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ECONOMIC COMMITTEE

THE TRANSFERABLE ROUBLE AND EAST-WEST TRADE

Note by the French Delegation

The COMECON countries' growing debt burden constitutes a problem capable of jeopardising the future of East-West trade. Their economic development requires large-scale purchases of Western technology, cereals and raw materials, but the shortage of foreign currency obliges them to curtail such imports.

The steps taken by the IBEC(1) in October 1976 would seem to suggest that greater use may henceforth be made of the transferable rouble on the international markets in order to revive trade relations with the West.

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In 1975, the trade imbalance and the frequent recourse to credits and lending caused a disquieting increase in the Communist debt burden(2). The drain on strong currencies has forced Eastern Europe to seek ways of redressing its trade balance and of promoting offset agreements.

Not all these efforts have been successful. In 1976, imports from the West went down and thereby reduced the trade deficit by some 20%. But, because of the continuing recession in the West and the indifferent quality of COMECON's goods, sales did not increase as had been hoped. Western firms are disinclined to accept offset agreements because they have difficulty in selling the goods offered. Moreover, Western bankers are beginning to have doubts about Communist solvency and are reluctant to extend further credits or loans(3).

This document includes: 1 Annex

(1) "International Bank for Economic Co-operation", which is a clearing bank for intra-COMECON transactions
(2) See Annex
(3) The IBEC has just been refused a $200 million loan

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The introduction of the transferable rouble in East-West trade could act as a fillip.

The transferable rouble is an accounting unit defined by reference to gold but which is not convertible, and up to now it has been used to record intra-COMECON trade flows.

If this monetary unit were to be accepted by the Western trading partners, the Communist countries could save on their hard currency reserves by paying for their imports in roubles. At the same time, the West would help to improve the trade balances of the COMECON countries by using their rouble holdings to pay for their purchases from the East.

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Such a development is now possible because in October 1976 the IBEC changed its regulations by adopting four basic measures:

- arrangements for the settlement of business conducted in transferable roubles no longer have to be planned in advance;
- credits of up to 100% of the authorized payments may now be advanced;
- banks may now grant credits of over three years;
- credit balances held in transferable roubles may be reimbursed at any time in convertible currency.

But these arrangements are hardly sufficient to overcome Western reluctance to accept the transferable rouble. The yardstick for determining the rouble value of goods sold to COMECON countries still has to be specified. Moreover, the reimbursement of the IBEC in hard currency of roubles held by Western banks does not seem to have been considered. Last but not least, the Western countries fear that their Eastern partners will engage in commercial blackmail by signing preferential contracts with the countries accepting their currency.

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For developing countries or certain semi-industrialized countries such as Finland, the use of transferable roubles may be attractive. It would allow them to save on their convertible currency while enabling them to wipe out a deficit with one of their Communist partners by means of a credit balance with another COMECON country.

But the use of the transferable rouble on the international market does entail some risk for COMECON members. Speculation centred on the rouble could easily develop if the Western countries, instead of keeping this currency for their imports from the East, were to make their reserves available, at a discount, to poorer countries.

Such a development would, of course, be unacceptable for state-controlled economies and would oblige the IBEC to tighten its control over the transferable rouble. This, in turn, would be at variance with the liberalizing measures referred to above and would detract from the advantages of the transferable rouble.

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In the short run, it is improbable that the transferable rouble will be used in international trade, nor is it likely to become convertible. But the measures taken recently by the IBEC could encourage the conclusion of bilateral agreements, particularly with the developing countries. For this reason, the measures may foreshadow a new COMECON international trade policy(1).

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(1) Article 5, Section 7, of the 1971 "Comprehensive Programme" reads: "The collective currency can be used for transactions between COMECON countries and other countries and, in relation to the other international trading currencies, it will play a part commensurate with the rôle and importance of COMECON member countries in the world economy."

ANNEX to
AC/127-D/556

ESTIMATE OF COMMUNIST DEBT BURDEN VIS-A-VIS THE WEST
(MILLIARD DOLLARS)

	1974	1975	1976
USSR	8.0	12.0	14.0
Poland	4.5	6.7	10.0
GDR	2.4	3.7	4.8
Rumania	2.5	2.1	3.3
Hungary	2.0	2.0	2.6
Bulgaria	1.5	2.0	2.3
Czechoslovakia	1.1	1.2	2.1
TOTAL	23.0	29.7	39.1