will be calculated from now on on the basis of the c.i.f. price in the case of imports from EEC countries but on the basis of the c.i.f. plus customs duties and other charges in the case of imports from other countries. He requested additional information on this new method of calculation which in his view involved discrimination against imports from non-EEC countries. The representative of the European Economic Community replied that his authorities will promptly inform GATT about the new system of calculation of prior import deposits under the Italian scheme but argued that in the view of his authorities, the new system was fully consistent with the provisions of the General Agreement regarding customs unions.

1/ L/4031.

The Director-General of GATT reported briefly on the outcome of the last meeting of the Committee of Twenty (C-XX) that he attended as the GATT observer. He noted that in the final report of the C-XX it is specifically stated that arrangements will have to be made for continuing close coordination between the Fund and GATT. He also commented on the "Declaration" concerning trade and other current measures that the C-XX has invited Fund members to subscribe. Finally, he mentioned the proposed creation of a new Council of the Board of Governors of the International Monetary Fund and the establishment of the Interim Committee pending the legal steps necessary to create the Council on a permanent basis. In his concluding remarks he stressed that the creation of a new management body in the Fund and the various statements of the C-XX regarding continuing close coordination between the Fund and the GATT poses the question of how the CONTRACTING PARTIES can best fulfill their responsibilities in this respect by organizing themselves to carry out this coordination.

The Secretary

April 12, 1974

Rolf Evensen

<u>Mailing List</u>

I would appreciate if the undermentioned gentleman could be put on our mailing list for free publications, including Annual Reports, Annual Reports for Exchange Restrictions, IMF Surveys, and the Pamphlet series:

Mr. Wojciech Morawiecki, PhD
Professor of International Organizations
Warsaw School of Economics
02-521 Warsaw
24 Rakowiecka Street
Warsaw, Poland.

CONFIDENTIAL

Office Memorandum

TO : Mr. Whittome

FROM : G. Tyler

SUBJECT : Fund Membership by East European Countries

DATE: December 22, 1972

Colanovic and Bogoev said that on the basis of their discussions with Hungary and Poland they saw little chance of any move by either country to join the Fund in the near future. However, they recognized that the interest was there and spoke in terms of "perhaps in a year's time."

SEP 13 1972

Dear Mr. Siemiatkowski:

For your information, I am enclosing two copies of the report by the Executive Directors to the Board of Governors dealing with the reform of the international monetary system.

As the introduction emphasizes, the present report is necessarily preliminary in character. It reviews certain options for reform, but does not come to conclusions that would narrow prematurely the field of choice. However, considerable progress has clearly been made in identifying and examining the major issues on which a lot further study will be required. As you may know, the next step is the setting up of a Committee of the Board of Governors. This Committee will duplicate the representation of the Fund's Board of Executive Directors. It will be supported by a Committee of its Deputies to whom the detailed work will be delegated. It is expected that members of the Committee of the Board of Governors will be of ministerial rank whereas their Deputies will be senior officials from Ministries of Finance and Central Banks.

Yours sincerely,

L.A. Whittome
Director
European Department

Enclosures

Mr. L. Siemiatkowski
Narodowego Banku Polskiego
Warsaw
Poland

GTyler/LAWhittome/vrb
9/13/72

June 5, 1972

Dear Mr. Siemiatkowski,

Further to my letter of September 3, 1971, I enclose IMF pamphlets Nos. 13-16, which may be of interest to you. As publications in the pamphlet series appear at irregular intervals, they are not included in the documents sent to you on a regular basis.

Yours sincerely,

L. A. Whittome
Director
European Department

Enclosures 4

Mr. L. Siemiatkowski
Narodowego Banku Polskiego
Warsaw
Poland

HNeiss/vg
6/5/72

September 3, 1971

Dear Mr. Siemiatkowski,

Thank you for your letter of June 9, 1971. I am pleased to know that you find the documents interesting and we will gladly send you further documents on a regular basis. Enclosed is a recent publication in the Fund's pamphlet series. I have also arranged that the major Fund publications be regularly forwarded to you.

Sincerely,

L.A. Whittome
Director
European Department

Encl.

Mr. L. Siemiatkowski
Narodowego Banku Polskiego
Warsaw
Poland

HWeiss/vrb
9/3/71

cc: ESD ✓

333499
Rec'd 9/22/71

[illegible]SŁAW BOLIŃSKI
Adwokat
[illegible] Nr 12

Lódź, August 9, 1971.

Mr. Joseph Gold
General Counsel
International Monetary Fund
W a s h i n g t o n, D.C.

Dear Mister Gold:

I acknowledge receipt of your two publications, namely

- Unauthorized Changes of Par Value and Fluctuating Exchange Rates in the Bretton Woods System,
- Les Définitions des réserves d'un pays dans le droit du Fonds Monétaire International,

for which I thank you very much.

At this occasion I will express my appreciation on the value of your articles and pamphlets, all connected with the international monetary relations in general and especially with the functioning of the International Monetary Fund.

I think that in the near future Poland will become a member-state of the IMF. Then I shall be able to write about your work in this respect which represents a high standard of views for the lawyers in Poland.

Sincerely yours,

Bolinski
adv.

PREZES
NARODOWEGO BANKU POLSKIEGO

Warszawa, dn. June 9, 1971 r.

CC: EED

Dear Sir,

I am very obliged to you for your letter of June 2nd, and for sending me the recent documents and publications issued by International Monetary Fund.

Thank you very much for calling my attention to the publications which are indeed of essential importance to me and my staff. I would like to inform you, that I find these types of materials to be exceptionally interesting and helpful in our work.

I would be very pleased if you could arrange to forward me these publications on a more regular basis in the future.

Thanking you for putting my name on your mailing list, I remain dear Sir,

Sincerely yours,

L.Siemiątkowski

Mr. L.A.WHITTOME
Director
European Department
International Monetary Fund
Washington, D.C.20431

June 2, 1971

Dear Mr. Governor/President/Chairman:

I enclose a selection of a few of the more recent documents and publications of the International Monetary Fund which are sent to member countries and which possibly may be of some interest to you. I also enclose two recent speeches by the Managing Director and Deputy Managing Director on the role of the International Monetary Fund in the international financial system.

If you would wish to receive these types of publications on a more regular basis in the future, please let me know and I shall be pleased to try and arrange it.

I assume that you already receive the Fund's major publications, such as the International Financial Statistics, Direction of Trade, The Annual Report on the Exchange Restrictions, Staff Papers, and the monthly International Financial News Survey. If you do not already get these on a regular basis, please let me know.

Sincerely yours,

L.A. Whittome
Director
European Department

Enclosures

The President
Central Bank of Bulgaria
Sofia, Bulgaria.

The Chairman
Statni Banka
Ceskoslovenska
Prague, Czechoslovakia.

The President
Narodowy Banka
Polski
Warsaw, Poland

The Governor
National Bank of the
Socialist Republic of Romania
Bucharest, Rumania.

The Chairman
The State Bank of the U.S.S.R.
Moscow, U.S.S.R.

The Chairman
National Bank for Economic
Cooperation
Moscow, U.S.S.R.

June 2, 1971

June 2, 1971

Dear Mr. President,

I enclose a selection of a few of the more recent documents and publications of the International Monetary Fund which are sent to member countries and which possibly may be of some interest to you. I also enclose two recent speeches by the Managing Director and Deputy Managing Director on the role of the International Monetary Fund in the international financial system.

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Sincerely yours,

L.A. Whittome
Director
European Department

Enclosures

The President
Narodowy Banka
Polski
Warsaw, Poland.

June 2, 1971

I.O. Mr. Whittome

CONFIDENTIAL

May 6, 1971

MEMORANDUM FOR FILES

Subject: Poland

Dr. Stanislaw Raczkowski, Councelor to the Minister of Foreign Trade, visited the Managing Director; the Deputy Managing Director and G. Tyler were also present. Dr. Raczkowski's purpose was to discuss the possibility of closer relations between Poland and the Fund, and the subject of membership.

He explained that in Poland and in other small Eastern European countries (i.e., other than the U.S.S.R.) there was considerable discussion about possible closer links with the international monetary system. Many, although not all, sections in these countries considered that membership or some other connection with the Fund would be desirable. The following were the main points in the ensuing conversation.

(a) Dr. Raczkowski suggested that, if the Fund sincerely wanted to have the Eastern European countries as members, it would need to accept the implications of their very different economic systems. It was explained that the Fund had a number of existing members with, in effect, socialist systems and that, given cooperation of both sides, there should be no insuperable difficulties.

(b) Dr. Raczkowski asked what was the current attitude of the Management and members, in particular that of a member "with more than 15 per cent of votes." He was told that our understanding was that there was generally a sympathetic attitude all round. However, if Poland decided that it wished to join, it would itself need to explore directly the position of other countries through the normal diplomatic channels.

(c) On the subject of SDRs, Dr. Raczkowski said that there had been various suggestions that participation in the scheme could be a half way house to full membership. It was indicated to him that, whatever the academic merits of such arguments, it was not possible under the Articles of Agreement to participate in the allocation of SDRs, and that further amendment of the Articles for the purpose of accommodating non-member countries could be ruled out. It was legally possible for non-member countries or organizations to be authorized to hold SDRs but to date none had asked for this authorization.

(d) Dr. Raczkowski said that, if it became a member, Poland would hope to make use of Fund resources in times of need. It was explained that in such a situation, Poland would be treated on the same basis as other members.

(e) Particular stress was placed by Dr. Raczkowski on the par value question; he said that to many in Poland, the obligation to have the Fund approve changes would be thought of as an interference with national sovereignty. The Fund position was described and it was emphasized that joining the Fund brings obligations as well as advantages but, that in practice, present members have not found this loss of sovereignty onerous, given the benefit of the doubt that is normally extended to members wishing to change their parity. The matter of the "Russian clause" in the Articles (Article IV, Section 5(e)) was raised. Dr. Raczkowski was quite familiar with this section. It was made clear to him that there would be very great difficulties indeed in attempting to apply it in practice.

(f) With respect to the supplying of information, Dr. Raczkowski said that secrecy requirements would make it difficult to supply some data, especially that relating to transactions with the U.S.S.R. He was told that in practice this had not been real difficult as far as existing members, such as the U.A.R., India, etc., had been concerned, despite their substantial volume of such transactions.

(g) As to future contacts, Dr. Raczkowski was told that the Management and staff would be pleased to help the Polish authorities either during their visits to Washington or by informal visits to Poland.

GT

Geoffrey Tyler

cc: The Managing Director
The Deputy Managing Director
Mr. Whittome
Mr. Smith

Polish Economist Views Eastern Europe

By CLYDE H. FARNSWORTH

Special to The New York Times

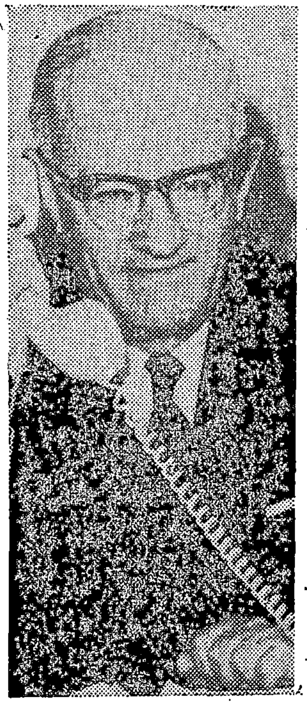
VIENNA—Adam Zwass pointed with some pride to the study he had just published in German on East Bloc monetary mechanisms and said he was now well adjusted to his new life in Vienna on the staff of the Austrian Economics Institute.

The Polish economist said Eastern Europe was in a financial and monetary position comparable to Western Europe in the late 1940s.

The Soviet Union has between $5-and $6-billion of gold reserves (it produces gold at a rate of $200-million a year), but it "absolutely refuses" to use its reserves in support of the rouble, Mr. Zwass disclosed.

Before emigrating from Poland, Mr. Zwass had worked five years in Moscow as an economic adviser in the exchange and finance department of the Council of Mutual Economic Assistance (COMECON), the communist countries' common market.

A Jew, he was one of a small number of Polish intellectuals allowed to leave during the officially inspired campaign of anti-Semitism in the late 1960s. He brought his wife and son, Vladimir, with him. Vladimir, who is 25, is now working for a PhD. in electronics engineering at Columbia Univeersity.



Adam Zwass

Mr. Zwass, a slight man of 60, received a visitor in his office in the institues's new quarters, on the grounds of the Old Vienna Arsenal.

Born in Lwov in the province of Galicia, he served on the staff of the Warsaw College of Planning and Statistics before his assignment to Moscow in 1963. He returned to Warsaw in November, 1968, and got his exit permit 13 months later, initially intending to live in Israel.

His specialized knowledge of communist currencies was in demand at the Vienna Economics Institute, and so he remained here to begin his new life.

Mr. Zwass explained that Poland, Hungary and Czechoslovakia (before the August, Qoyi invasion) had been spearheading a drive within COMECON, resisted by Moscow, to establish multilateral clearing of trade accounts.

The problem has been that with arbitrarily fixed currency values, money of the communist countries was not acceptable in settling internal bloc accounts. So, each of the countries sought only to balance its accounts in bilateral barter agreements.

The East Bloc reformers wanted a rouble that would have an internationally accepted value so that they could earn foreign exchange as they sold their manufactured goods to the Soviet Union. In this way they could build up their reserves to shop for more ad-

Continued on Page 51, Column 1

ECONOMIST VIEWS EASTERN EUROPE

Continued From Page 49

vanced technological equipment from the West.

The problem of a convertible or internationally accepted rouble, Mr. Zwass said, "has been swept under the table" because of Soviet resistance.

"It is a political question," Mr. Zwass observed. "They (the Soviets) must decentralize production, change their whole system before this comes about. They are not prepared to pool their reserves for the use of the whole COMECON market. They want to retain their reserves for their own use. The others in COMECON) have too little reserves."

Investment Banks Set Up

Last May the COMECON members (the Soviet Union, Poland, Czechoslovakia, Hungary, East Germany, Rumania, Bulgaria and Mongolia) decided to establish an International Investment Bank (I.I.B.) to faciliate exchanges. The bank, which went into operation last Jan. 1 sets up credit facilities in what are known as transferable roubles.

Mr. Zwass explained that although it sidesteps the issue of convertibility, the bank represents a significant reform.

In the first two years of operation I.I.B. will have a capital structure of 350 million roubles $388.5-million at the arbitrarily assigned rate for the rouble). The capital is drawn from COMECON members on the basis of their trade within the bloc. For instance, the Soviet subscription is 40 per cent—Polands' is 11 per cent.

Thirty per cent of the subscription must be paid in gold, the balance by assignment of important materials. The gold and raw materials are valued at Western price levels.

The capital, thus, has a real value which is expressed in terms of rubles, one ruble fixed at $1.11.

Use of Funds

The funds are to be used for development of natural resources within the bloc (most of the untapped reserves are in the Soviet Union), and each country shares in new raw material discoveries by getting credits in proportion to its quota at the bank. These rouble credits can then be used in settling trade deficits within the bloc.

Eventually, the bank's capital is to be enlarged 1 billion roubles. The bank is being run by a Soviet economist, Vitalij Vorobjew from headquarters in Moscow.

Mr. Zwass explained that a fixed relationship exists between the rouble and currencies of other communist countries for dealings outside the trade field—tourism for instance.

The rouble buys .78 Rumanian lev, 15.3 Polish Zlotys, 9.65 Czechoslovak crowns, 13.11 Hungarian froints, 3.2 East German marks, 1.29 yuan of the Peoples Republic of China, 1.92 North Vietnamese dong, 1.44 North Korean won and 4.18 Mongolian tugryk.

Source: The New York Times

Date: March 22, 1971

cc: Mr. Tyler

CONFIDENTIAL

March 17, 1971

MEMORANDUM FOR FILES

Subject: Poland

The Polish Ambassador was today the luncheon guest of the Managing Director; the Deputy Managing Director and L. A. Whittome were also present. The Ambassador began by asking what attention the Fund paid to financial and economic developments in the East European countries. We answered very little indeed. We explained that this was due both to the other pressures on the staff, the paucity of information, as well as to obvious enough inhibitions. The Ambassador said that he was surprised. He said he foresaw growing cooperation between the East and the West and he murmured that perhaps our inhibitions were shared by the Socialist countries themselves so preventing any move forward. He then wondered whether closer contacts could not be established.

On our side the following main points were made:

(i) We were interested in learning more about developments in East Europe and their implication for others.

(ii) We saw a distinction between closer contacts on any level and more understanding of each other's views on the one hand and financial assistance and SDR participation on the other. We could, without too much difficulty, pursue the first alternative. If we did this we might do it under the cover of visits to COMECON as well as visits to individual countries. Any move under the second alternative would require membership unless the existing Articles were changed. It was agreed that full membership by these countries was some way off.

(iii) As to visits, the Managing Director said that he himself would be prepared to react favorably to an invitation to visit (and perhaps lecture in) a Socialist country. Alternatively, contacts could be established at lower levels.

These points were then discussed in a more general way. During this discussion the Ambassador made the point that the various events of this winter would mean that Poland would face economic difficulties at least during the next two years. He said that they had been helped by wheat from Russia as well as a freely usable loan of $100 million. He also said that the eastern bloc was becoming increasingly uneasy over developments in the EEC and the prospect of an enlarged EEC. They foresaw the danger of a polarization as between blocs and were anxious to establish links that were more international before this tookplace. He said that he thought that contacts between the eastern countries and the Fund would grow stronger within the near future. He said that he was to visit Warsaw next week and would contact the Ministry of Finance there. If there was anything to report he would get in touch with the Managing Director again.

L. A. Whittome

cc: The Deputy Managing Director
Mr. T. Smith

cc: EED

CONFIDENTIAL

The Managing Director
The Deputy Managing Director

March 16, 1971

L. A. Whittome

Poland

1. General

Poland was an original member of the Fund but withdrew voluntarily in March 1950 from both the Fund and the Bank. The Poles maintained that the Fund had not fulfilled its functions, but had become an instrument of the United States. Poland made a cautious approach to the Fund in 1956 but it came to nothing largely because the circumstances of the time were unfavorable.

Our attitude toward Eastern European countries that have enquired about membership has been that it is open to any country to apply. Whether the Fund accepts an applicant country is a matter for existing members to decide. In this regard, given the voting procedure, the attitude of the larger members, which in practice comprise the G-10 countries, is of the greatest importance. We know that when this matter was last seriously raised some three years ago all G-10 members would have favored--though with different degrees of fervor--membership of East European countries. I would guess that the same view prevails today. For its part, the management and staff have informed the Eastern European countries that they would be willing to use their good offices in any approach for membership.

We have also stressed that membership involves obligations under the Articles of Agreement, especially with respect to the supply of information on a member's economy, the operation of the exchange system, and the fixing of an exchange rate. We have concluded that we do not see inherently insoluble problems as long as the ultimate goal of a greater integration of these economies into the world economy is genuinely accepted and as long as there is a real willingness to cooperate.

2. Quota

Poland had an original quota of US$125 million. Quota increases in 1959 and 1965 would have increased this to US$234 million. Assuming an "average" increase of 35.5 per cent under the recent review, the quota would have risen to US$320 million. This figure, however, must not be taken too literally since we cannot know whether or not Poland would have had a special increase at any time, or the exact percentage by which its quota would have been increased in 1970.

3. The economy in 1970

Poland's economic performance in 1970 was disappointing with a slowdown in the growth rates of both production and expenditure. Production in the industrial and construction sectors expanded more slowly than in 1969, whilst there appears to have been an absolute decline in agricultural production.

Figures for the first eleven months suggest that total industrial production rose by about 7 per cent in 1970 compared with just over 9 per cent in 1969. The growth in domestic expenditure both on investment and consumption also slowed down in 1970. The increase in consumption at current prices was probably about 5 per cent in 1970, the same as the increase in wages. The reduced rate of investment was in line with the targets set in the 1970 National Plan.

Retail prices rose by 1 per cent in 1970, but as all prices are subject to government control the increase does not reflect changes in costs or in market conditions. In December 1970, the Government altered retail prices for a wide range of goods. Because of shortages of supply, the prices of many basic food items were raised substantially. At the same time, however, the prices of many consumer durables were lowered in an attempt to dispose of large unsold stocks. The over-all impact of the changes was to raise significantly the cost of living in Poland and a series of civil disturbances in Poland's Baltic port cities was set off.

The 1970 National Plan was designed to reduce the trade deficit and to limit the increase in the volume of trade to 6 per cent. Imports were to be held to a growth rate of 4.9 per cent. Although a reduction in the trade deficit was achieved, the results for the year fell considerably short of the targets. Imports in 1970 rose by 12.4 per cent to $3,607 million (calculated at the official rate of exchange).[1/] Exports rose by 13 per cent to $3,548 million. The trade deficit fell from $68 million in 1969 to $59 million in 1970. In January 1971, new changes were introduced in the organization of foreign trade allowing industrial organizations to draw up their own foreign trade plans, especially with convertible currency areas. Presumably a large amount of central direction remains.

4. Political developments and personalities

On December 7, a formal peace treaty was signed between West Germany and Poland which confirmed the Oder-Neisse line as the permanent western frontier of Poland.

A week later civil disturbances broke out in Poland's Baltic cities of Gdansk, Gdynia, Sopot, and Stettin. The trouble started among the dockers at Gdansk who were discontented with a new system of bonuses and for whom the price rises were the last straw. The disturbances spread rapidly to other groups and to other cities and the army was called upon to restore order. The price increases were revoked on February 15. The disturbances led to a change in Government with Mr. Gomulka being replaced as First Secretary of the Polish Communist Party by Mr. Edward Gierek; four other members of the twelve-man politburo were also relieved of their posts. The perennial, Mr. Cyrankiewicz, was "promoted" to the ceremonial post of Head of State, and replaced as Prime Minister by Mr. Piotr Jaroszewicz.

1/ The basic rate is 4 zlotys to US$1. The special rate which applies to travel expenses, transfers, etc., is 24 zlotys to US$1. The privileged rate for tourists spending more than $50 is 40 zlotys to US$1. (In 1969, the black market rate was 145 zlotys to US$1.)

Edward Gierek, 57, has been a politburo member since 1956 and was supposedly against the price increases. A former Silesian coal miner, he was educated in France and worked there. Later he served in the Belgian resistance. He returned to Poland in 1948. He became a member of the party Central Committee in 1954.

Piotr Jaroszewicz, 61, was permanent representative at the Comecon and former Deputy Prime Minister.

cc: EED

Office Memorandum

CONFIDENTIAL

TO : The Managing Director
The Deputy Managing Director

DATE: March 16, 1971

FROM : L. A. Whittome LAW

Michalowski

SUBJECT : Poland

1. General

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SDR 73

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Sweden 325
Austr 175
Yug 207
Turkey 151
Belg 650
Fin 190

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OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

☐ Night Letter
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SPECIAL INSTRUCTIONS

To: Henryk Francuz,
Bank of Israel, Jerusalem, Israel.

Your comments on Polish Paper urgently needed
please send as soon as possible

Evensen

DISPATCHED
SEP 23 1970
IMF
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Drafted by H. Neiss

Department Eastern European

Date 9/23/70

AUTHORIZATION

Rolf Evensen
Signature

/s/Evensen
Second Signature When Required

FOR CODE ROOM

Time Received 12.00 p.m.
Time Dispatched 12.06 p.m.
Number of Words 19
Log 123415
Route RCA
Operator PD

DO NOT TYPE BELOW THIS LINE

cc: EED

27 November 1969

Dear Ernest:

This year's consultation with Poland was too controversial to be completed in one session as you will find from the enclosed note on the proceedings.

In last year's consultation the Poles were on the defensive because the information supplied was inadequate, but this year they provided comprehensive statistics and could afford to be much more critical of the statistical information on discriminatory restrictions applied against Polish exports. Furthermore, they now have a new Permanent Representative to the GATT, Mr. Z. Rurarz, a young man who was earlier a trainee in the GATT secretariat. He is much more direct than his predecessor, Mr. Laczkowski, an old style diplomat, and technically more competent.

The meetings showed that the implementation of the Polish Protocol is going to be a difficult business, especially the commitment to increase imports from the Contracting Parties by 7 per cent per annum. In the discussion on the Romanian Protocol, the Romanians are resisting any such quantitative commitment, perhaps on the advice of the Poles. The meetings on Romania were brought to an end yesterday because of complete deadlock on several key issues. We shall, of course, be preparing a report on those discussions as well which should be in your hands next week or so.

Sincerely yours,

Edgar Jones

encl.

cc: Mr. L.A. Whittome

Mr. Ernest Sturc
Director
Exchange and Trade Relations Department
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431
U.S.A.

26 November 1969

Note on the GATT Working Party on Trade with Poland, 10-13 November 1969

The Working Party on Trade with Poland met from 10 to 13 November to conduct the second annual consultation with Poland under paragraph 5 of the Protocol of Accession (L/2851, 19 September 1967). The deliberations followed closely the "plans for annual review" as provided for in Annex A of the Protocol, and were based on three sets of documents prepared by the secretariat[1].

The consultation covered a wide range of subjects relating to the development in Poland's foreign trade in 1968, but the debate centered mainly around the question of whether Poland and the contracting parties had fulfilled their respective obligations under the Protocol. There was sharp disagreement between the representatives of Poland and major contracting parties on the interpretation of the data submitted by Poland and the contracting parties to the Secretariat, and the Working Party was unable to agree on the conclusion to be drawn from the consultation. Notification procedures for the third annual consultation concerning discriminatory quantitative restrictions and prohibitions applied by contracting parties against imports from Poland were also debated at considerable length. The Working Party requested the secretariat to draft a report to the Council, including controversial concluding paragraphs, and decided to reconvene in a few weeks to discuss it before submission to the Council.

1. <u>Polish exports to contracting parties</u>

Under paragraph 3 of the Protocol, contracting parties applying prohibitions or discriminatory quantitative restrictions against Poland inconsistently with Article XIII of the General Agreement undertook (1) not to increase discriminatory elements in their restrictions and (2) progressively relax these elements and eliminate them completely by the end of a transitional period (the length of which to be determined during the third or subsequent annual consultations.)

The representative of Poland considered that the notifications submitted by the contracting parties (L/3241 and Add.1-3) were incomplete and inadequate, making it impossible to assess whether contracting parties had fulfilled their obligations or not. Moreover, three-fifths of the contracting parties did not submit notifications. He was particularly critical of the notification of the EEC, which had submitted positive rather than negative lists. His Government, therefore, could not help but conclude that certain contracting parties had failed to fulfill their

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1/ These documents are:

L/3241 and Add.1-3: Notification by contracting parties on restrictions maintained on imports from Poland.

L/3261 and Add.1: Poland's trade with GATT countries.

L/3264: Foreign trade planning of Poland.

obligations under the Protocol. The representatives of Canada and the U.S. also thought that the notifications in general were unsatisfactory and were not submitted sufficiently in advance to enable the members of the Working Party to examine them properly. The representative of the EEC, on the other hand, argued that the notification of the EEC provided clear information on the list of products which were liberalized and that the comparison of the EEC's notification of last year and this year should enable the members to assess the position of the EEC. He stated categorically that discriminatory elements in the Community's import restrictions against Poland had not increased during 1968 and that Poland was in as good a position as any contracting parties to verify this.

2. Polish imports from contracting parties

Under paragraph 1 of the Schedule of Concessiohs, Poland undertook to increase the total value of its imports from contracting parties (as a whole) by not less than seven percent per annum.

Referring to the Polish import statistics given in secretariat document L/3261, the representativesof the EEC and the U.S. pointed out that Poland's imports from contracting parties in 1968 expanded only by six percent. The representative of the U.S. proposed that this one percent shortfall (of approximately $12 million) be made up either in 1969 or 1970. The representative of Poland, on the other hand, argued that its imports from contracting parties in 1968 expanded by nine percent according to its central bank statistics (compiled on the basis of contracts signed rather than goods delivered). If there were shortfalls, firms in contracting parties territories not Polish enterprises should be blamed for non-fulfillment of their contracts. Furthermore, import figures given in the secretariat document were on a f.o.b. basis. If imports had been valued on a c.i.f. basis, there would have been an increase of seven percent in 1968 due to an increase in the freight rates.

3. Balance of payments with contracting parties

The discussion of a "secret" balance of payments of Poland with contracting parties was very brief. In reply to a question, the representative of Poland said that a single exchange rate was used to express both commercial and non-commercial transactions in dollars and that the deficit of $117.2 million in its trade balance in 1968 would not affect his country's import commitment for 1969 under the Protocol.

4. Notification procedures for discriminatory quantitative restrictions and prohibitions applied by contracting parties against Poland.

Poor quality of notifications on discriminatory quantitative restrictions and prohibitions applied by contracting parties against Poland prompted a long debate on the improvement of the procedures for the third annual consultation.

The representative of Poland insisted that notifications must include not only a list of commodities which are liberalized and trade data for each commodity, but also detailed information on action taken by each contracting party to liberalize restrictions since June 1967. Such information, moreover, should be submitted by the end of January 1970 so that the secretariat could prepare a document and the Working Party could examine it not later than the end of April 1970. His comments implied that his Government could not consider the second annual consultation as being completed until such a document was made available. The representative of the EEC considered that the debate relating to the second annual consultation and the question of notification procedures for the third annual consultation should be treated separately. He took the view that the EEC had fulfilled its obligation by submitting all the necessary information requested by the secretariat.

A proposal by the Chairman that the Working Party request the secretariat to prepare a paper on notification procedures for the third annual consultation and that the Working Party examine it at its next meeting was accepted.

Office Memorandum

TO : The Deputy Managing Director

DATE: April 28, 1967

FROM : Jay Reid J. R.

SUBJECT : A Visitor

The gentleman whose card is attached called at my office on Thursday, April 27. He said he was interested in any material we might have on the discussions of international liquidity. He said he had previously received copies of the Fund's Annual Report and wondered if we had anything else. I told him that we had nothing that we could make available to the public at this time beyond the transcripts of the three press conferences held following the joint meetings. He did not request copies of the transcripts but said that he made fairly lengthy visits to Washington from time to time and would probably be in touch with us again.

EUGENIUSZ SYPNIEWSKI
Deputy Manager

Bank Handlowy w Warszawie S. A.
Warszawa; Traugutta 7

Phone: 26-86-53

MAR 20 1968

Dear Mr. Wyndham White:

I write to acknowledge your letter of March 14 extending on behalf of the CONTRACTING PARTIES an invitation to the Fund to participate in the meeting of the Working Party which will conduct the first consultation with Poland. I confirm our cabled advice that the Fund will be represented by Mr. Azuhiko Isobe of our Geneva Office.

I have noted the reference to the Polish balance of payments in the Plan for Annual Review mentioned in Annex A to the Protocol for the Accession of Poland.

Sincerely yours,

/s/

Pierre-Paul Schweitzer
Managing Director

Mr. Wyndham White
Director-General
General Agreement on Tariffs
and Trade
Villa le Bocage
Palais des Nations
Geneva 10, Switzerland

cc: MD
DMD
EUR
ETRD
UN REP
LEG
RES
SEC
Mr. Hamilton
Mr. de Looper
Mr. Lang
Mr. Hanney

RJHamilton:ep
3/19/68

10

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER
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- [ ] Full Rate
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SPECIAL INSTRUCTIONS

Cc: MD
DMD
Euro. Dept.
UN Rep.
LEG
RES
SEC
Mr. Familton
Mr. de Looper
Mr. Lang
Mr. Hannay

To: Wyndham-White
GATT, Geneva

Fund will be represented by Isobe of the Geneva Office at Poland Meeting and Council Meeting.

Sturc
Interfund

Drafted by RJFamilton:jw

Department ETR

Date March 19, 1968

AUTHORIZATION

Signature

/s/ E. Sturc

Second Signature When Required

FOR CODE ROOM

Time Received 5:00 PM
Time Dispatched 5:42 PM
Number of Words 23
Log 91873
Route RCA
Operator ABT

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MAR 19 1968
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ROOM

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Mr. Whittome

Managing Director
Deputy Managing Director

Ernest Sturc

February 21, 1968

GATT Review of Polish Trade; Renewed Hostilities on the Poultry Front

The Geneva Office reports that the GATT Council Meeting on February 15 established two Working Parties, one to conduct the first Annual Review of Trade with Poland and a second for consultations on problems in international trade in poultry. Mr. Isobe's letter and copies of related documents and correspondence are attached.

At my suggestion Mr. Isobe approached the GATT Secretariat before the Council Meeting to reiterate our interest in the balance of payments section, Part (iii) of the Plan for Annual Review with Poland, and our willingness to cooperate dependent on arrangements being made with the Polish Government to provide figures essential to valid balance of payments determinations. The GATT Secretariat believes, however, that any annual review this year will not deal with Part (iii) principally because Poland introduced a new import licensing system on January 1 and pertinent data will be lacking. Although I believe the situation bears watching it would not seem necessary for us to take further action at this time.

The relatively mild American statement with respect to poultry is attached. According to the Geneva Office, it and the proposal for a working party were coldly accepted by the EEC and Denmark. Extended discussions with a doubtful outcome are to be expected.

Attachments

cc: Mr. Whittome

RRSelby:jw

26153 6

INTERNATIONAL MONETARY FUND
56, RUE DE MOILLEBEAU
1202 GENEVA, SWITZERLAND
PRINCIPAL OFFICE, WASHINGTON, D.C. 20431

OFFICE IN GENEVA

CABLE ADDRESS
INTERFUND
GENEVA
TELEPHONE: 34 30 00

Orig: ETRD
cc: Euro. Dept.
LEG

16 February 1968

Dear Mr. Sturc:

As I reported briefly in my cable to you dated February 15th, the GATT Council agreed to set up two working parties, one to conduct consultations under Article XXII:2 of the General Agreement on problems in international trade in poultry, and the other to conduct the first annual consultations with the Government of Poland.

1. The Council adopted unanimously the US proposal to set up a working party on poultry trade after a short discussion (see my letter to you of February 5). The intervention of the representative of the EEC was impressively short, with certain lingering coldness. He stated that the EEC was in favour of the creation of the working party and was ready to discuss with the US Government all the elements involved in the problems of poultry trade. This was exactly the same attitude which they had taken when the Working Party on Dairy Products started its work about two months ago (see Mr. Jones' letter to you of December 19, 1967, and my letter of January 29, 1968). Judging from the experience of the latter Working Party, there is unfortunately no assurance that the Community will refrain from bringing into discussion all the elements - long-term as well as short-term, varying from brood to chicken soup in this case - the most probable result of which would be the working party being dragged on and on, just endlessly. The voice from Denmark was equally thorny. The Danish representative welcomed the creation of the working party because it would give his Government a good opportunity to correct the wrong impression which the US delegation had made at the last meeting. He said that Denmark was the victim, not the maniac of subsidies on chicken! The chairman, naturally, intervened to express the hope that the working party should not be guided purely by the principle of confrontations stipulated by Article XXII:2, but rather by the principle of cooperation agreed upon when the CONTRACTING PARTIES adopted future work programmes at its 24th Session, namely, to work out mutually profitable solutions. The members of the newly created working party are Argentina, Austria, Canada, Denmark, EEC, Greece, Japan, Poland, Switzerland, UK and USA. The date of its first meeting remains to be decided through future consultations among interested Contracting Parties. I gather, however, from the workload of the secretariat that it will not be before the middle of March.

2. On the working party for the annual consultations with Poland, the discussion was also a short one. They agreed to set it up with the terms of reference: to conduct, on behalf of the CONTRACTING PARTIES, the first annual consultations with the Government of Poland and report to the Council. Mr. A. Langeland of Norway, an old-hand in this matter, was elected chairman of the working party. Its membership: Argentina, Australia, Belgium, Brazil, Canada, Czechoslovakia, EEC, Finland, France, India, Italy, Japan, Luxembourg, Netherlands, Nigeria, Poland, Sweden, Switzerland, UK, USA, and West Germany. The first meeting of the working party will be held

on March 25, 1968, in accordance with the future work programme set out in paras 5 and 6 of the Protocol for Accession (see L/2851), i.e. six months after Poland signed the Protocol (September 18, 1967).

I had with me Mr. Southard's cable to Mr. Jones dated June 23, 1967, in case someone should ask for the Fund's view on the future procedure of the annual review. However, as the discussion turned out to be rather superficial, I thought I should keep my mouth shut and did not make any interventions.

3. Before and after the Council meeting, I approached informally the GATT secretariat to find out how they were trying to deal with Part (iii) of the Plan for Annual Review -- Polish Balance of Payments with Contracting Parties. Mr. Haight, Director of Conference Affairs Division, Mr. Linden, who will act as secretary to the working party, and Mrs. Potter and myself came to the conclusion that the annual review this year would most probably not go beyond (i) and (ii) of the Plan. We were of the opinion that the earliest occasion when the Fund's role might possibly be discussed in connection with (iii) of the Plan would be prior to the annual review for next year. There were several reasons for reaching such a conclusion. One of them was the fact that by March 25 only three months would have passed since Poland embarked upon its new import licensing system on January 1, 1968, and that it would be still premature to judge how far Poland had succeeded in complying with the import commitments of 7 per cent increase per annum, as stipulated in Annex B of the Protocol and, therefore, the overall picture of its balance of payments would still be far from being discussible. The other reason was that Polish import and export statistics were by far less accurate than those of other Contracting Parties and there would be a lot of preparatory work to be done by the secretariat. The secretariat's tentative plan at the moment is to confine the first meeting only to allowing questions on (i) and (ii) from the other members of the working party, and then to hold a second meeting sometime in mid-May for Poland to answer these questions. But, of course, I will keep in close touch with the GATT, and if anything happens which might threaten the Fund's inevitable participation in this year's review already, I will report to you immediately.

Through my conversations with these people, I think I have succeeded in clearly imprinting upon their mind the Fund's deep interest in the way how they were going to deal with the balance of payments aspects of the annual review from now on.

Sincerely yours,

Asahiko Isobe

Asahiko Isobe

Mr. Ernest Sturc
Director
Exchange and Trade Relations Department
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

October 21, 1964

Dear Sirs:

Thank you for your letter of Ausust 25, 1964, and for sending us nos. 2-6 of the "Wiadomości Narodowego Banku Polskiego" which we received today. We are very pleased to have these periodicals and we shall be grateful if you will send them to us regularly in the future. If no. 1 of 1964 and the 1963 issues are still available, may we also receive them.

The International Monetary Fund is now sending you, in care of your Biblicoteca Centralna, the following publications:

International Financial News Survey (weekly) 5 copies.
Fund and Bank Review: Finance and Development (quarterly) 5 copies.
Annual Report of the Executive Board.
Annual Report on Exchange Restrictions.
Summary Proceedings of the Board of Governors.
Schedule of Par Values.
Balance of Payments Yearbook.

We hope that you are receiving these publications regularly; if not, we shall be glad to check on them. If you wish to receive the Annual Reports and Summary Prodeedings of the International Bank for Reconstruction and Development, International Development Association and International Finance Corporation, we shall be glad to send them, also.

Sincerely yours,

Martin L. Loftus
Librarian

Biuro Ekonomiczne
Narodowy Bank Polski
Warsaw, Poland

Kopy: Mr. Gouriou
Mr. Evensen

NARODOWY BANK POLSKI
DEPARTAMENT ZAGRANICZNY
Warszawa 1, skrytka poczt. 1012
Adres telegr. »NARBANK« Telefon: 30-09
Telex: Narbankzag Wa 8-13-23
8-13-24

Warszawa, 1st September, 1964

Dear Mr Sturc,

With reference to our conversation at the B.I.S. Annual Meeting I have a pleasure in informing you that we have already received a number of publications of the International Monetary Fund, viz.:

Annual Report 1963
Summary of Proceedings, Annual Meeting 1963
Articles of Agreement
Exchange Control Restrictions
The Fund and Bank Review,

for which I wish to thank you personally and request you to send us further publications of the Fund.

On our part we have despatched the monthly published by the Narodowy Bank Polski, "Wiadomosci", from No. 1, 1964 and from now on we shall continue to supply the Fund Library with this publication.

I wish to stress my pleasure of making personal acquaintance with you and it is my hope that owing to this personal contact the exchange of publications between the IMF and this bank shall be maintained to mutual advantage.

With my best regards and hope to meet you again.

Yours sincerely,

/K. Glazewski/

Mr Ernest STURC
Director
European Department
International Monetary Fund
Washington 25, D. C., USA

Mr. G. Ferras

February 21, 1957.

M. R. Wyczalkowski

Polish Thoughts About Membership in Fund and Bank

The Polish newspaper, Trybuna Ludu, the official organ of the Government, published on January 29 an article "On Foreign Credits for Poland" in which, among other things, the possible sources of credits are enumerated. The following passage can be quoted:

". . . from the International Monetary Fund and the International Bank for Reconstruction and Development, which ensure credits to member states (Poland has not been a member state for some time). Although comparatively the largest sums can be obtained from this source on relatively the most favorable terms, the procedure in this case is very long and takes about eighteen months".

cc: Mr. Sturc.

February 20, 1957.

The Polish weekly, Zycie Gospodarcze, (Economic Life), dated January 27, 1957, published by the state enterprise "Polish Economic Publications", contains many interesting articles related to the economic system in Poland and intended changes in this system. A summary of two such articles is given below.

A Few Remarks on the Program of Economics

by J. G. Zielinski

There seems to be agreement between the economists that it is desirable and necessary for the Marxist economics to utilize a series of tools of economic analysis devised by bourgeois theorists. In this respect, such things should be mentioned as the concept of economic equilibrium, marginal concept, analysis of the elasticity of demand, etc.

Two questions should be answered. First, why does the Marxist economics lack such tools of analysis, and whether the class character of political economy does not prevent borrowing from bourgeois economics.

In discussing the tools of economic analysis the most important thing is the purpose for which they may be applied and not the "vulgar interpretation" according to which such tools are "prescriptions for maximum exploitation" (of labor). Obviously, Marx was not concerned with the problem of what the best organization of the economy should be. He did not intend to create a theory and tools of economic analysis which would facilitate a choice of the best methods of economic organization and of appropriate economic decisions. He was concerned with the social economic differences between capitalism and socialism. It is necessary, however, for the socialist economy to give answers to such questions as how to choose the best methods of production, the optimum volume of production for each firm and for each branch of production, etc.

The fear that the class character of the political economy may not allow borrowing from bourgeois economics is unjustified. Bourgeois economics created many mathematical formulations which, as tools of economic thinking, are deprived of any class character; they are neutral and may be applied wherever there are economic phenomenons which may be subject to an analysis.

Some people agree that it is necessary to create some tools of economic analysis, but they also say that it is not necessary to look for such tools in the writings of Keynes or J. Robinson. They say that it is enough to look into the manuscripts of Marx. This attitude witnesses the inability of such people to borrow from bourgeois economics. Such prejudice should be removed if we want to make a decisive step forward.

(The author quotes outstanding Polish economists like Lange, Lipinski, Drewnowski, Brus, etc., who, in various writings, express the same opinions).

The author continues: sometimes claims are made that in Poland the task of utilizing bourgeois economics is easy, because in this country there is a wide knowledge of bourgeois economics and also of Marxist economics. However, this is true only so far as the elder generation of economists is concerned. "As a representative of the younger generation of economists, I have plenty of reasons to claim that our knowledge of bourgeois economics is very limited and that correction of this situation is urgently needed. In this respect, we expect help from our professors."

It is necessary to re-introduce lectures in bourgeois economics, a thing which has already been partly done in some universities; to translate bourgeois economic writings and to subscribe to various western economic periodicals.

"Foreign Trade in need of Improved Economic Accounting"
by S. Polczek

Poland has experienced serious balance of payments difficulties. In the past few years, the foreign trade deficit amounted to some $125 million annually. The present difficulties are caused mainly by past mistakes of the economic policy in Poland which led to a large import of foodstuffs, amounting to some $75 million annually, and to a decrease in export of coal.

In addition to these "objective" difficulties in foreign trade, there are also difficulties which arise from the Polish system of foreign trade and from the working of Polish foreign trade organizations.

It is, of course, very difficult to say whether the foreign trade of Poland has been profitable or not and whether the Polish foreign trade apparatus has been working efficiently or not. Nobody is able to answer these questions under the present circumstances. First of all, foreign trade statistics are not sufficiently elaborate and, what is more, they are not published and, therefore, unlike in western countries, they can not be analyzed by anybody who is interested in foreign trade.

The other reason for the fact that an analysis of whether our foreign trade is advantageous to Poland is impossible is distorted price structure in Poland, which does not permit a correct calculation of costs of production, and a lack of a realistic exchange rate of the zloty. In addition, the Polish foreign trade system completely isolates the problem of profitability of foreign trade organizations from the cost of production in enterprises producing for export.

The author is of the opinion that, in addition to correcting the Polish price structure and establishing a realistic exchange rate for the Polish currency, it is necessary to obtain foreign credits and to increase foreign exchange reserves. He is also in favor of centralizing decisions on foreign trade and foreign exchange allocations and ending the present system, according to which decisions in these matters are divided between the Ministry of Foreign Trade, Ministry of Finance, State Planning Commission and National Bank of Poland.

M.W

February 15, 1957.

Devaluation of the Polish Zloty

The Polish currency was devalued on February 11 from 4 zlotys to 24 zlotys per U.S. dollar, in relation to all currencies except those of the Soviet Bloc countries. Original information did not limit the scope of devaluation. More recent information (yesterday's newspapers) limits the devaluation to the tourist trade. It is not known which information is correct. But it may be of interest to analyze the effects of a "general devaluation". The following analysis is based on this assumption.

1. Economic consequences

The exchange rate of 4 zlotys per U.S. dollar was completely unrealistic. The new rate expresses more correctly the relationship between the cost of living in Poland and abroad.

Invisibles. The devaluation will tend to increase Polish net receipts from invisibles. It will also end the dissatisfaction of western travellers to Poland. Since it may be assumed that the old exchange rate overvalued the Polish zloty to approximately the same extent as the exchange rates of other Soviet Bloc countries overvalued their currencies, the retaining of the old exchange rate of the zloty in relation to these countries (as long as Poland succeeds in maintaining "broken cross rates") will prevent losses on invisible trade with Soviet Bloc countries.

Merchandise transactions. The foreign trade system in Poland is similar to the Soviet system. The system is such that the exchange rate (or rates) are by and large "irrelevant" for the foreign trade merchandise transactions.

Foreign trade in Poland is a state monopoly. Its purpose, apart from the achievement of the highest possible prices for exports and the lowest possible prices for imports, is to shield the domestic economy from external influences.

Foreign trade monopoly ("trade organizations") buy in the domestic market goods destined (by the economic plan) for export, and sell imported commodities to Polish enterprises at domestic prices. Export goods are sold and import goods bought by the trade monopoly at the prices prevailing in foreign markets.

The zloty exchange rate is of no interest to Polish domestic producers (i.e., those who sell goods destined for export to exporting organizations), to final purchasers of imported goods, or to foreign exporters and importers. Transactions between foreign exporters and importers and Polish specialized foreign trade organizations are settled in foreign currencies (or in some abstract unit of value), and transactions between Polish foreign trade organizations and Polish suppliers or purchasers of exported or imported goods in zlotys. No explicit exchange rate is used, except in some minor cases.

In view of the method of price formation in Poland, and of the fact that domestic prices are "shielded" from outside influences, any resemblence between the price patterns in Poland and in other countries could be nothing more than a sheer coincidence. Therefore, if a uniform exchange rate were applied to foreign trade transactions, carried out according to a plan constructed independently of domestic prices, some exporting and importing enterprises would make extra profits while others would suffer losses. The exchange rates actually involved are only implicit and necessarily multiple, and, in the management of the Polish economy, are of no significance. The exchange rate is, in fact, irrelevant in foreign trade merchandise transactions. It in no way serves as a guide in making foreign trade decisions. If it were to be used for this purpose, it would have to be a price, which the zloty exchange rate is not.

Polish foreign trade may be balanced in terms of zlotys and at the same time unbalanced in terms of foreign exchange, or vice versa. A comparison of these balances might reveal fiscal zloty losses or profits.[1/]

Since Poland could not change its foreign trade system on the occasion of the devaluation of the official rate, the irrelevancy (with possibly some exceptions) of the zloty exchange rate in merchandise transactions still continues. There are strong indications that Poland wants to change her foreign trade system in the sense of eventually making the exchange rate a relevant cost factor.

Political consequences. The political consequences should be favorable to Poland in her relations with the West. But they will be unfavorable in her relations with other Soviet Bloc countries. Poland "devalued" the ruble and now the U.S.S.R. may "devalue" the zloty. Or the U.S.S.R. might follow suit and devalue the ruble in terms of western currencies. This, however, is doubtful. It is not impossible that the U.S.S.R. will introduce premia for foreign tourists, except Polish tourists, and use the recent Polish measure as a pretext to abrogate trade agreements with Poland.

If the Polish devaluation is related only to tourists, this would mean that Poland, realizing the limited scope of any devaluation of her currency, wants to avoid political difficulties with the U.S.S.R., and does not want to call her measure a general devaluation of her currency.

It is, however, not impossible that the devaluation is (formally) "general" and that Polish experts explained to the newspaper correspondents that it will have limited effect, because of irrelevancy of the exchange rate in merchandise transactions. The press may have construed this as being only a "tourist" devaluation.

It may well be that for all practical purposes the "tourist" devaluation and (formally) "general" devaluation mean the same thing in Poland. (That is that the tourist rate would be extended to all invisible transactions with the West, in which the exchange rate is relevant).

1/ See "The Soviet Price System and the Ruble Exchange Rate", pp. 214-216, in the September 1950 issue of IMF Staff Papers.

Office Memorandum

TO : Mr. Gabriel Ferras

DATE: February 11, 1957.

FROM : M. R. Wyczalkowski

SUBJECT : Possible Devaluation of the Polish Zloty

According to unconfirmed American newspaper reports, the zloty will be devalued as of today in relation to western currencies. Its present value of 4 zlotys to the dollar will be changed to 24 zlotys to the dollar. This would mean that the exchange rate of the zloty would correspond approximately to the cost of living in Poland and in the western countries.

Apparently this measure also included a "devaluation" of the Russian ruble. That is, the zloty would be devalued only in terms of western countries and not in terms of rubles and, possibly, in terms of other Soviet bloc countries. This would mean a realistic approach. If this news is correct, the Polish action points out the unrealistic level of exchanges of Soviet bloc countries. Economically Poland should gain from this measure by eliminating losses on some invisible transactions with the west (in terms of Polish zlotys) and by eliminating foreign exchange losses on invisible transactions with Soviet Bloc countries.

Background Note on Poland

I. Exchange System

Poland joined the Fund and Bank in December 1946, and withdrew in March 1950. The Polish quota in the IMF was $125 million.

There has been some speculation in the press that Poland might wish to rejoin the Fund. Article II, Section 2, of the Articles of Agreement states that "membership shall be open to the governments of other countries (i.e., countries which are not original members) at such times and in accordance with such terms as may be prescribed by the Fund". It is obviously premature to speculate at this point what terms the Fund might prescribe in the event of Poland seeking readmission. But it is probable that the Fund would wish to insure that Poland would comply with the provisions of Article VIII, Section 5, of the Articles of Agreement regarding the furnishing of information. In the time available for the preparation of this paper, the staff has not been able to make a thorough examination of data currently being published by Poland. Statistics of foreign trade and domestic production are available, but "normal" monetary data, such as, currency in circulation, credits, etc., do not appear to be published. Of greater relevance to Article VIII, Section 5, no information appears to be available regarding official holdings of gold and foreign exchange. It is probable, therefore, that in the event of Poland seeking admission, the Fund would have to request a change in policy regarding the publishing and availability by Poland of basic economic data.

When the first postwar Polish Government came into power in 1945, the prewar zloty rateof 5.30 to the U.S. dollar was reconfirmed as the official currency value. In April 1956, "premium rates" were introduced, which in effect devalued the zloty to 100.00 per U.S. dollar, and further to 402.00 zlotys per U.S. dollar in December 1947.

On October 28, 1950, a currency reform was carried out which in effect further devalued the zloty. A new zloty was created with a value equal to the Soviet ruble. For bank balances, savings and bank notes, one new zloty was exchanged for 100 old ones, and prices and wages were adjusted in proportion of 3 new zlotys to 100 old ones. The official exchange rate for the dollar was established at 4.00 zlotys. No official changes have taken place since.

The present exchange rate of the zloty, like that of the currencies of other countries in the Soviet bloc is highly unrealistic. It is, of course, extremely difficult to make any precise calculations regarding what the true rate should be, but it is probable that a rate of at least some 15 to 20 zlotys per U.S. dollar would emerge from purchasing power calculations. The black market rate for the zloty is, however, much higher; the latest quotation at hand for bank notes, for March 1956, was 76.50 zlotys to the dollar.

There are no official multiple exchange rates, although there has recently been some speculation that Poland might introduce an effective tourist rate similar to the ones which have been adopted in Czechoslovakia, Hungary, and the USSR.

Foreign trade is a state monopoly and Poland has approximately 40 clearing agreements, of which 10 are with countries in the Soviet bloc. Polish residents are not allowed to own, to export or import, monetary gold or foreign currencies; the export or import of national bank notes or "capitalistic" securities is also illegal.

II. General Data

Poland emerged from the second world war with substantial changes in its size and population. The eastern territories (populated in part by Ukranians, Byelo-Russians and Lithuanians) were ceded to the USSR, in partial counterpart of which Poland was extended westward ("the Recovered Territories") at the expense of Eastern Germany. As a result of these changes, postwar Poland covers an area of 312,000 sq. km. as against 390,000 in the prewar period. The population fell between 1939 and 1945 from 35 to 24 million (war losses accounted for about half of the decline).

Poland's population is now estimated at about 28 million persons or some 4 million more than at the end of the war. The increase in population is now almost half a million persons a year. This expansion may create a problem of employment after 1960. An important feature of Poland's recent demographic developments is the marked shift which has taken place from rural to urban areas. Urban population comprises now about ~~73~~ 68? per cent of total population as against ~~32~~ 32? per cent in 1946.

100 88
32

Among eastern European countries, Poland is relatively well endowed with natural resources. 65 per cent of Poland's area can be used for agriculture. However, as explained below, Poland must import grains, in sharp contrast to the prewar situation. Main mining resources are hard coal (for which Poland has huge reserves), zinc, lead, sulphur, gypsum and limestone. It has rich reserves in timber. Thus Poland's "industrial base" is centered on the coal, steel, machinery, chemical and building (e.g., cement) industries. However, except for coal and chemicals, Poland is dependent on foreign countries for the essential complementary materials required to develop its natural resources: its steel and machinery industry lacks iron ore and alloys; Poland must also import crude petroleum, textile fibers, crude materials for fertilizers (e.g., potash, phosphates), rubber, oilseeds and raw hides.

Since the end of World War II, Poland has been a People's Democratic Republic. Contrary to Yugoslavia in recent years, it has organized its socialist economy on strict administrative central planning. Furthermore, it had until recently very close ties with the Soviet Union, and Poland supplied coal to the Soviet Union at an almost nominal price. In counterpart, it received large USSR long-term credits and technical assistance: Poland's largest factory (Zeran works near Warsaw producing Russian "Pobieda" cars) has been planned, built and organized by the USSR. Whereas trade between Poland and Russia was less than 1 per cent of Polish trade before the war, it had risen to one-third in 1955.

At the VIIth Plenary Session of the Central Committee of the United Polish Workers Party (July 1956), resolutions were passed initiating changes in the orientation of economic policy. These tendencies became stronger with the political changes in October 1956 under which Mr. Wladyslaw Gomulka became the ~~new head of the~~ leading personality in Polish Government.

The main changes were as follows: (1) Poland demanded more economic independence which implied, in particular, the opening of new relations with the "West"; (2) the emphasis on economic planning was shifted toward an immediate increase in the standard of living; this implied a slower rate of development in basic industries and increased importance to, and more liberal attitudes toward, agriculture, handicrafts and consumer goods industries; (3) decentralization was encouraged by increasing the role of local governments and by organizing workers' councils having some participation in the management of enterprises.1/

An example of planning can be illustrated by the organization of the banking system. The Polish Central Bank operates within the frame of three quarterly plans: the "cash plan" (determining the amount of currency to be issued: enterprises must remit daily their cash receipts and most payments are made by the Bank); the "credit plan" (which allocates short-term credits by firms; the interest rate is nominal, generally 1 per cent) and the "plan for settlement with foreign countries". In addition to the Central Bank, there are: a Bank for Agriculture and an Investment Bank receiving budgetary funds and allocating investment loans; a Common Savings Bank and a few specialized banks, all supervised by the monetary authorities.

1/ The Polish newspaper Zycie Warszawy summarizes the New Polish system as follows: "The Polish economic model will differ mainly from the present Soviet model in that the scope of planning in Poland will be narrowed as a result of the setting up of workers' councils and the transfer of some power to them; it will differ from the Yugoslav model in that prices for basic articles produced by key industries will be fixed not by the factory itself but by central state organs; factories will have no freedom of action in deciding on the investment of part of the profit."

III. Development Plans

Poland has had so far three development plans. The first was a Three Year Plan for Economic Reconstruction (1947-1949). The second was the Six Year Plan (1950-1955) and the current one is the Five Year Plan (1956-1960). The Second Plan was very ambitious and aimed at a sharp advance in heavy industrialization. Its success was not complete and its operation led to internal difficulties which formed the background for the recent changes in economic orientation. The new Five Year Plan marks a change in the various economic priorities. A transitional period of two years (1956-1957) is envisaged as "emergency programme" to smooth out the departure from previous lines.

Polish planners have been confronted with three basic problems.

The first is the need to adjust the economy to the large demographic pressure which will become significant after 1960.

The second basic problem has been the failure of agriculture to keep in line with planned development. As in some other eastern European People's democracies (including Yugoslavia), Poland has met an acute farm crisis. The effort to industrialize the country quickly led to internal migration and increased per capita food consumption. 1/ At the same time, policies of collectivization have often proved difficult to implement. The State has often been led to readmit small farmers 2/ but it has failed to give them confidence and proper encouragement. Thus dismemberment of land has led to low productivity 3/ since, for instance, mechanization and fertilizers were not fully employed. As a result, whereas industrial output increased almost three times from 1949 to 1956 and the population by 12 per cent, agricultural output in 1955 was only 19 per cent above x and 8 per cent above 1937. Thus, Poland, which was a net exporter of food in the prewar period became a net importer of food, grain requirements being almost 600,000 tons a year.

x 1949

The third basic problem of Polish planning has been the difficulty to harmonize the various economic priorities. It is now recognized in Poland that the Six Year Plan overestimated the potentials of heavy industrialization of Poland in the prevailing social and technical context. Though industrial output is now about three times its prewar level, wastage, bottlenecks, technical failures have been important. There was a definite impression in Poland among the working classes that they were not benefiting from their individual efforts.

1/ Per capita consumption has increased substantially for meat, eggs, sugar, sea fish and vegetables, but has declined for cereals and milk.

2/ 80 per cent of arable land belongs to "independent" farmers in Poland. But such farmers were discriminated against in investment, tax and price policies.

3/ Although there was a small increase compared to prewar in the yield of grains, there were declines in yields of potatoes and sugar beet.

Under the new Five Year Plan, the rate of industrialization will be slowed down. Instead of a 20 per cent annual increase in industrial production, a 9 per cent increase is called for. Gross investment is to be set at about 20 (instead of 30 per cent) of the national product. In contrast, agricultural output is expected to increase by 25 per cent during the Five Year Plan, as against an actual increase of only 19 per cent in the Six Year Plan. Measures will be taken to provide more incentives for all farmers in the socialist as well as the independent sector. These measures will be in the field of investment, modernization, prices, taxes, compulsory deliveries, etc.

Table 1. Poland: Main Industrial Production and Targets of the Five Year Plan (1956-1960)

	1937	1949	1955	1960(Planned)
Hard Coal, million tons	36	74	95	110
Coke, " "	2	6	10	13
Steel, " "	1.5	2.3	4.4	7.2
Electric power, billion kwh	3.6	8.3	17.8	29.5
Cement, million tons	1.3	2.3	3.8	6.8
Machine tools, thousand tons	1.7	9.4	27.8	-
Tractors, thousands	-	100	324	-
Cotton fabrics, million meters	324	406	565	-
Paper, thousand tons	195	265	402	-

Source: The Statist, November 24, 1956.

IV. Foreign Trade

Poland's foreign trade has expanded considerably since the end of World War II and is now roughly twice its prewar volume. This over-all development has been accompanied by substantial changes in the area and commodity pattern.

In the prewar period, Poland's main trade was with western European countries (with whom it carried out some 60 per cent of its total trade). It exported food products and raw materials and imported raw materials and manufactures. Trade with the Soviet Union was almost negligible. In 1955, however, 34 per cent of Polish imports and 30 per cent of its exports came from and went to the Soviet Union. Other eastern European countries came next in importance. These were responsible for 28 per cent of imports and 28 per cent of exports. After allowance for Mainland China (which accounted for 4 per cent of Polish trade in 1955), the share of Communist countries (except Yugoslavia) in Poland's trade in 1955 was 66 per cent as regards imports and 62 per cent as regards exports. Western Europe's share was roughly 25 per cent, the United Kingdom, Western Germany and France being the main partners. The share of North America was 0.6 per cent in Polish imports and 2.6 per cent in Polish exports.

In 1955, Poland had a small over-all deficit of $18 million (equivalent). Imports were valued at $932 million and exports at $914 million. The following table describes the regional pattern of surpluses and deficits in 1955.

	Polish Imports	Polish Exports	Polish Surplus or Deficit (-)
1. Communist Area 1/ 2/	599	564	-35
USSR	313	280	-33
People's Republics 2/	251	249	- 2
Mainland China	35	35	---
2. Nine Major "western European" countries 3/	181	228	47
3. North America	5	24	19
4. South and Central America	43	32	- 9
5. Australia	28	---	-28

1/ Excludes Yugoslavia.
2/ Excludes small countries, e.g., Baltic States.
3/ Austria, Belgium, Finland, France, German Federal Republic, Italy, Sweden, Turkey, and United Kingdom.

Source: The Statist, November 24, 1955. Figures in rubles converted into dollars on the basis of 4 rubles per dollar.

Commodity-wise, Polish trade in 1955 was characterized by the predominance of raw materials in both imports (52 per cent) and exports (64 per cent).

Imports of machinery made up 31 per cent, those of foodstuffs, 13 per cent, and those of consumer goods 4 per cent of the total. Compared to prewar, this pattern is characterized by the increased importance of machinery and equipment. Raw material imports were mainly textile fibers, rubber, petroleum and various ores.

Poland's exports have begun to reflect the industrialization of the country. On the one hand, exports of machinery and equipment were 13 per cent of the total (2 per cent in 1949), and those of consumer goods 7 per cent of the total. In contrast, food exports (bacon, eggs, sugar) were 15 per cent of the total, a sharp reduction compared to prewar when Polish exports of meat and grains were a substantial part of its total exports. Among raw material exports--which still continue to make the bulk of Poland's exports--coal is the mainitem.

The changes embodied in the current Five Year Plan will affect Poland's foreign trade significantly. On the export side, exports of coal and timber will be slightly increased but, on the whole, the share of raw materials in total exports is expected to decline. This will also be the case for food exports. In contrast, exports of machinery will be significantly increased. These trends reflect the emphasis away from heavy industrialization (machinery will be exported rather than used to create excessive new domestic capacity) and the planned expansion of domestic consumer goods industries. Two additional features are that deliveries of coal to the USSR will be reduced; and that the volume of available food supplies at home will be raised.

As regards imports, these same preoccupations have led the authorities to schedule a much reduced share of machinery in total imports (the share is to decline from 31 to 18 per cent), and an increase in raw and industrial materials and in food imports. Thus, it is clear that Poland's new economic orientation will continue to make it a significant market for equipment goods, industrial materials and grains and a significant supplier of coal and of some types of machinery.

Table 2. Poland: Foreign Trade by Main Commodity Groups

(in percentage of total)

	Imports (total equals 100)			Exports (total equals 100)		
	1949	1955	1960 (planned)	1949	1955	1960 (planned)
Machinery and Equipment	24.5	30.9	17.9	2.2	13.1	19.9
Of which:						
Complete factories	(-)	(9.8)		(n.a.)	(n.a.)	
Electrical equipment	(5.1)	(4.2)		(n.a.)	(n.a.)	
Overland transportation equipment	(6.6)	(5.9)		(0.7)	(6.7)	
Maritime transportation equipment	(n.a.)	(n.a.)		(0.4)	(4.0)	
Raw Materials	62.3	51.7	63.5	74.5	64.2	60.8
Of which:						
Fuels	(2.3)	(4.7)		54.5[1]	46.6[1]	
For heavy industry	(20.9)	(20.4)			(n.a.)	
Iron and zinc	(n.a.)	(n.a.)		(8.7)	(8.0)	
Timber	(n.a.)	(n.a.)		(4.5)	(3.7)	
Agricultural Foodstuffs	9.5	13.0	14.2	15.4	15.5	12.6
Consumer Goods	3.7	4.4	4.4	7.9	7.2	6.7

[1] Coal and coke only.

Source: The Statist, November 24, 1956.

Office Memorandum

CONFIDENTIAL

TO : Mr. Gabriel Ferras

DATE: February 4, 1957

FROM : Marcin E. Wyczalkowski

SUBJECT : Polish Delegation to the United States

I have learned that the Polish Delegation to the United States is headed by Mr. J. Winiewicz, present Vice Minister of Foreign Affairs in Poland and former Polish Ambassador to the United States; Mr. Hochfeld, a specialist in international relations, and possibly also Mr. Karpinski. The name of the fourth man in the Delegation will be given to me later.

Office Memorandum

TO : Mr. Jocelyn G. Clark

DATE: January 30, 1957

FROM : Christophe Dupont CD

SUBJECT : POLAND

Attached is a short note covering supplementary information on current developments in Poland. It could be added as Section V in the background note. Most of the information is derived from articles in the French publication "Notes Rapides" of Institut National de Statistiques et Etudes Economiques. There is available apparently a detailed Annual Statistical Yearbook for Poland, which has been published in October 1956 in Poland and covers 1955 and gives some data for 1956.

Attachment - no attachment

Mr. Ernest Sturc

Room 613-A

(1) #12

Executive Board
Document No. 812
Supplement 1

January 11, 1951

TO: Members of the Executive Board

FROM: The Secretary

SUBJECT: Settlement with Poland

Attached for the information of the Board are copies of the letter sent to the Polish Ambassador, in accordance with the decision taken at Meeting 630, and of the reply received from the Ambassador advising the Fund of his Government's agreement to the proposed settlement of accounts.

Att: (2)

Other Distribution:
Department Heads
Division Chiefs

POLISH EMBASSY

January 10, 1951

Mr. Camille Gutt
Chairman of the Executive Board
Managing Director
International Monetary Fund
Washington, D. C.

Dear Sir:

I hereby acknowledge receipt of your letter of January 5th. I am pleased to inform you that the Government of Poland is in agreement with your suggestion whereby the Fund will retain the $12,500. paid by Poland under Article XX, Section 2(d), in settlement of accounts between Poland and the Fund without further payment by either party to the other.

I trust this will conclude settlement of accounts between Poland and the Fund as provided under Article XV, Section 3 of the Fund Agreement.

Sincerely yours,

/s/
J. Winiewicz
Ambassador of Poland

January 5, 1951

Dear Mr. Ambassador,

Following upon the withdrawal of Poland from the Fund, it is necessary that a settlement of accounts be made. Article XV, Section 3 of the Fund Agreement authorizes the Fund to make such a settlement by agreement with the member which has withdrawn.

As you are aware, Poland has paid to the Fund $12,500 under Article XX, Section 2(d), which requires that on signing the Agreement each member shall transmit to the Government of the United States one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses.

I would suggest that the Fund and Poland agree that accounts between them shall be considered settled by the Fund's retention of the $12,500 which Poland has paid, without further payment by either party to the other. I would be glad to hear from you whether this proposal is agreeable to Poland.

Yours sincerely,

Gutt
Chairman of the Executive Board
Managing Director.

His Excellency
The Ambassador of Poland,
2640 16th St., N.W.,
Washington, D. C.

Poland

EXECUTIVE BOARD MEETING 630
1818 H Street, N. W.
10:00 a.m., January 5, 1951

Present:
C. Gutt, Chairman; Executive Directors: J. W. Beyen, J. V. Joshi, J. de Largentaye, R. Martinez-Ostos, L. G. Melville, O. Paranagua, N. Popovic, A. Z. Saad, E. de Selliers, F. A. Southard, B. Tann; Alternate Executive Directors: H. M. H. A. van der Valk, L. K. O'Brien (Temporary), G. Cigliana-Piazza, D. S. Savkar, F. Bizard, R. Facio, J. M. Garland, J. F. Parkinson, J. C. Godeaux, J. S. Hooker, K. H. Yu; F. Coe, Secretary; P. Thorson, Assistant.

Present for Items:
6--K. N. Clark, Office of Administration; 2--J. Del Canto, FML Department; 2-7--I. S. Friedman, Deputy Director, ER Department; 2-9--F. W. Gray, Treasurer; 2-7--R. W. Groenman, Treasurer's Department; 2--J. K. Horsefield, ENA Department; 2--A. Kafka, FML Department; 2-7--G.F. Luthringer, Deputy Director, FML Department; 2--J. V. Mladek, Deputy Director, ENA Department; 2--J. J. Polak, Research Department; 2--G. A. Ph. Weyer, Director, ENA Department; 2--D. H. Wills, Director of Public Relations.

1. Executive Directors

The Chairman welcomed Mr. Yu, Alternate Executive Director, and Mr. O'Brien, Temporary Alternate Executive Director.

2. Brazil - Exchange Situation and Exchange Request

The Executive Board discussed a staff country review on the Brazilian exchange position (SM 551, 12/18/50). Mr. Paranagua called attention to the favorable position in dollar exchange which the member had achieved as a result of the restrictions on dollar imports put into effect two years ago. As the figures showed, the authorities had adhered firmly to the policy and, with the help of very favorable coffee prices it had been possible to pay off the large dollar arrears even faster than planned. A lesser problem of soft currency payments remained. The main problem now was to ensure a balanced budget so as to eliminate the inflationary impact. He knew that the responsible authorities were aware of the problem and felt confident they would take firm measures. There was a strong possibility now that, because of the ease of exporting and the scarcity of import goods, the country would accrue substantial dollar reserves. Methods would have to be found to sterilize these balances so as to avoid inflation. Again he was sure the authorities were fully aware of the danger and the steps that would have to be taken. In response to a question, he said that substantially the same import restrictions were now applied to both soft and hard currency imports. Experience had shown what some experts had been predicting--that the discrimination against imports in one currency could not be maintained over any substantial period of time without accumulating arrears in another currency.

In discussion some Directors noted that information on the country's exchange position was not as full as was to be desired and asked what the over-all exchange position for 1950 was estimated to be. The staff replied that the data available permitted only a very rough estimate, and this suggested that there would be a small over-all deficit, or at best a precarious balance. Exchange reserves had been drawn down sharply owing to large repayments of arrears; but they had been increasing in recent months and the prospects for 1951 were favorable.

Other points were discussed and the Executive Board took note of the staff analysis.

Exchange Request.

The Board then reviewed a request which Brazil had made to purchase £10 million sterling (EBS 179, 1/4/51). The Chairman stated that the request appeared to be formally in order, but that since it had not specified the method for payment of service charges Mr. Paranagua had sent a cable for clarification.

Mr. O'Brien said that his Government welcomed the proposed transaction. Mr. Southard said he had no objection. There could, perhaps, be a question as to why the member could not use part of its considerable improvement in dollar reserves to pay the backlog in sterling. However, that question need not be raised since, as the preceding discussion had indicated, the member still probably had some over-all exchange deficit and, therefore, a current need for exchange. Moreover, although the reserves had increased they were not yet back to the highest 1949 level. He concurred with the staff view that Brazil should be able to repurchase its drawings from the Fund in a relatively short time (EBS 179, Sup. 1, 1/4/51). The kind of operation involved here and in previous drawings ought to be of a substantially short-run nature, especially since the deficit was occurring at a time when the member's trade position was basically good.

Mr. Paranagua stated that the Brazilian Government is fully aware of the desirability of carrying out operations of this sort on a short-term basis in order to avoid borrowing at long-term to liquidate commercial debts. Accordingly, the Government has the intention, with respect to the previous drawings and the present drawing, to repay the Fund within a period of about five years, barring unforeseen, unfavorable developments in the balance of payments. However, it is quite possible that, in the next two or three years, Brazil's reserves may increase to an extent which will result in the repayment of a substantial part of the total drawings under the provisions of Art. V, Sec. 7. The Chairman called attention to the fact that the

Fund had not yet received monetary reserves data that would enable calculation of any repurchase obligations which might have accrued. He hoped that the member would make such data available promptly for the past periods and also in the future.

At the conclusion, the Executive Board, having considered the request of Brazil to purchase £10 million sterling (EBS 179, 1/4/51), expressed no objection.

3. Approval of Minutes

The draft minutes of Meetings 623 and 625 were agreed. The draft minutes of Meetings 624 and 626 were agreed as revised.

4. Monthly Agenda

The Executive Board considered and agreed matters to be placed on the agenda during the month of January, it being understood that changes would be made as the work required (EBD 811, 1/2/51).

5. Terms of Service of Alternate Executive Directors

The Executive Board took note of the report of the Committee to Canvass Votes on the Revision of By-Law 14(e) and recorded that the Governors' vote on the following Resolution:

RESOLVED:

Effective January 1, 1951, the figure $11,500 in Section 14(e) of the By-Laws, shall be changed to $14,000.

had been as follows:

	Votes
In favor of motion	61,440
Against motion	28,780
Non-valid reply	705
No reply	1,690

6. Request for Technical Assistance - Philippines

The Executive Board approved the request of the Philippine Government for the continued loan of a staff member for technical assistance as set forth in EBAP 112, Sup. 1 (12/28/50).

7. Withdrawal from Membership - Poland

The Executive Board considered a proposal for a settlement of accounts with Poland (EBD 812, 1/2/51) and the decision was:

> Following the withdrawal of Poland from the Fund, the accounts between Poland and the Fund should be considered settled by the retention of the $12,500 which Poland has paid, without further payment by either party to the other. It is understood that Poland would be ready to agree to such a settlement.

8. Executive Board Travel

Mr. Martinez-Ostos informed the Board that he might have to travel to Cuba on Fund business in the near future.

9. Fund Assets

After discussion in executive session the decision was:

> The Executive Board approves the statement of the Managing Director set forth in EBS 180, (1/12/51).

APPROVED BY THE EXECUTIVE BOARD:
Meeting 634, January 26, 1951

GUTT
Chairman

FRANK COE
Secretary

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

Mr. Ernest Sturc

Room 613-A

(1) #12

Executive Board
Document No. 812

January 2, 1951

TO: Members of the Executive Board

FROM: The Managing Director

SUBJECT: Settlement with Poland

Following upon the withdrawal of Poland from the Fund it became necessary to make a settlement of accounts.

Article XV Section 3 of the Fund Agreement authorizes the Fund to make such a settlement by agreement with the member which has withdrawn.

As the Board will remember, Poland has paid to the Fund $12.500.- under Article XX Section 2(d) which requires that on signing the agreement each member shall transmit to the Government of the United States, one hundredth of one per cent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses.

I have been in touch with the Polish Embassy and, in agreement with the Legal and Treasurer's Departments, have tentatively suggested that accounts between the Fund and Poland should be considered settled by the Fund's retention of the $12.500 which Poland has paid, without further payment by either party to the other.

I understand now that the Polish Government would be ready to agree to such a settlement.

Before I sign the official letter to that effect, I would like the approval of the Board.

Other Distribution:
Department Heads
Division Chiefs

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Mr. Ernest Sturc

Room 706-C

(1) #12

DRAFT MINUTES

Executive Board Meeting 546

1818 H Street, N.W.

4:00 p.m., March 14, 1950

C. Gutt, Chairman
A. N. Overby, Deputy Managing Director

Executive Directors	Alternate Executive Directors
J. W. Beyen	H. M. H. A. van der Valk
	L. F. Crick
	H. Santaella
J. V. Joshi	D. S. Savkar
Y. C. Koo	T. W. Chu
J. de Largentaye	G. de Lavergne
	J. M. Garland
O. Paranagua	W. Blomeyer
	J. F. Parkinson
	M. S. Falaki
E. de Selliers	
F. A. Southard	J. S. Hooker
	M. Kolovic

F. Coe, Secretary
P. Thorson, Assistant

Present for Item 2:
R. Brenner, Legal Department
R. L. Horne, Assistant Secretary
A. van Campenhout, Head, Legal Department
J. J. Polak, Research Department
A. Pailhas, Operations Department
J. K. Horsefield, Research Department
R. Bertrand, Research Department
R. Rolin, Office of the Managing Director
G. M. Salle, Operations Department
F. Hodel, Assistant to the Secretary

1. Withdrawal from Membership - Poland

The Chairman informed the Executive Directors that the Ambassador of Poland to the United States had just handed him a written notice that Poland was withdrawing from membership in the Fund (Executive Board Special No. 141, 3/15/50). The Chairman had accepted the letter on the understanding that in order to complete the record the Fund would receive a confirmation of the Ambassador's formal authority to act in the matter. He had also taken vigorous exception to several of the assertions in the letter. The action would be publicly announced at an agreed time.

2. European Payments Arrangements

Discussion was continued on the guides for the Fund mission to the Paris talks on trade and payments arrangements (Staff Memorandum No. 450, Revision 1, 3/11/50). The Chairman stated that, had Mr. Cigliana-Piazza been able to be present, he would have taken a position along the lines of the staff formulations.

Gold Settlements. Some Executive Directors repeated the doubts they had indicated at the previous meeting on the proposed third guide:

> While inflation remains a threat, the element of credit, particularly of long- and medium-term credit, in the settlement of intra-European current balances should in general, be kept small. Settlement in gold or dollars should be increased now and become the rule wherever possible.

They particularly questioned the need for the second sentence on gold and dollar settlements. They noted that credit properly used was an important means for easing payments problems and achieving inter-convertibility for currencies. In fact, if the level of credits was small there would be no reason for setting up a payments scheme. It would be strange for the Fund to urge a harder standard of payments than that under existing payments agreements. Mr. Crick agreed, noting that in the past the U.K. has been forced to pay out considerable gold and dollars under payments agreements; he did not see how the Fund could favor an even greater strain on the U.K. than in the past. Mr. Parkinson opposed the stress laid on gold and dollar settlements on the ground that if the paper should get outside Fund circles it might be said that the Fund was taking sides on a matter of difference between governments.

Several Executive Directors and staff members replied that the sentence on gold and dollars was essential to show the direction in which any payments scheme would have to develop if it was to assist rather than hinder progress

2. European Payments Arrangements (Cont'd)

toward convertibility. This language proposed left considerable leeway, and to say anything less would be to ignore the principles which the Fund was supporting. It was essential to maintain effective links between the countries inside a currency system and the outside hard currency area. Gold and dollar settlements would be one of the more effective incentives to ensure that exports to the hard currency world were pushed. A harder standard of settlements should be possible as the balance among the countries improved and as their progress against inflation continued. Also some countries might be in a position now or in the near future to go on a gold settlement basis even though others lagged. The formulation did not commit the Fund to any precise figures, but it did indicate the general principle and would give the mission some guidance for the discussions.

The Chairman asked for the views of the Executive Directors on the retention of the second sentence. Messrs. Falaki, Koo, de Largentaye, Santaella, de Selliers and Southard favored its retention; Messrs. Beyen, Crick, Garland, Joshi and Parkinson opposed it. Mr. Kolovic and Mr. Paranagua expressed no preference. Accordingly the sentence was approved by 51,040 votes to 28,260.

Questions were also raised on the wording of the first sentence. Mr. Beyen believed the emphasis should not be on the size of the credits but on their use. Inflationary dangers would be curbed not by keeping the over-all level of credits "small" but by ensuring that credits would not be given which would enable countries subject to inflation to overimport from other countries in the group. Substitute sentences were offered reflecting that view. Mr. de Selliers said he considered the inflationary threat of large credit extentions would arise not so much in the debtor countries as in the countries extending the credit. Actually the credits and the imports they would allow would put deflationary

2. European Payments Arrangements (Cont'd)

pressures on the debtor countries. For that reason the over-all level of credits was important and the reference should not be limited to debtors. Others added that one main danger was that substantial credit extensions within the system would have an inflationary effect for the group and impair the capacity to export to harder currency areas. The group would then be in danger of developing into a high-cost insulated currency area which the Executive Board had agreed should not be tolerated. Some changes in the wording of the staff version were put forward and it was agreed as revised.

Decision. After the discussion the sense of the meeting was to take the following decision:

Following review of a staff analysis of certain substantive issues arising from the trade and payments proposals of OEEC for Western Europe and the sterling area (Staff Memorandum No. 450, 3/7/50, and Revision 1, 3/11/50), it is agreed that the Fund representatives in the forthcoming Paris discussions should be guided as follows:

1. The Fund should give its assistance in the formulation of a satisfactory payments arrangement compatible with the purposes of the Fund.

2. Regional payments arrangements should be so formulated as to facilitate the attainment of convertibility of currencies. Any features which may be likely to foster tendencies toward a closed monetary area should be avoided.

3. While inflation remains a threat, the element of credit, particularly of long- and medium-term credit, in the settlement of intra-European current balances should be moderate. Settlement in gold or dollars should be increased now and become the rule whenever possible.

4. The Fund mission should stress that the conditions generally regarded as necessary for convertibility, including reduction of inflation, progress on the problem of sterling and ways of increasing monetary reserves, are also necessary for the most effective functioning of a satisfactory payments agreement. The Fund mission should explore and assist in the formulation of programs designed to achieve these conditions.

2. European Payments Arrangements (Cont'd)

Organizational Arrangements. One Executive Director urged early discussion of what organizational arrangements might exist between the Fund and a European Payments Union. Several others pointed out that it would hardly be profitable to discuss such matters until more was known of the nature of the organization proposed and the functions it would have. The Chairman noted that as possible organizational arrangements were suggested in Paris the mission would want to explore them and make reports to the Fund. The mission would not, of course, be able to advocate any particular position as the view of the Fund until the Executive Board had acted. This procedure was agreed.

Poland

October 6, 1948

Dear Mr. Rudzinski:

I am enclosing a paper on the "Polish Economy Under the Reconstruction Plan", which was prepared in our division by Mr. M. R. Wyczalkowski. Your comments on our findings and conclusions would be very much appreciated.

Very sincerely yours,

Ernest Sturc, Chief
Central and Eastern European Division
Research Department

Mr. J. Rudzinski
Vice-President of the Central Planning Board
Warsaw
Centralny Urzad Planowania
Poland

MRW:mlp
10/6/48

October 6, 1948

Dear Dr. Zagorski:

I am enclosing a paper on the "Polish Economy Under the Reconstruction Plan", which was prepared in our division by Mr. M. R. Wyczalkowski. Your comments on our findings and conclusions would be very much appreciated.

Very sincerely yours,

Ernest Sturc, Chief
Central and Eastern European Division
Research Department

Dr. Jozef Zagorski
Instytut Gospodarstwa Narodowego
Warsaw
Frascati 2
Poland

Enclosure (1)

MRW:mlp
10/6/48

October 6, 1948

Dear Dr. Filipowicz:

I am enclosing a paper on the "Polish Economy Under the Reconstruction Plan", which was prepared in our division by Mr. M. R. Wyczalkowski. Your comments on our findings and conclusions would be very much appreciated.

Very sincerely yours,

Ernest Sturc, Chief
Central and Eastern European Division
Research Department

Dr. Zygmunt Filipowicz
Secretary General of the Polish
Economic Society
Warsaw
Al. Jerozolimskie 57 m 45
Poland

Enclosure (1)

MRW:mlp
10/6/48

October 6, 1948

Dear Dr. Orlowski:

I am enclosing a paper on the "Polish Economy Under the Reconstruction Plan", which was prepared in our division by Mr. M. R. Wyczalkowski. Your comments on our findings and conclusions would be very much appreciated.

Very sincerely yours,

Ernest Sturc, Chief
Central and Eastern European Division
Research Department

Dr. Miroslaw Orlowski
Director of the Economic Research Department
of the National Bank of Poland
Warsaw
Fredry 6
Poland

Enclosure (1)

MRW:mlp
10/6/48

April 2, 1948

VII-6

Mr. E. M. Bernstein

M. R. Wyczalkowski

SUBJECT: Polish Par Value

At the beginning of February I learned that the Polish Ministry of Finance sent a telegram to the Fund in which it asked for postponement of establishing the provisional par value discussed in November-December 1947 with Mr. Kuszynski.

I could not find such a telegram in the Fund and I have checked with the office of the Polish Financial Counsellor whether it was transmitted to us. I learned that it was not transmitted supposedly because the content of the telegram was not quite clear to the Polish Financial Counsellor. He is now in Poland and comes back early this month and the situation might be cleared by him at that time.

I am positive that the telegram contained a request for postponement because of "internal considerations." Officially it was not communicated.

In the meantime, Poland has introduced the exchange of 400 zlotys per dollar to practically all financial transactions. This rate consists of the official exchange rate of 100 zlotys per dollar and 300 per cent premium. Cross rates and premiums are applied to other currencies.

INTERNATIONAL MONETARY FUND

FINAL MINUTES

Executive Board Meeting 238

1818 H Street, N. W.

10:00 a.m., December 19, 1947

INTERNATIONAL MONETARY FUND

FINAL MINUTES

Executive Board Meeting 238

1818 H Street, N. W.

10:00 a.m., December 19, 1947

C. Gutt, Chairman

G. L. F. Bolton
G. W. J. Bruins

J. V. Joshi
Y. C. Koo
J. de Largentaye
J. V. Mladek
A. N. Overby

G. H. Tansley
W. Koster
R. Martinez-Ostos
B. K. Madan

M. Kolovic

J. F. Parkinson
M. S. Falaki

F. Coe, Secretary
P. Thorson, Assistant

Present for Items:

3-5	M. H. Parsons, Head, Operations Department
3-5	A. van Campenhout, Head, Legal Department
3	R. Brenner, Legal Department
3-5	W. R. Gardner, Research Department
3	E. Sturc, Research Department
5	W. H. Taylor, Operations Department
2	G. Williams, Assistant to the Managing Director

Approved: Meeting 242
January 8, 1948

1. Approval of Minutes

The minutes of Meeting 232 were read and approved as revised. The minutes of Meeting 234 were approved as read.

2. Financial Reports of the Fund

The Executive Board considered the proposals of the Drafting Committee (Committee Document No. 7) relating to public release of information as to transactions. Mr. Overby, the Committee Chairman, said that the only difference of opinion had been on the question of whether the Fund should make simultaneous announcement of transactions which members indicated they would announce. He personally favored such action for the reasons stated in the Committee report. The Managing Director said that, as the official responsible for carrying out the Fund's public relationships, he would also favor such publication.

Other Executive Directors doubted that publication in such cases was necessary or desirable. It was suggested and agreed, however, that in cases where transactions of special nature or of special size were involved and it was known that the member intended to announce the transaction, the Fund would have full right to make simultaneous announcement. It was also made clear that if any distortions appeared in members' announcements, the Fund would have the right to state the correct facts.

The decision was:

1. The Quarterly Financial Statement for the quarter ending November 30, 1947, may, and subsequent quarterly statements should, be published without any waiting period. For reasons of courtesy, members who have had transactions with the Fund during the quarter ending November 30, but have not announced them should be informed if that statement is published in advance. In the absence of objection, action should proceed.

2. At the end of each month the Fund should publish as soon as possible a statement of the transactions which took place during that month. These statements for the month at the end of each quarter may be published separately if, for any reason, release of the Quarterly Financial Statement is delayed. Members should be advised of the proposed new series.

3. Quarterly Financial Statements and Monthly Transactions Statements should, for convenience, include cumulative summaries of transactions in addition to the quarterly or monthly data.

4. Members should be requested, in case they intend to make an immediate announcement of any transaction, to give the Fund the text of the announcement before public release is made. In cases of special nature or of special size where the member intends to announce the transaction, the Fund will have the right to make simultaneous announcement.

3. Par Value - Poland

The Managing Director said that when he visited Poland, he had been informed that Poland might soon be in a position to consider with the Fund a new provisional parity for the zloty. Subsequently, a representative of Poland had come to Washington and indicated that Poland intended in the near future to propose an interim par value of 400 zlotys to the dollar under Article XX, Section 4(d)(iii). No formal proposal had yet been made, but in the spirit of the Fund Agreement the Polish representative had discussed technical aspects in detail with members of the staff. The Managing Director suggested that, because of the impending holidays, he should be authorized when the official request came in to notify Poland of the Fund's agreement, if the proposed provisional par value was acceptable to the Executive Board. The matter would be brought back to the Executive Board if there was undue delay or if any significant changes in circumstances occurred in the meantime.

The Managing Director gave a brief review of developments in Poland which prompted the proposal. The Polish economy had recovered remarkably since the end of the war. However, the old par value of 100 zlotys to the dollar had no remaining economic significance. That rate and the existence of two price systems internally had prompted the establishment of a complex system of multiple exchange rates. The Government now felt that a new rate of exchange would bring the price structure of Poland into more direct relationship with that prevailing abroad and at the same time would help to complete the unification of its own price system on a sound basis. It was indicated that so long as internal price levels were not unified, the official rate would have to be supplemented in some areas by exchange premia and taxes. However, the number and magnitude of such practices would be substantially reduced.

There was discussion as to the appropriateness of the interim par value which had been suggested. The staff representatives said that they had discussed with the Polish representative the possibility of a higher rate which calculations indicated might be more advisable. The Polish view was that they hoped to establish a unified price system at a level somewhat lower than present free market prices. Likewise, some 75 per cent of total exports, consisting mainly of coal and zinc, would move without difficulty at the 400 rate. A higher rate in terms of zlotys would involve some disadvantages for certain international payments that Poland was obliged to make. The history of the two-price system was outlined and the probable level at which unification would be reached was discussed.

Mr. Mladek pointed out in this respect that there could be no certainty the proposed rate was the most desirable one. This would be particularly true if any general adjustment in par values took place in the near future. However, the proposal was an honest and cautious approach toward greater reality in the exchange rate. It was in part experimental and would help to indicate the level at which eventual stabilization could take place. One important consideration was that any higher rate would tend to impair the Polish fight against inflation which had had considerable success since the beginning of the year. He noted that currency circulation was low as compared

3. Par Value - Poland (Cont'd)

with the increase in price levels. If the supply of consumer goods could be expanded there would be a considerable effect on prices. Mr. Mladek emphasized that the new par value would substantially reduce the scope and complexity of Poland's system.

Mr. Overby pointed out that the proposed par value would be established under Article XX, Section 4(d)(iii), and hence would not be a definitive par value which would make the member eligible for use of the Fund's resources. His own impression was that the proposed rate was somewhat optimistic and that a rate of 500 or 550 zlotys to the dollar would prove to be more accurate. However, the establishment of the interim par value could not be interpreted as advance agreement upon a definitive par value. If and when such a final par value was discussed with Poland, he believed, it would have to be considered de novo on the facts prevailing at the time. He hoped that Poland could soon reconcile the divergencies in her price systems so as to eliminate the necessity for multiple currency devices and permit the establishment of a single exchange rate. In spite of these reservations he believed that the proposal was a commendable move toward reality and as such might be approved by the Fund on the understanding it was a provisional and experimental rate. Such action would assist the efforts of certain sectors of the Polish Government to establish a more appropriate exchange system.

Mr. Bolton said that he was pleased to see the proposed move toward a more realistic rate, but he could not express approval of the implied continuation of some multiple currency practices. It was recalled that according to the Fund's recent letter, these aspects would be the subject of discussions with the member. The staff representative noted that the Polish representative had stated in discussion that Poland wished to move to a single exchange rate as soon as domestic conditions permitted.

At the conclusion of discussion the decision was:

> The Managing Director is authorized to agree with Poland, under Article XX, Section 4(d)(iii), that the par value of the zloty which was communicated to the Fund shall be changed and a proposed provisional par value of 400 zlotys per U.S. dollar shall be established under that Section provided, (a) that such agreement is accomplished on or before January 31, 1948, and (b) that in the Managing Director's opinion no significant changes affecting the new par value have taken place in the meantime.

4. <u>ITO Charter - Article 12</u>

The Executive Board considered Mr. Saad's request for instructions regarding a proposed amendment to Article 12 of the Geneva Draft of the ITO Charter which had been put forward by the U.S. Delegation (Executive Board Document No. 245). The amendment proposed the deletion of paragraph 2 of the Article containing reference to the Fund and substituting a sentence reading: "Each member shall, upon the request of any other member, enter into and carry out with such other member negotiations directed to giving effect to the provisions of paragraph 1 of this Article." It was pointed out that since the amended version creates no obligation which would be in conflict with members' obligations under the Fund Agreement, there would appear to be no reason to mention the Fund Agreement in Article 12; consequently the Fund should have no objection to the U.S. amendment (Staff Memorandum No. 150).

The decision was:

> The following cable shall be sent to Mr. Saad:
>
> > Fund has no objection to proposed amendment Article 12 submitted by United States. Reference to Fund therein unnecessary.

5. Use of Fund's Resources - Chile

The Managing Director said that a further request had been received from Chile to purchase 1.3 million U.S. dollars (Executive Board Document No. 247). A telegram had also been received from the Fund's representatives who were in Chile stating they would return over the weekend. He said he believed it would be advisable to hear their report before action was taken on the exchange request. There was agreement that the request would be considered again at the next meeting after the return of the staff experts. In the meantime no notification to Chile would be necessary.

6. Installation Allowances

The Executive Board considered the Managing Director's proposed policy with respect to the administration of installation allowances (Executive Board Memorandum No. 103).

The decision was:

As proposed in Executive Board Memorandum No. 103, the provisions of Executive Board Document No. 86, Revision 1, shall be interpreted as applying to staff members on a transient basis in Washington at the time of appointment and to Assistants to the Managing Director.

CABLE ADDRESS: UNATIONS NEW YORK

ADRESSE TELEGRAPHIQUE: UNATIONS NEW-YORK

UNITED NATIONS NATIONS UNIES

LAKE SUCCESS, NEW YORK • FIELDSTONE 7-1100

REFERENCE:

13 August, 1947.

Dear Mr. Sturc,

With reference to our telephone conversation today, I send you herewith a draft section of our proposed Report on the Financial Needs of the Devastated Countries relating to Poland. I hope to discuss this and other sections with you and your experts when I visit Washington on Friday.

You may like to know that I forwarded the following sections to Mr. Bernstein by Air Mail Special Delivery on the dates mentioned:-

Austria, Albania, Yugoslavia	August	8
Czechoslovakia and Finland	"	10
Denmark, Greece, Hungary, Ethiopia, Netherlands	"	11
Belgium, Italy, Norway, France	"	12.

I hope to be able to send you the draft section on the U.K. tomorrow, but if this is not possible, I shall bring it with me Friday.

I look forward to the pleasure of seeing you again.

Sincerely yours

James Baster

James Baster.
Division of Economic Stability and Development.
Economic Affairs Department.

Mr. Sturc,
International Monetary Fund,
Washington 6, D.C.

INTERNATIONAL MONETARY FUND

Executive Board Meeting

Meeting 176

1818 H Street, N. W.

10:00 a.m., June 5, 1947

INTERNATIONAL MONETARY FUND

Executive Board Meeting

Meeting 176

1818 H Street, N. W.

10:00 a.m., June 5, 1947

Camille Gutt, Chairman

E. de Selliers

G. L. F. Bolton
G. W. J. Bruins

W. Koster
G. Cigliana-Piazza
R. Martinez-Ostos
B. K. Madan
Y. L. Chang

J. V. Joshi
Y. C. Koo
J. de Largentaye
J. V. Mladek
L. Rasminsky

M. Kolovic

M. S. Falaki
O. Paranagua

F. A. Santos-Filho

G. F. Luthringer

Roman L. Horne, Acting Secretary
Phillip Thorson, Assistant

Present for Items
3-5 J. L. Fisher, Head, Operations Department
1-5 E. M. Bernstein, Head, Research Department
1 J. Del Canto, Research Department
3-5 M. R. Wyczalkowski, Research Department

Approved: Meeting 179, June 17, 1947

Item 1 of the minutes of Meeting 172 was read and agreed. Item 2 was held over.

1. Mission to Ecuador

The Executive Board took up a communication from the Government of Ecuador proposing the adoption of an emergency measure for the allocation of exchange (Executive Board Document No. 190). Notice was taken that the proposal and the conditions for its modification or abolition were in accord with those which had been agreed previously (Meeting 174, Item 4). Pertinent provisions from the Ecuadorian decree law to implement the proposal were read. At the same time the Executive Board reviewed a suggested public statement which would be published simultaneously by Ecuador and the Fund (Staff Memorandum No. 84, Supplement 3). Revisions were made. Mr. Bolton said he wished to record his opposition to the association of the Fund with a member's adoption of such a measure. He also opposed issuance of the public statement.

After discussion, the sense of the meeting was to adopt the following decision:

> The Fund does not object to the proposal of Ecuador to introduce and exercise for a temporary period a method of allocating exchange in accordance with the conditions previously agreed (Meeting 174, Item 4). The text of a related public statement is approved as revised (Staff Memorandum No. 84, Supplement 3, Revision 1) and Ecuador shall be notified accordingly.

2. <u>International Trade Organization - Multiple Currency Practices</u>

The Executive Board reviewed an inquiry from Mr. Saad as to whether the Fund wished any changes in Article 30 of the proposed ITO Charter (Executive Board Circular No. 199, Supplement 1). Mr. Saad had pointed out that the Article required that export subsidies would be brought under ITO's supervision after three years, which might be construed as a limitation on members' use of multiple currencies as a device for subsidizing exports. He believed, however, that the Fund should not be concerned with such a possible limitation if the members who might be involved were not.

The decision was:

> The Fund does not object to the text of Article 30 of the Draft International Trade Organization Charter relating to supervision over members' use of export subsidies. The Fund's representive in Geneva shall be notified accordingly.

3. Report on Czechoslovakia

Mr. Mladek presented a report on economic and financial developments in Czechoslovakia. He first outlined the significant elements in the country's economy, pointing out its high levels of industrialization and diversification, its trade with a substantial portion of the world and the consequent importance which it placed on world economic developments. A substantial nationalization had taken place in industry but a considerable portion remained in private hands. Agriculture, wholesale trade and retail trade were almost entirely private. The same was true of foreign trade, which was, however, subject to a strict licensing system. The widest nationalization had occurred in banking where all commercial banks were owned by the State. An important part of the credit business was carried by the municipal and co-operative credit institutions, most of which existed before this War and even before the 1914-18 War.

Czechoslovakia had a two-year plan pointed toward increased production. With minor exceptions 1948 goals should be easily achieved; in industry, for instance, they have been set at 110 per cent of 1937 levels and heavy industries have already surpassed 1937. Food production, while not abundant, had permitted exports in some lines. Some consumer goods were still in short supply.

In the monetary field there had been a small budgetary deficit in 1946 resulting from capital outlays for reconstruction, which were not segregated from the regular budget. A somewhat larger deficit on the same account had been forecast for 1947, but for the first quarter receipts had actually equalled expenditures. The budget did not show the profits and losses of nationalized industries which were carried in a different fund. The Government debt was not great; as a result of a rise in price levels and reduction of the rate of interest, its service imposed about half the pre-war burden. There had been some increase in currency circulation which could be fairly easily repaired. Price controls were maintained and, while there was a small black market, its prices were now rapidly approaching the fixed levels.

Czechoslovakia's foreign trade had recovered well during 1946. In the last months, 25 per cent of the trade was with Eastern Europe (of which 13 per cent was with Russia) and the remaining 75 per cent was with the rest of the world. One problem was that trade with the "soft" currency areas had been more favorable than that with the "hard." However, plans were under way to push exports to the dollar area so as to relieve the dollar shortage enhanced by the present regime of payment for imports and services to Germany which is effected in dollars.

4. Report on Yugoslavia

Mr. Mladek gave an outline of economic developments in Yugoslavia. He pointed out that the country has extensive natural resources, but remained essentially a primary production area. About 80 per cent of the population was in agriculture, mining was of some importance, but the percentage in trade and industry--in which handicrafts still assume a great importance--was comparatively small. Agricultural holdings, which constituted the base of the economy, remained in private hands. There had been extensive nationalization in industry and wholesale trade. Nationalization had also taken place in urban retail trade where it was necessary to strengthen the rationing system. Development banks, which had been started before the war with Government participation to provide capital at reasonable rates, had taken a more important place in the banking system by comparison with the private banks. The latter continued to operate but at a reduced level. Foreign trade was closely controlled by the Government and direct governmental transactions prevailed.

There was a considerable element of central planning in Yugoslavia to overcome the economic difficulties. Transportation had been greatly damaged during the War, but all railways were operational again by the end of 1946. Mining output was not unsatisfactory, but the same could not be said for the production of finished goods which was unable to satisfy the needs of the country at any time. A widespread drought in 1946 had seriously affected the food supply. By dint of strict allocation, however, the effects had been mitigated.

Regarding the monetary situation, it was notable to what extent the Government was determined to maintain the value of the currency. Strict measures had been applied to reduce the money flow and combat inflation, including a ceiling on salaries. Prices were under control and being pushed down although a shortage of foodstuffs had some adverse effects. The budget was in balance. Exports and imports likewise were equated by strict Government control. Hence there was no pressure on the exchange rate. A continuous effort was being made to push exports so as to permit needed imports.

It was noted in this connection that Yugoslavia had requested the Fund to set a date by which the initial par value of the dinar should be agreed (Executive Board Document 188). There was agreement that the request should be placed on the agenda for the next meeting.

5. Report on Poland

Mr. Mladek gave a resume of economic and financial developments in Poland of interest to the Fund. He first outlined the general nature of the economy, pointing out the considerable percentage now devoted to agriculture along with the excellent prospects for extensive industrial development. The ownership of agriculture and retail trade, he noted, remained in private hands. There was also an important margin of private enterprise left in wholesale trade but less in industry. As had been virtually the case before the war, banking was primarily in governmental hands.

There was some emphasis on central planning which was aimed primarily at developing Poland's industrial potentials. Current production in the heavy industries was good, but the same could scarcely be said for some consumer lines. The food supply was short due to a poor harvest.

A rather complicated pricing system had been worked out in Poland in an attempt to ease the transition from the immediate post-liberation inflation. Prices for most consumer goods were uncontrolled and were high. Wages were technically low, but workers were subsidized both by direct allocations of goods and by the use of ration cards which permitted purchases at low prices. These subsidies were supplied in the main out of profits from sales of goods produced by the nationalized enterprises. There had been a recognition that the price system was not advantageous, and there was some expectation that stabilization and unification operations would be undertaken in the near future if conditions were auspicious.

In the monetary and exchange field, there had been a sizeable increase in currency circulation which up to a certain point was justified as necessary because of the great increase in prices. There was still a rising trend in prices but no rapid inflationary spiral. Poland's balance of payments was strengthened by the possibility of exporting coal. However, the unusual need for food imports was an offset. The problem of establishing a more appropriate exchange rate was not pressing because, while travelers and diplomats might be adversely affected, the volume of imports and exports did not suffer, all foreign trade being handled through Government channels.

In conclusion, Mr. Mladek said that steps by Poland to fix an initial par value with the Fund would be more likely of success after further internal stabilization, and Poland was wise in not trying to force a par value at this time. There had been some earlier hope that discussions with the Fund could begin in May (Meeting 143, Item 1) but that now appeared premature. It was recommended and agreed that the Fund assure Poland that its position with the Fund would remain undisturbed and that the Fund would await an indication of when the situation would warrant discussions looking toward establishing an initial rate.

INTERNATIONAL MONETARY FUND
Research Department

MEMORANDUM

CONFIDENTIAL

Date: Jan. 22nd, 1947.
File No.:

Subject: Visit to Poland (Nov. 19 - Nov. 27)

Submitted by: E. Sturc ES.

Approved for submission:

Maybe no other country in Europe, including Yugoslavia and Greece, faces so many road blocks on its march to recovery as Poland. Greece is hampered by material destruction and political dissension, with a rampant small-scale civil war: Yugoslavia by material destruction, loss of intellectual elite and the change in the social, political and economic system. In Poland we witness all these and, in addition, there is a large scale population movement and a shift in employment within the employable group that changes the whole structure of what is historically known as Poland.

The sharp political division within the nation over the present policies of the Government and those of the last decade (with an inclination to view them from the point of view of past centuries) clouds the real task ahead and veils the considerable results thus far achieved in the building of a new economic, social and political organization.

The 300,000 to 600,000 Poles that are now abroad (of whom 150,000 are in Great Britain) are a great problem to the Polish Government. Their defection does not endanger the present regime, but it weakens its reconstruction efforts.

This group represents a great percentage of the Polish pre war administrative and economic machinery. While it is replaceable the replacements are being recruited mostly from people of the same social and economic stratum. This stratum was a fairly closely knit group and, therefore, close personal, and even blood, ties exist between the members of the new administrative machinery and those of the old, who are now abroad. Underground contact between the two groups is intensive and the result is that a latent civil war hampers any effort on the part of the Government to organize the State machinery and ensure safety to the population. The Government itself is composed of the best men that ever ruled Poland as a group. (This fact is readily acknowledged even by the opposition). The group of executive officials in the administration, on the higher level, with few exceptions, consists of men of great ability. They complain, however, that their efforts are being sabotaged in the provinces by officials in the lower ranks who are hostile towards the Government.

Other than the relatively small group of skilled workers, who were life-long Social Democrats, and an even smaller group of Communists, the present Government has no political backing from the population. Up until the summer of 1946 a considerable proportion of small farmers supported the Government because of the benefits they derived from the Land Reform Bill the Government enacted in 1944. The opposition, with the help of the clergy, was able to swing this group of peasantry away from the Government, particularly after its economic conditions had

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improved. The opposition's propaganda fruitfully employed the theme that the Land Reform measure proposed by the Government lacked sincerity and that it intends to introduce Kolchoz and Sowchoz systems as soon as it firmly established itself. (It is surprising how similar the feelings of the Polish peasants are to those evidenced in the Soviet Union in the years between 1924 and 1930. Once the Russian peasants' economic situation improved they became hostile to the Communist Government and Stalin was forced to break this hostility by destroying the whole Kulak class).

To regain the support of the peasants and to weaken Mikolajczyk the Government cancelled its order according to which farmers had to deliver a certain portion of their crop at Government-set prices to official purchasing agents. Thus the farmers' cash income increased appreciably as all his produce could be sold at free market prices.

This concession on the part of the Government did not bring about the desired results. On the contrary it strengthened economically the opposition and indirectly resulted in increased underground activity. In November the average number of Government officials killed by the underground bands increased to ten persons daily. (This figure is according to a tabulation of cases mentioned in the official paper).

The measure, however, had unfortunate economic repercussions. To procure the needed agricultural products for its rationing system the Government had to compete with the population on the free market. This increased free market prices considerably, in many instances by as much as 200%. A few months later, realizing that the political aim was not achieved, the Government ordered that machinery, fertilizers and other commodities, which were formerly sold by the State stores to farmers at lower prices than those on the free market, should now be sold at free market prices. As a result of this action the price level swung rapidly upward in the latter part of 1946. The rise in prices was even more pronounced in November when its trend was strengthened by a speculative flight from the zloty. One United States dollar was sold as high as 1,200 zloty (official rate $1 to 100 zloty), and generally, for the past three months oscillated around 850 zloty. One Czechoslovak Kcs. can easily be sold in Poland now for 6 zloty, but the official rate is 1 Kcs. to 2 zloty. The rising tendency in prices induced the farmers to withhold their produce at this time, and to wait until spring when they hoped the cessation of UNRRA aid might drive the prices even higher. Government officials are confident that this speculative move will backfire and that prices will drop in the spring, but this belief is open to doubt, especially since the Government, in order to finance the deficits of certain industries like steel, transportation and textiles, is resorting to the printing press. Bank notes in circulation increased from 44.2 billion in August last year to 55 billion in November.

The tax collecting machinery is not functioning well either. This is understandable since the loyalty of lower officials is doubtful and the tax-morale of the population was undermined by six years' resistance to the oppressors.

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The price system in Poland makes it difficult to establish the cost of production of any given industrial product. As the system operates there is no way to tell, for instance, the money cost of a ton of coal. The wages to workers are paid in money, but in addition they get the highest rations of any of the workers, not only in food, but also in clothing and footwear, at Government stores at exceedingly low prices. The Government buys the agricultural commodities on the free market, the textiles and footwear are being supplied to these Government stores by State enterprises at arbitrarily set Government prices. The Government does not charge the coal industry with the difference between the prices it pays for the agricultural commodites and the prices at which it sells them to the miners. Nor can it do so with the supplies of clothing and footwear because in these two instances it has no way of knowing them. Moreover, the cost of transportation of commodities for the Government by State railroad is also set arbitrarily by the Government. In compensation the Government sells coal cheaply to the State railroads. Somewhat below what it pays to the coal mines, which is 500 zloty per ton. UNRRA materials, like cotton, are sold in the same manner at low prices to the textile industry in compensation for the low prices of textiles which the Government buys from this industry for rationing purposes. As a result it is nearly impossible to establish any price or wage index, which would approximate the real situation in the country.

The Government has in its program the elimination of this "dual" price structure. It is doing so by small and rather timid steps. Putting the trading of the whole agricultural population on the free market basis (even though it was done for other reasons) is certainly a step in the right direction. Since, however, equalization of different price levels can be accomplished only by raising the lower to the higher level, and since it would at the same time demand a substantial increase in money wages and salaries of the workers in State enterprises, the Government is hesitant about doing so at this time fearing that this might end in a run-away inflation, particularly since it is fully aware that a stoppage of UNRRA deliveries will increase the deficiencies in certain vital raw materials. The Government hopes that by autumn 1947 the production of consumer goods will be forthcoming in such volume that an increase in wages and salaries and the elimination of dual price system will not end in inflation. Moreover the Government hopes that by that time the forthcoming foreign loans will re-establish confidence in the Polish currency and the banking system will be in a position to regulate the money market and eliminate at least to some extent, the "inflammable" hoarded money now in the hands of the population.

Until the Government, is able to secure loans from abroad to finance the complete reconstruction of the old and new Polish industry, the main effort is concentrated towards the increase of production in those plants which can be brought into working order by capital goods at hand. During the spring of 1946 a complete inventory was taken of all available capital equipment in Poland. The Central Planning Office decided which plants should be amalgamated so as to achieve, by combination of available machinery of two or three factories, one functioning production unit. In many cases this was not enough because the location of these factories was in the former German side of the Sudeten mountains and, therefore, they were completely deserted. The Central Planning Office had to recruit management and a skeleton of skilled workers from the Warsaw or Krakow region and to procure a limited working capital before such a plant could resume production. But the results of this action justified the efforts of the Central Planning Office. Many chemical and furniture factories, by autumn, were in full production. Minister Bobrowski, the extremely able chief of the Central Planning Office, justifiably boasted of these achievements, and pointed out to me with pride that the furniture of his office was produced in a factory so assembled.

Poland inherited in Silesia a large steel, tool and machine industry. The way from raw steel to finished tool or machine is a long one and all along the road is blocked by narrow passes which limit the actual output. In steel and machinery production the greatest bottle-neck is the lack of adequate rolling facilities. The great modern German rolling mill near Breslau was dismantled by the Red Army and shipped to the U.S.S.R. in the summer of 1945 and another was destroyed during the fighting in that region so that Poland has to depend on two over-aged rolling mills in the Katowice region with very small production capacity. On the elimination of this and similar bottlenecks the complete economic recovery of Poland is dependent. To do away with them, or at least comfortably widen them, Poland needs foreign capital goods.

The Government has appreciable gold and foreign currency reserves (above the acknowledged $82 million, the Government has an undisclosed amount of gold from the U.S.S.R. and other convertible currency reserves). It is hesitant to use them at this time because it is afraid that all these reserves will be needed to procure food and the most essential raw materials hitherto supplied by UNRRA once this international agency ceases to operate and the supplies on hand will not suffice until the new crop is in.

The other problem besides a great deficiency of capital equipment of the whole economy, which is by now an old story, is the low working morale of labor. This is most visible in the transportation. There is a great shortage of rolling stock in Poland, as everywhere in Europe, but nowhere at a railroad station can one see so many unused and unloaded freight cars as in Poland. The Czechoslovakian railroads, shipping goods through Poland to Russia or Sweden, are using special convoy systems so as to ensure that the trains move on to their destination and are not delayed by Polish personnel at some stations for weeks, as so often happened before this system was instituted.

There are, however, happier signs on the horizon of Polish economy. The re-settlement of rural population will be, by spring of 1947, complete and because a great part of it was already accomplished in the spring of 1946, it can be expected that the next harvest will be the first after the war that will equal that of pre-war years, at least in grain and potato production.

The coal industry, which in the present structure of the country, is the life-line of Polish economy, is now well manned. There are at present about 125% more workers employed in the coal mines than there were before the war. The production results are, however, only about 10% above the pre-war figures. This discrepancy is not due to the lack of quality in the workers, but rather to their inexperience and a deficiency of capital equipment. As a matter of fact the quality of the personnel is very good. The average age of miners is the lowest, as compared with other mining regions in Europe. There are a considerable number of foremen in Poland now who returned from mines in Western Germany and France, where they worked with up-to-date equipment. These men will prove to be of inesteemable help in modernizing coal mines and in raising the productivity of the average miner, of whom over 50% are working for the first time in mines. If poland can, at least partially, modernize its mining technique by importing some capital equipment the Government plan to increase coal production in 1947 to 60 million metric tons is not unrealistic, but rather a very cautious goal. The three-year plan envisaged the establishment of pre-war productivity only in 1949.

In the world press, as well as among the foreign missions in Poland, all sorts of speculations were being made about the Polish-Russian economic relations, mostly to the effect that the U.S.S.R. is exploiting the Polish economy.

Actually the picture is a different one. The U.S.S.R. is, because of political reasons, anxious to ensure that the present regime maintains itself in power and does everything to enhance the Government's prestige with the Polish population. On the international scene it advances Polish candidates for positions of prestige and in the economic field it helps the Government in more than one way. It is certain that the U.S.S.R. loaned Poland gold of quite a high value. This loan does not figure anywhere in Polish reports, but from a few slips of high Polish Government officials I got the confirmation of this fact which was formerly only rumored.

Russia has accumulated a substantial credit balance in its clearing account with Poland. This too is one way of helping Polish economy at this time. The exchange rate between the zloty and the rubel was set at a 1 to 1 basis, which is highly favorable to Poland. If a cross-rate were to be made from the official U.S. dollar-rubel rate, then the rate (zloty-rubel) would have been 1 rubel equals 20 zlotys.

The only sector in Polish-Russian economic relations to which the term "exploitation" might be applied, is the agreement between the two countries with regard to Polish coal deliveries to the U.S.S.R. Poland, in turn for Russia's willingness not to dismantle the German industrial plants, and above all coal mining machinery from the territory which was handed over to the Poles by the Potsdam Agreement, committed itself, by a secret agreement, to supply the U.S.S.R. with certain quantities of coal. The agreement asked for 1.5 million tons of coal in 1945 and 12 million tons of coal annually thereafter as long as the Russian troops were occupying their zone in Germany. In 1946, under this agreement, the Poles delivered to the U.S.S.R. 6.7 million tons of coal, claiming

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that railroad transportation did not permit additional shipments (there is only 1 wide-gauge railroad line leading from Polish coal mines through Krakow to Russia and the agreement asks that the "reparation coal" should be shipped in Russian freight cars). Whether the Poles will be able to keep down their shipments of coal to the U.S.S.R. also in 1947 when the harbors of Danzig, Gdynia and Stetin will be in more or less good order, cannot be answered at this time. This depends on the extent of Russian pressure, which again depends on the political situation within Poland.

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While in Poland I visited the National Bank of Poland, the Ministry of Finance, the Central Planning Office, Ministry of Foreign Trade and Ministry of Foreign Affairs. In all these agencies I was very well received and was furnished with all the statistical material for which I asked, as well as the background information needed for the understanding of the economic problems confronting Poland. The statistical material which I brought back with me will make it possible to compile a comprehensive country book on Poland. To many questions I received the answer "it's a Government secret". In such cases I did not raise the question again, however, after long conversations with responsible officials, when it was realized by them that the Fund is not a tool of a certain power but an international institution with the best intention to serve every member, including Poland, they dropped this cautious approach in discussing Polish economic problems. Before my departure the Director of the Department for Currency Management of the Ministry of Finance, gave me even the strictly confidential statistical analysis on the present currency circulation in Poland, Government Revenue expenditure and the open market operations of the Ministry of Finance. To alleviate any suspicion I explained to the officials of the National Bank of Poland, and later to the respective officials of the Ministry of Finance and the Central Planning Office, the function of the Fund, its organization and its methods of operation. To this I would like to add that there was a bitter inter-agency struggle between the National Bank of Poland and the Ministry of Finance, as to which of the two should be dealing with the Fund. Up until the last Governors' Meeting the National Bank of Poland handled the Fund affairs. Since October, however, the Department for Currency Management of the Ministry of Finance took them over. As a result the questionnaire the Fund sent out early in October was still unanswered when I was in Poland.

In Poland, as in Czechoslovakia, I arranged that all publications containing economic information should be airmailed to the Research Department of the Fund.

INTERNATIONAL MONETARY FUND

Executive Board

Meeting 106

1818 H Street, N. W.

10:00 a.m., December 4, 1946

INTERNATIONAL MONETARY FUND

Executive Board Meeting

Meeting 106

1818 H Street, N.W.

10:00 a.m., December 4, 1946

Camille Gutt, Chairman

G.W.J. Bruins

J. V. Joshi
Y.C. Koo
Jean de Largentaye
J.V. Mladek

Louis Rasminsky
A. Z. Saad

Harry D. White

Ernest de Selliers
Maurice H. Parsons

Raul Martinez-Ostos
B.K. Madan

Ocatvio Bulhoes
G. F. Luthringer
Mihailo Kolovic

Frank Coe, Secretary
Phillip Thorson, Assistant to the Secretary
E.M. Bernstein, Acting Director, Research Dept.

Present for Item 1

Felipe Pazos

Present for Item 2

M. Naficy, Representative of Iran
J. G. Clark, Research Dept.

1. Invitation to UNRRA Council Meeting

The Managing Director stated that UNRRA has invited the Fund to send an observer to the Sixth Session of its Council beginning December 10 in Washington. It was agreed that Mr. Bruins should represent the Fund.

2. Extension of 90-day Period - Poland

The Managing Director said that a representative of Poland had informed him that Poland wishes an extension under Article XX Section 4(d) of the 90-day period for agreement on its par value. A written notice was to be forwarded.

3. Initial Par Value-Cuba

The Executive Board reviewed the initial par value of the Cuban peso. Among the factors bearing upon the currency the following were noted: the position of Cuban exchange reserves and balance of payments, the position of the sugar industry as a result of world prices and special tariff and quota arrangements with the U.S., the relation of wages to the price of sugar, and the future prospects.

No decision concerning the par value was taken.

4. Initial Par Value - Iran

At the invitation of Mr. Saad, Mr. M. Naficy, representing the government of Iran, made a statement on the par value of the rial and answered questions put by the Executive Board Members. He outlined the nature of existing exchange and import controls and explained the operation of the free exchange market and the approximate amounts of import and export transactions to which it applies. He said that the Iranian government had officially announced its intention of doing away with the free market as soon as possible and requiring exchange proceeds to be sold to the central bank. He thought this might be accomplished in less than a year. He noted that it was difficult for the government to determine the most appropriate official rate and that, for the present, it wished to maintain the present rate of 32 rials to the dollar, particularly since any change in rate would have an inflationary effect on domestic prices.

In discussion the Executive Board raised various considerations, including

(a) The part played by oil royalties and local currency purchases in maintaining a favorable balance of payments, and the effect of a rate change on receipts from the latter source.

(b) The likelihood that because of the present level of receipts Iran will not need to have recourse to the Fund's resources for some time.

(c) The level of internal wages and prices and the difficulty of any substantial reduction in the near future.

(d) The question of whether a freely fluctuating exchange rate covering even a minor portion of imports and exports as in the case of Iran would be acceptable under Article IV, Section 4.

(e) The possibility of tightening existing exchange controls.
It was the concensus that, before operations begins, discussions might be held with the Iranian government on certain of the problems raised.
No decision on the par value was made.

Approved February 7, 1947