CONFIDENTIAL

COMMITTEE ON MEMBERSHIP - POLAND

Meeting 86/1
3:00 p.m., January 16, 1986

H. Lundstrom, Chairman

| Executive Directors | Alternate Executive Directors |
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| C. H. Dallara | M. K. Bush |
| J. de Groote | H. G. Schneider |
| B. de Maulde | S. de Forges |
| M. Finaish | T. Alhaimus |
| | P. E. Archibong, Temporary |
| F. L. Nebbia | |
| J. J. Polak | |
| A. K. Sengupta | |

J. W. Lang, Jr., Secretary
K. S. Friedman, Assistant

Also Present

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| | B. Goos |
| | M. Foot |
| | J. E. Rodríguez, Temporary |
| G. Salehkhou | O. Kabbaj |
| | L. Tornetta, Temporary |

IBRD: H. P. Crevier, Secretary's Department; T. King, Europe, Middle East and North Africa Regional Office. European Department: L. A. Whittome, Counsellor and Director; P. C. Hole, J. Prust, K. A. Swiderski. Exchange and Trade Relations Department: J. T. Boorman. Legal Department: A. O. Liuksila, J. M. Ogoola. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; S. I. Fawzi, O. Roncesvalles. Advisor to Executive Director: D. C. Templeman. Assistants to Executive Directors: V. Govindarajan, G. D. Hodgson, O. Isleifsson, H. van der Burg.

1. PROCEDURES

The Chairman said that he hoped that the Committee could reach an agreement on the procedures that it could use in dealing with Poland's membership application. In addition, he would welcome any preliminary views that Committee members might have on the staff paper, especially the section on the proposed quota range.

The Polish authorities had not designated an Executive Director to look after Poland's interests during the membership process, the Chairman noted. However, the authorities had expressed an interest in having representatives present their views on the quota paper to the Membership Committee. He invited the Committee members to express their views on the possibility of inviting Polish representatives to attend the next meeting of the Membership Committee to make a presentation and answer any questions that the Committee members might wish to pose to them; immediately thereafter the representatives would leave the meeting.

Mr. de Maulde said that he accepted the authorities' request to send representatives to the next meeting of the Membership Committee.

Mr. Sengupta remarked that he too could accept the proposal to have Polish representatives attend the next meeting of the Membership Committee. He wondered whether the Polish authorities themselves had initiated the request to send representatives or whether the idea of inviting Polish representatives had initiated within the Fund. Were there any precedents for permitting the representatives of an applicant country to attend a meeting of a membership committee?

The Chairman replied that the Polish authorities had asked him whether they might be invited to send representatives to attend the next meeting of the Membership Committee.

The Committee Secretary said that over the years Barbados, Guinea, Finland, and Mali had, at the request of the authorities of those countries, been invited to send representatives to a meeting of the membership committee for each of those applicants. The Manual of Procedures on Membership stated on page 4 that "in the event of a difference of opinion between the membership committee and the representative (of an applicant), the representative may request, and will be given, the opportunity to present his views to the committee." While the case of Poland was not strictly applicable to that statement in the Manual, the statement clearly offered applicants the possibility of presenting their views at a meeting of a membership committee.

Mr. Sengupta remarked that the passage that the Committee Secretary had read seemed to give an applicant country the right to send a representative to a Membership Committee meeting only if there was a difference of views between the committee members and the applicant. Nevertheless, he continued to feel that the Polish authorities should be invited to send representatives to the next meeting of the Membership Committee for Poland, although it should be clearly understood in advance that the Polish representatives would withdraw from the meeting after they had made their presentation and had answered any questions that Committee members might wish to put to them. He wondered whether a similar invitation should not be extended to each future applicant as a matter of routine.

The Chairman commented that the Committee members seemed to agree that Polish representatives should be invited to attend the next meeting of the Membership Committee, and that the representatives would make a presentation, answer any questions that Committee members might wish to put to them, and then would leave the meeting. It would be clearly explained to the Polish authorities that their representatives would not be invited to remain in the meeting room once the discussion within the Committee had started.

After a further brief discussion, the Committee members agreed that the next meeting of the Membership Committee should take place on February 13, 1986 at 10:00 a.m.

## 2. PROPOSED QUOTA - PRELIMINARY VIEWS

The Chairman noted that the staff had proposed a quota range for Poland of SDR 690-710 million and a reserve asset payment of 22.7 percent of Poland's initial quota. He wondered whether Executive Directors felt that the staff paper contained all the information that they needed to assess the staff's proposals, and whether Executive Directors had any preliminary views on the proposed quota range.

Mr. Dallara said that his authorities had not taken a final position on the matters at hand. The provision of additional information by the staff would help his authorities to reach firm conclusions. For example, it would be helpful to have additional information on the selection of the exchange rate for converting zlotys into SDRs.

The proposed quota range seemed somewhat on the high side, Mr. Dallara continued. On the basis of actual quotas, the proposed quota would place Poland ninth among the 22 comparable countries mentioned in the staff paper. On the basis of calculated quotas, Poland would rank fourteenth among the same group of countries. Calculated quotas were based on four main economic variables. On the basis of the two variables that were given the heaviest weights in calculated quotas--namely, 1980 GDP and the level of current account transactions--Poland ranked thirteenth among the 22 comparable countries mentioned by the staff with respect to GDP, and eighth with respect to the level of current account transactions. With respect to the other two economic variables on which calculated quotas were based, namely, the variability of current receipts and the level of international reserves, Poland ranked nineteenth and twenty-second, respectively.

In its paper the staff had chosen to compare Poland's calculated quota with the actual quotas of a group of non-oil developing countries and other Eastern European countries, Mr. Dallara noted. In his view, that choice of comparison was not fully valid. He did not dispute the fact that each economy had unique characteristics, but he doubted whether the particular group of members chosen by the staff was the basis for the most useful comparison.

The staff had used 1980 data in calculating its proposed quota for Poland, Mr. Dallara noted. As he understood it, the use of 1980 data was fully consistent with current practice. Nevertheless, that practice meant that Executive Directors were asked to make a judgment on the appropriate size of the proposed quota without taking into account the relevant data for a number of recent years. The data for the period since 1980 suggested that Poland's relative weight in the world economy might have declined. For example, Poland's real GDP in 1985 was nearly 4 1/2 percent lower than its real GDP in 1980. Similarly, Poland's current account transactions in nominal terms had declined on average over three consecutive years in the period 1981-83. In 1984, the nominal value of Poland's current account transactions had only just regained the earlier five-year average up to 1980. He suspected that the relevant data for the 21 comparable countries mentioned by the staff would show increases for GDP, or for the level of current account transactions, or for both.

Poland's international reserves had risen in absolute terms since 1980, Mr. Dallara commented. In 1980, however, Poland had had a lower level of reserves than all 21 countries with which Poland was compared in the staff memorandum; accordingly, its relative position might not have risen since 1980.

Additional information on developments since 1980 in the key variables for Poland and the other economies mentioned by the staff in its memorandum might help Executive Directors to make a final judgment about the proposed quota range, Mr. Dallara said. In making that suggestion he was not questioning the basic premise of using 1980 data as the basis for the quota calculations.

The staff representative from the European Department explained that the staff had decided to use the commercial exchange rate in 1980 to convert Poland's GDP in zlotys to SDRs. The staff had done so for three reasons. The first reason was a practical one: some 90 percent of total external transactions in 1980 had been conducted at the commercial exchange rate; in that sense, the commercial rate had in effect been the rate in the market. The second reason was that in 1980 the commercial exchange rate had been modified to only an insignificant extent by taxes and subsidies on exports and imports; accordingly, the commercial rate had appropriately reflected the ratio of domestic prices to foreign prices. Before and after 1980, net taxes and subsidies had been more substantial than in 1980 itself. In 1980, however, the use of the commercial exchange rate did not create distortions in the comparison of Poland's GDP with that in other countries. The third reason corroborated the staff's conclusion that there had been little interference in the exchange market in 1980 by taxes and subsidies. During the 1970s and in 1980, the Polish authorities had undertaken comprehensive investigations in order to estimate the average resource cost in Poland of earning one U.S. dollar of foreign exchange. The inquiries had covered the whole economy, and the results had been published. The authorities' estimates suggested that in 1980 the average cost of earning one U.S. dollar was approximately 35 zlotys; that was the factor cost, excluding taxes, subsidies, and profits. That average cost compared with the commercial exchange rate of about US$1 = Zl 44 and was sufficiently below the commercial exchange rate to allow a reasonable profit margin without requiring net subsidization.

The staff representative from the Treasurer's Department noted that the practices and procedures regarding the determination of the quota for a new member were described on page 61 of EB/CM/Poland/85/1 (12/20/85). The established practice was to make quota calculations for a prospective member on the basis of the data that had been collected and the quota formulas that had been agreed in connection with the latest general review of quotas. More recent data available for Poland would have to be compared with data covering the same time period for all other members. The Ninth General Review of Quotas was scheduled to begin in the latter part of 1986. For that review, 1984 data would probably be used and would have to be collected for all matters.

Mr. Dallara said that he fully agreed that, on the basis of established practice, 1980 data must be used to calculate Poland's proposed initial quota. His request for additional data covering more recent years was consistent with the following statement on page 66 of the staff report: "In these circumstances, it seems appropriate, as has been done in other similar cases, to examine other approaches that bear on the question of how to fit the initial quota for Poland into the somewhat disparate structure of actual quotas while still reflecting its actual economic size in relation to other members." Executive Directors were being asked how best to fit Poland's initial quota into the structure of actual quotas and to consider whatever data on members' relative positions might be helpful in making that judgment. For example, the staff memorandum explained how the ratio of Poland's "actual" quota--on the basis of the staff proposal--to its calculated quota compared with the ratio of actual to calculated quotas of other European countries, and other information in absolute and relative terms was provided to help Executive Directors make the needed judgment. He had not meant to ask for additional information on all members. It would be sufficient to receive additional information on the 22 members mentioned by the staff in its memorandum.

Mr. Polak noted that the comparisons between Poland and 21 other members in Table III were based on the absolute size of the factors used in the quota calculation. He doubted whether the size of the quotas of such countries as Nigeria, Kuwait, and Libya was a useful guide in judging the appropriateness of the proposed quota for Poland, a European industrial country. It seemed more useful to compare Poland's calculated quota with the actual quotas of other European countries, even though the quotas of the other countries might be much smaller or much larger than the proposed quota for Poland.

The staff had analyzed Poland's calculated quota by comparing the individual quota calculation factors for 22 countries, Mr. Polak continued. He doubted whether that approach was useful, as the quota calculation blended all the factors together in a predetermined manner. The only relevant numbers were the calculated and actual quotas. Hence, the only data of real interest in Table III were in columns 1-3. Moreover, it was the ratio of the actual to calculated quota that was most important in determining how Poland's quota stood in relation to the quotas of other countries. Accordingly, it would be useful to have the ratio of actual to calculated quota for all the European countries. The Executive Directors would then be in a better position to judge whether the 0.47 ratio for Poland mentioned in the staff memorandum seemed a reasonable number on which to concentrate in assessing the proposed quota for Poland in relation to the quotas of other members.

The staff representative from the Treasurer's Department remarked that the staff would update the economic data as requested for Poland and the 21 other countries in Table III. The staff would also provide ratios of actual to calculated quota in time for the next meeting of the Membership Committee. It would not be possible to provide updated quota calculations.

Mr. de Groote recalled that the method of deriving GDP from net material product had been a major issue in the consideration of an initial quota for Hungary. He wondered whether the Polish authorities had accepted the derivation of GDP from net material product shown in Annex Table 5. Were the figures in Annex Table 5 consistent with the World Bank's calculations?

The staff representative from the European Department said that the Polish authorities had agreed with the figures in Annex Table 5, which incidentally were close to independent estimates made outside Poland. A World Bank expert had carefully reviewed Poland's national income accounts and had provisionally concluded that the figures in Annex Table 5, adjusted to allow for net factor income from abroad, would use the appropriate national currency data to use for the World Bank's per capita income calculations.

Mr. Sengupta noted that data on transactions with Poland's CMEA partners were compiled in terms of transferable rubles. In order to determine their SDR equivalents, the transferable ruble transactions had been converted into zlotys at the transferable ruble/zloty commercial rate and then into U.S. dollars at the U.S. dollar/zloty commercial rate. He wondered whether that method of conversion was the one that was usually employed for other CMEA countries. Apparently the staff assumed that the transferable ruble/zloty commercial rate reflected relative opportunity costs.

On page 73 the staff had provided calculations based on Poland's original quota, Mr. Sengupta remarked. He wondered why the staff had concluded that those calculations should not be taken into account in calculating and assessing Poland's proposed initital quota.

The staff representative from the European Department explained that in valuing Poland's trade in nonconvertible currencies which was denominated in transferable rubles, the staff had had a choice of two possible exchange rates, namely, the cross rate obtained from the ruble/zloty and zloty/dollar commercial rates--which the staff had finally chosen to use--and the transferable ruble/U.S. dollar rate, which was set by the International Bank for Economic Cooperation (IBEC) in Moscow. The latter rate was a composite, as it covered the entire CMEA area, including the Soviet Union. Neither the staff nor the Polish authorities had felt that the transferable ruble/U.S. dollar rate accurately reflected the structure of Poland's trade in goods and services. It was to be noted that for many years the transferable ruble/U.S. dollar rate had been much more appreciated than the cross commercial rate. For example, in 1980, the latter rate had yielded a U.S. dollar/ruble ratio of roughly 1:1, while the transferable ruble/U.S. dollar rate of IBEC had been approximately 1:1.50. Use of the IBEC transferable ruble/U.S. dollar exchange rate would have overvalued Polish trade in noncovertible currencies. The Polish authorities had concurred with that view in the full knowledge of the consequences for the calculation of the quota for Poland.

The staff representative from the Treasurer's Department added that the use of the cross commercial rate in valuing Poland's trade in nonconvertible currencies was consistent with the authorities' current practice of presenting their balance of payments and external debt in nonconvertible currencies. Hence, the authorities had preferred to use that rate partly on grounds of consistency.

The calculations on page 73 based on Poland's original quota were purely hypothetical, the staff representative from the Treasurer's Department said. However, the calculations did help to underscore an important point, namely, Poland's large size in relation to the Fund's membership. If Poland had remained in the Fund, it would be among the largest 30 or 40 countries in the entire membership. If Poland had remained a member, the distribution of the overall quota increases as a result of previous quota reviews would probably have been different than had actually been the case. Prior to the Seventh General Review of Quotas, agreement was reached under each general review on the overall absolute size of quota increases, and those increases were then distributed through a general equiproportional increase and as selected increases. If Poland had remained a member, the general equiproportional increase component might well have been smaller than had actually been the case, and the distribution of the selective increases might have been different. Taking those factors into account, the staff did not give much weight to the hypothetical calculations based on Poland's original quota.

Mr. de Groote stated that he wished to consider the additional information that the staff intended to provide and to have a further exchange of views before taking a final position on the initial quota for Poland.

Mr. de Maulde said that he too felt that the additional information would have to be provided before he could take a firm position on the initial quota for Poland.

Mr. Dallara considered that one of the tasks of the Membership Committee was to judge Poland's willingness and capacity to meet all the obligations of membership. There was no indication in the staff memorandum of the authorities' willingness to provide the full range of data required of members. Before joining the Fund, Poland would of course have to deposit an Instrument of Acceptance indicating the Government's intention to take all the steps necessary to meet its obligations as a member of the Fund. However, it would be useful at the present stage to have the staff comment on the adequacy of the data provided by the authorities. He wondered whether the staff had discussed with the authorities their obligation to provide the required full range of data once Poland joined the Fund and whether that data might have already been provided to the staff.

The staff representative from the European Department said that the staff had held thorough discussions with the Polish authorities on the legal rights and obligations of membership. The Polish representatives had assured the staff that, as a member, Poland could and would meet all its obligations under the Articles.

The quality and currentness of the data that had been provided by the Polish authorities were considered to be good, and the staff had no major qualms about the authorities' ability to provide the data required of members, the staff representative from the European Department continued. The authorities had been fully cooperative in discussing the data requirements with the staff and in providing the actual figures. Indeed, the Polish authorities had expressed their intention to provide the data needed for a comprehensive page on Poland in International Financial Statistics (IFS) as soon as possible after Poland joined the Fund; the authorities hoped that an IFS page on Poland could be ready for publication within three or four months after Poland joined the Fund. To that end, a staff team from the Bureau of Statistics had visited Warsaw in December 1985 specifically to discuss the methodology and procedures involved in providing data to the Fund on a regular and continuing basis once Poland joined the institution.

Mr. Dallara remarked that the staff's comments were helpful. It would also be useful to have a note from the staff on the issue of the information that Poland would be required to provide the Fund once Poland joined the institution. In particular, the note should assess the extent to which Poland would be able to provide the information required under Article VIII, Section 5(a). The note could also review the circumstances in which Poland had withdrawn from the Fund in 1950.

The staff representative from the European Department said that the staff considered that Poland should have no difficulty in providing the information required under Article VIII; indeed, most of that information had already been provided to the staff.

Mr. de Groote asked whether data on per capita income in Poland were available. His rough calculations suggested that Poland should perhaps be categorized as a developing country. He wondered whether the Polish authorities felt that Poland should be classified as a developing country and how the World Bank had categorized Poland.

The staff representative from the European Department replied that the staff had not discussed with the authorities whether Poland should be classified as a developing or as an industrial country. It was the staff's impression that the Polish authorities perhaps saw Poland as falling somewhere between those categories.

The staff representative from the Treasurer's Department remarked that on the basis of 1980 data Poland's per capita income ranked fifty-fifth among the Fund's membership and was in the same neighborhood as the per capita income of Brazil, the Seychelles, Panama, Malaysia, Korea, Lebanon, Syria, and Paraguay. Poland's present per capita income was SDR 1,213.

The Chairman commented that it would be useful to have per capita income data included in the note that the staff had been asked to prepare for the next meeting of the Membership Committee.

The meeting was adjourned at 4:10 p.m.

APPROVED: September 8, 1986