

WITHDRAWAL NOTICE

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Office Memorandum

June 30, 1981

MEMORANDUM FOR FILES

Subject: Poland

On several occasions during my visit to Hungary the question of Poland was raised. In very brief summary the Hungarians considered that the only approach to Poland's economic problems that could be acceptable politically and economically would have to be based on first a sharp reduction in investments while a ruthless pruning exercise was undertaken; second the strongest efforts to revive agricultural production by immediately improving incentives and special assistance and later seeking some amalgamation of the present proliferation of very small holdings; third real domestic consumption would probably need to be reduced but they warned against the obvious political dangers in too direct an approach. They suggested an approach that could be presented as being designed to maintain purchasing power as regards "basic needs" but that would cut into other expenditures. The Hungarians also warned that it was their understanding that the Polish economy was in an excessively liquid position.

A handwritten signature in dark ink, appearing to read "L.A. Whittome".

L.A. Whittome

cc: EED

CONFIDENTIAL

To: The Managing Director
The Deputy Managing Director

June 8, 1981

From: Hans Schmitt

Subject: Poland

Mr. Whittome called today to say he had learned in Hungary that, unless there were some Russian action, the Poles will begin discussions with the Fund in late autumn, and if they do, the Hungarians will come along, too.

cc: Mr. Tyler
Mr. Watson



Office Memorandum

CONFIDENTIAL

June 8, 1981

MEMORANDUM FOR FILES

Subject: Poland (and Hungary)

Mr. Whittome called from Athens today. While in Hungary he had learned that, barring a Russian action, the Poles would approach the Fund in late fall. If they did the Hungarians would also. Meanwhile we should initiate preparatory work on Poland, particularly on four topics, viz., the system of agriculture; the process of decision-making on investment; developments in real wages since last year; and the liquidity of the economy. The liquidity of the Polish economy was thought to be very high by the Hungarians.

HS
Hans Schmitt

cc: Mr. Tyler

WITHDRAWAL NOTICE

PROJECT

Project number 2008-006
Project name European Dept/Front Office
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DOCUMENT

Series / File EUR/AI/Country Files/Poland/C
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From
To The Files
Subject / Title Poland
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COMMENTS

Document closed

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Office Memorandum

CONFIDENTIAL

TO : Mr. Whittome *W*
FROM : Geoffrey Tyler *GT*
SUBJECT : Poland--Quota

DATE: May 15, 1981

You may wish to know that Treasurer's Department asked us for data which will permit them to make quota calculations for Poland. The results of the calculations indicate a quota range of US\$700-1,000 million.

cc: Mr. Mountford
Mr. Manison



Office Memorandum

May 12, 1981

To: L. A. Whitton ✓
From: G. Tyler (G)
Subject: Polish Debt Rescheduling

Lynne, I would like to take this to Gabor (i.e. Beaufort) & ask that a copy for circulation in F.O.

The Agreed Minute

I have worked from the French text and it is possible I have mis-translated some things, but I do not think there is anything of significance that I have misunderstood. The following are the main features.

(i) In its form it is a fairly typical "Paris Club" agreement in that it provides for specified conditions for repayment of the debt under consideration and provides for a "most-favored-nation" treatment of the signatories relative to other countries, which presumably include CMEA countries since these are not specifically mentioned.

(ii) There is provision (I, 2(b)) for a mixed committee of the participants to meet semiannually to discuss progress under the stabilization. It is agreed that, if mutually acceptable, observers can be invited. Pertinent information must be provided and specific reference is made of the external accounts. This kind of provision is unusual but it replaces the normal situation where the Fund is lending to the debtor countries and there are regular reviews because of that.

(iii) The conditions of the rescheduling or refinancing are as follows: (a) Commercial credits guaranteed or insured by governments or relevant organs, and government loans having an original maturity of more than one year, in both cases concluded before January 1, 1981, are covered. This is fairly standard practice. (b) Of such debts, all amounts due prior to May 1981 (i.e., those currently in arrears), and all amounts falling due until the end of 1981 are to be rescheduled or financed in an amount of 90 per cent of principal and interest. This is relatively good treatment except that the period from May-December 1981 for future debt maturities is short; in other recent examples the period has been up to two years. The reason for this presumably is that Poland does not have a Fund program and the corresponding surveillance. The remaining 10 per cent of debt is to be repaid as originally due. (c) There is a grace period of four years, seven months (to January 1, 1986), which is quite good, with eight equal semiannual payments ending on July 1, 1989. This makes the longest maturity about eight years, which is reasonable but shorter than a number of recent Fund cases. (d) The creditors agree to look at 1982 and 1983 maturities in a "positive manner." The mixed committee will meet to this end in Paris in September 1981 and afterward and will pay particular attention to economic performance in the light of the balance of payments projections that have been given. This replaces Fund reviews. (e) Rates of interest are to be fixed bilaterally. This is usual.

A political uncertainty

(iv) There are various general undertakings, including: (a) Poland will do its utmost to obtain similar rescheduling or better for all private debt, including that due to banks. For other creditor countries no less favorable terms will apply and negotiations are to be completed as soon as possible. Countries with credits of less than SDR 1 million are excused; and (b) all signatories will give details of the results of their negotiations, i.e., amounts, interest rates, etc., and will provide copies of bilateral agreements on request.

(v) In exceptional (unspecified) circumstances a creditor can suspend its bilateral agreement.

(vi) Agreements must be concluded no later than June 30, 1981. |

In summary, it is a fairly typical "Paris Club" agreement with special features that exist partly because there is no Fund stand-by, thereby necessitating a short period for future debt negotiation, and provisions for future reviews and new agreements for 1982-83 debt.

The economic program in the external sector

The projections for the balance of payments attached to the Agreed Minute cover the convertible currency payments and those with state economy countries, separately. The summary tables extend to 1990 and the more detailed ones until 1985. There are abbreviated forecasts of the domestic developments for 1981-83, but not in a form that permits one to see if there is internal consistency between the two sets of data, since there is an output figure for material product but no data for total domestic expenditure. The output data refer to national income produced. This equals GNP less depreciation and less net output of nonproductive services. The rate of growth is 2.7 per cent per annum in 1982 and 1983, with the growth of industrial production averaging 5.3 per cent per annum over the two-year period. Investment expenditure is to increase by 1.7 per cent a year, presumably at constant prices, although this is not clear.

The balance of payments forecasts are the basis on which performance under the program will be judged. The following are the main features:

(a) The current account balance in convertible currencies, which includes the U.S.S.R. credits in such currencies, shows a deficit of \$3.0 billion in 1981 (\$2.7 billion in 1980) declining to \$0.5 billion in 1985, followed by increasing surpluses in each year until 1990, when the surplus is \$5.2 billion. This would result in outstanding long-term convertible debt in convertible currencies at the end of 1990 of \$22.9 billion, exactly the same as at end-1980 but with a debt service ratio presumably much less. (Projections for 1990 do not permit a calculation but gross receipts from goods, services, and transfers in 1990 are 173 per cent greater than in 1980, while it seems that gross repayments would be substantially higher than in 1980.) In 1980 the ratio for long-term debt payments to the above gross receipts was 79 per cent. A rough estimate puts the 1990 figure at above 60 per cent. In 1985 the projections imply a ratio of 83 per cent.

Thus the debt service problem will remain acute for more than a decade, even if the forecasts are realized. (These calculations are approximate only, since the division of transactions between long and short term is not completely available.)

(b) The current account in rubles (but expressed here in dollars) showed a deficit of \$0.9 billion in 1980, and is forecast to show deficits of \$1.7 billion in 1981 and \$2.1 billion in 1985. In each of the intervening years it is \$1.3 billion. By 1990 it is in balance but three of the years 1986-90 have deficits. Medium- and long-term debt outstanding moves from \$2.1 billion at end-1980 to \$8.2 billion at end-1985 and \$7.3 billion at end-1990. During 1980-85, net bilateral short-term debt outstanding rises by \$1.6 billion and during 1986-90 by \$2.6 billion. Data are not available for calculations of debt service ratios, but initially at least they are likely to be quite modest because amortization is small.

(c) The above implies that during 1981-85, there is an approximate balance, after allowing for the fact that the convertible data include U.S.S.R. loans in convertible currencies, between the debt burden shared by the socialist bloc and the West. From 1986 to 1990, the net burden in the latter declines, while it increases for the former. By 1990, however, the absolute level of outstanding debt to the West is still substantially higher than to the socialist bloc.

(d) Export growth is relatively modest, averaging 8 per cent per annum in the period 1981-85 for the convertible area and 6 per cent per annum for the socialist bloc. These are presumably in current prices and imply only a small increase in volume. They are surprisingly modest but probably realistic. The major problem is that coal exports increase from \$1,067 million in 1979 to \$1,720 million in 1985, after falling to a projected \$540 million in 1981. Coal exports to the socialist bloc are to increase only slowly. If one assumes a sustained price increase for coal, the forecast may be reasonable. If the improvement is mainly from higher volumes, one may have more doubts, given labor conditions in this industry.

(e) Convertible imports over the five years are to grow by an annual average of 2 per cent in value, with a corresponding figure of 7 per cent for imports from the socialist bloc. Taken together, this is an average growth of 5 per cent a year, with presumably almost no growth in volume and perhaps a decline. Its consistency with the planned growth of output can be explained only by a very sharp increase in the efficiency of import use generally with a very great improvement in the efficiency with respect to convertible imports. Moreover, because the value of oil imports rises sharply (13 per cent a year) and raw material imports also (16 per cent a year), there is no forecast increase in the value of semifinished and manufactured products and a decline of 9 per cent per annum in the value of agricultural imports (albeit in comparison with a year of poor harvest). These data imply substantial volume declines and a high degree of success with import substitution. At least at first sight, the import projections, especially with respect to the convertible area, look suspect. To reduce them would presumably require lower domestic expenditure and growth.

Comparisons with Romania and Yugoslavia

In one sense, there is a great deal of similarity between the three countries. All are forecasting slower domestic growth and are expecting to be able to cut back sharply on investment expenditure, which they admit has been inefficient. They all believe that substantial import substitution is possible and that significant improvement can be made in the energy sector (by switching to domestic coal and other sources), agriculture, and in the export sector.

However, there are significant differences between the two countries we have dealt with and Poland. The former two appear to be willing, especially in the case of Yugoslavia, to make greater efforts via reductions in growth rates of domestic expenditure in order to reduce the current account deficit more quickly, despite the fact that the size of their deficits have been of the same order of absolute magnitude as Poland's (in 1980 Poland \$3.8 billion; Romania \$2.4 billion; and Yugoslavia \$3.7 billion, but with economies less than half the size). There is a prima facie case for arguing that, on comparative grounds, the Polish effort is too slow and less than we might have asked under a stand-by program. However, this judgment must be taken cautiously since perhaps the combination of the social unrest and its economic consequences, combined with political considerations, could justify the time path proposed. There is difficulty in judging figures without a full face-to-face discussion about their implications. Against this, the debt problem of Poland is immensely greater than that of Romania and Yugoslavia, implying that the Polish program should be stronger and quicker acting than theirs. On balance, I believe that, if we were judging the program targets by Fund standards, we would insist that the burden of proof be on Poland to justify the domestic rate of growth, the consistency of the import projections, and the slow reduction of the current account deficit in the initial part of the program. The present time path clearly runs the risk that not enough is being done initially and too much left for later.

I have not seen the description of the program that preceded the text on pages 40 and 41, attached to the Agreed Minute and the balance of payments tables; presumably it followed the lines of the document describing the three-year stabilization program given earlier to creditor countries. I believe that much more data is necessary before we can make a quantitative judgment of the program, including its internal consistency. I do not see why it should be impossible for the Poles to supply (not in any significant order) information in the following areas:

- (a) national account forecasts on the SNA basis;
- (b) structure and levels of planned investment;
- (c) structure and levels of planned output;
- (d) detailed projections of the energy sector by source and use;
- (e) budget data and projections, with special reference to subsidies;

- (f) monetary data and projections;
- (g) quantified projections of real wage changes;
- (h) data on domestic price changes; and
- (i) more detailed information on assumptions underlying the balance of payments projections on trade growth in volume, interest rate assumptions, some disaggregation of invisibles, and capital transactions;
- (j) information on the exchange rate system and any proposed changes.

Summary

The rescheduling is in substance a typical "Paris Club" agreement with special features because there is no Fund monitoring of performance. The terms are not quite as generous as some other Fund cases but on the whole are quite good. In particular, the improvement in the balance of payments to be permitted under the program is quite gradual. There must be doubts about the internal consistency of the program and whether policies will be adequate to bring about the forecast external result. The programs look somewhat weak compared to those of Romania and especially Yugoslavia. However, lack of data and some uncertainties about the meaning of available data make judgments hazardous in this area.



Office Memorandum

Mr. Whittome
CONFIDENTIAL

TO : Managing Director
FROM : A. Guetta
SUBJECT : Polish External Debt Rescheduling

DATE: May 6, 1981

Attached please find the Agreed Minute of the Intergovernmental Group on Polish Debt, as well as the key economic variables and targets related to the rescheduling exercise of April 27 and referred to in paragraphs 2 (a) and 3 of the Agreed Minute.

The essence of these documents was summarized in my telex of April 28.

cc: GT

*Pl. let us have
some analysis or comments
on this paper.*

1/24

11/5

Attachments: (2)

cc: Deputy Managing Director
✓ Mr. Whittome
Mr. Watson

Procès-Verbal Agréé relatif à
la dette extérieure de la Pologne.

I. PREAMBULE.

1. Les représentants des Gouvernements de la République Fédérale d'Allemagne, de l'Autriche, de la Belgique, du Canada, du Danemark, des Etats-Unis, de la France, de la Finlande, de l'Italie, du Japon, de la Norvège, des Pays-Bas, du Royaume Uni, de la Suède et de la Suisse, ci-après désignés " pays créanciers participants " se sont réunis à Paris les 23-25 février, les 9-10 avril et les 27-28 avril 1981 avec les représentants du Gouvernement de la République Populaire Polonaise pour examiner la demande d'un allègement de la dette extérieure de ce pays.

2. Des représentants du Gouvernement de la République Populaire Polonaise ont exposé les grandes lignes du programme économique et financier de leur Gouvernement en soulignant l'intention de celui-ci d'aboutir à une amélioration de la balance des paiements et d'exercer un contrôle étroit sur l'endettement extérieur du pays et, dans ce but de s'attacher, à assainir progressivement la situation financière externe.

A cette fin, les représentants du Gouvernement Polonais ont déclaré que leur Gouvernement :

a) appliquera, en vue d'améliorer la situation de la balance des paiements de la Pologne, les politiques économiques concernant tant le plan interne que le plan externe qui sont énoncées dans le rapport annexé au présent Procès-Verbal agréé et qui ont été approuvées par le Gouvernement de la République Populaire Polonaise en tant que part du programme de stabilisation de trois ans et en particulier les objectifs définis à la section III paragraphe 3 ainsi qu'aux données chiffrées pour 1981 contenues dans les tableaux de balance des paiements figurant aux pages 36 à 38 a de ce rapport.

b) communiquera régulièrement aux représentants des pays créanciers participants par l'intermédiaire d'un comité mixte composé de représentants des Parties au présent Procès-Verbal agréé, au cours de réunions à cet effet qui se tiendront semestriellement à Paris, les informations pertinentes et commentaires dans une forme analogue à celle du rapport mentionné ci-dessus sur les progrès du programme de stabilisation économique, sur les objectifs spécifiques des comptes extérieurs et sur la mise en oeuvre du présent Procès-Verbal agréé. S'il en est mutuellement convenu entre les membres du comité mixte, des observateurs pourront être invités à ces réunions.

3. Les représentants des pays créanciers participants ont pris note des mesures prévues dans le programme économique et financier entrepris par le Gouvernement de la République Populaire Polonaise et souligné l'importance qu'ils attachent à l'amélioration des comptes extérieurs prévue par les objectifs mentionnés à la section III paragraphe 3 ainsi qu'aux données chiffrées contenues dans les tableaux de balance des paiements figurant aux pages 36 à 38a du rapport mentionné ci-dessus, ainsi qu'à l'information qui leur sera régulièrement fournie par le Gouvernement Polonais sur l'évolution de la situation.

II. RECOMMANDATIONS RELATIVES AUX TERMES DE L'ALLEGEMENT.

Conscients des graves difficultés de paiement rencontrées par la Pologne, les représentants des pays créanciers participants sont convenus de recommander à leurs Gouvernements ou Institutions appropriées de procéder à un allègement de la dette de la Pologne qui prendra la forme soit d'un rééchelonnement soit d'un refinancement dans les termes suivants :

1. Définition des dettes concernées.

Le service de la dette (" la dette ") pris en considération pour l'application de ce réaménagement, est constitué par :

a) les crédits commerciaux garantis ou assurés par les gouvernements ou les organismes appropriés des pays créanciers participants, ayant fait l'objet d'un contrat prévoyant initialement une durée de crédit supérieure à un an et conclus avant le 1er Janvier 1981.

b) les prêts gouvernementaux ou d'organismes gouvernementaux, ayant une durée initiale de crédit supérieure à un an et conclus avant le 1er janvier 1981

2. Termes de l'allègement.

L'allègement de la dette s'appliquera sur les bases ci-dessous :

a) 90 % du montant du principal et des intérêts initialement dû au titre des échéances de la " dette "

- avant le 1er Mai 1981 et non réglé,
- entre le 1er Mai et le 31 décembre 1981 inclus.

seront rééchelonnés ou refinancés

b) Le remboursement par la Pologne des sommes correspondantes sera effectué en 8 paiements semestriels égaux et consécutifs aux dates suivantes :

1er Janvier 1986	1er Janvier 1988
1er Juillet 1986	1er Juillet 1988
1er Janvier 1987	1er Janvier 1989
1er Juillet 1987	1er Juillet 1989

c) Le paiement par la Pologne des 10 % restants en principal et intérêts sera effectué à la date de l'échéance initiale.

d) En réponse à la demande de la délégation du Gouvernement Polonais les représentants des pays créanciers participants se sont déclarés d'accord pour examiner d'une manière positive le problème des échéances de la dette extérieure polonaise payables en 1982 et 1983.

A cette fin le comité mixte visé au paragraphe I 2b) se réunira à Paris dans la seconde moitié du mois de septembre 1981 et ensuite à des dates mutuellement convenues.

Ce faisant, ils apporteront une attention particulière à la concordance des performances de l'économie polonaise avec les objectifs mentionnés à la section III paragraphe 3 ainsi qu'avec les données chiffrées pour 1981 contenues dans les tableaux de balance des paiements figurant aux pages 36 à 38 a du rapport polonais.

3. Taux d'intérêts.

Le taux et les conditions de l'intérêt à verser au titre de ces facilités financières seront fixés bilatéralement entre le Gouvernement de la République Populaire Polonaise et le Gouvernement ou les institutions appropriées de chacun des pays créanciers participants sur la base du taux approprié du marché.

III. RECOMMANDATIONS GENERALES.

1) Afin d'assurer un traitement comparable aux créanciers extérieurs publics et privés, la délégation de la Pologne a indiqué que la Banque Handlowy s'efforcera d'obtenir de ses créanciers privés, y compris les banques, un rééchelonnement, un financement ou un refinancement à des conditions comparables à celles qui ont été négociées pour les crédits d'échéances similaires couverts par le présent Procès-Verbal, et qui, pour chaque catégorie de créanciers, n'établiront aucune discrimination entre eux.

2) Le Gouvernement de la République Populaire Polonaise accordera à chacun des pays créanciers participants, un traitement qui ne sera pas moins favorable que celui qu'il accordera éventuellement à tout autre pays créanciers pour la consolidation de dettes de terme comparable.

3) Le Gouvernement de la République Populaire Polonaise s'engage à négocier dans les meilleurs délais des accords de rééchelonnement ou de refinancement avec tous les autres pays créanciers pour des dettes comparables à des termes comparables.

4) Les règles fixées au présent Procès-Verbal agréé ne s'appliquent aux pays dont le total du montant des échéances en principal et intérêts dues pendant la période de réaménagement est inférieur à 1 million DTS.

5) Chaque pays créancier participant accepte d'indiquer au Président de ce Groupe de créanciers, la date de la signature de son accord bilatéral, les taux d'intérêt pratiqués et les montants des dettes concernées. Le Gouvernement de la République Populaire Polonaise prend acte de cette disposition

6) Les pays créanciers participants notant que toute réserve antérieure sur ce point sera respectée, sont convenus que chaque pays communiquera, à la demande de tout autre pays participant, une copie de son accord bilatéral avec le Gouvernement de la République Populaire Polonaise. Le Gouvernement de la République Populaire Polonaise prend acte de cette disposition.

IV. MISE EN OEUVRE.

1. Les modalités du rééchelonnement ou du refinancement seront fixées dans des accords bilatéraux à conclure par le Gouvernement ou les institutions appropriées de chacun des pays créanciers avec le Gouvernement de la République Populaire Polonaise sur la base des principes suivants :

a. Le Gouvernement ou les institutions appropriées de chaque pays créancier :

- refinanceront les dettes, en mettant à la disposition de la Pologne pendant la période de réaménagement les sommes correspondantes aux pourcentages prévus ci-dessus à mesure des échéances fixées par le calendrier initial ;

ou

- rééchelonneront les échéances correspondantes ;

b- Tous les autres points concernant le rééchelonnement ou le refinancement seront fixés dans les accords bilatéraux entre la Pologne et les pays créanciers participants.

2. Les pays créanciers participants qui ont déjà accordé pendant le premier semestre 1981 une assistance financière sous la forme d'un financement relais à la Pologne afin de faciliter l'effort de ce pays pour faire face au service de sa dette extérieure, tiendront compte de l'assistance financière ainsi accordée pour le calcul de l'allègement à accorder pendant le deuxième semestre 1981 en application du présent Procès-Verbal agréé à condition qu'elle soit de qualité au moins égale.

3. Si des circonstances exceptionnelles sont constatées, chacun des pays participant signataires du présent Procès-Verbal agréé peut suspendre sans préavis l'application de son accord bilatéral pour ce qui le concerne.

Au cas où telle suspension interviendrait, les dispositions des contrats initiaux resteraient en vigueur dans tous leurs effets et continueraient à régir le remboursement des dettes en cours à la date de la suspension ainsi que le paiement des intérêts correspondants.

4. Les représentants des pays participants et les représentants de la République Populaire Polonaise sont convenus de recommander à leurs Gouvernements ou Institutions appropriées d'ouvrir dans les meilleurs délais les négociations bilatérales et de les conduire sur la base des principes énoncés ci-dessus et de les conclure le plus rapidement possible mais pas plus tard que le 30 juin 1981.

Fait à Paris, le 27 avril 1981
en deux versions en langue française
et anglaise, les deux textes faisant
également foi.

Le Président de la Réunion

Délégation de la République
Fédérale d'Allemagne

Délégation de l'Autriche

Délégation du Royaume de
Belgique

Délégation du Canada

Délégation du Royaume
du Danemark

Délégation des Etats-Unis
d'Amérique (ad referendum)

Délégation de la Finlande

Le Chef de la Délégation
de la République Populaire
Polonaise

Délégation de la République
Française

Délégation de l'Italie

Délégation du Japon

Délégation du Royaume
de Norvège

Délégation du Royaume
des Pays-Bas

Peter Mountfield
Délégation du Royaume-Uni

Délégation du Royaume
de Suède

Délégation de la Suisse

Balance of payments with market economy countries

in billion dollars

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Goods											
- exports	8,0	6,5	7,5	9,0	10,4	11,9	13,5	15,4	17,5	20,0	22,8
- imports	8,8	7,2	7,5	8,3	9,0	9,7	10,1	11,2	12,4	14,0	16,1
- balance	- 0,8	- 0,7		+ 0,7	+ 1,4	+ 2,2	+ 3,4	+ 4,2	+ 5,1	+ 6,0	+ 6,7
2. Services and remittances											
- inflows	2,0	2,0	2,2	2,4	2,7	2,9	3,2	3,5	3,9	4,3	4,6
- outflows	1,6	1,6	1,7	1,8	2,0	2,2	2,4	2,6	3,0	3,3	3,6
- balance	+ 0,4	+ 0,4	+ 0,5	+ 0,6	+ 0,7	+ 0,7	+ 0,8	+ 0,9	+ 0,9	+ 1,0	+ 1,0
3. Interests on credits received and granted											
- inflows	0,1	0,1	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,2	0,2
- outflows	2,4	2,8	3,1	3,3	3,5	3,6	3,7	3,6	3,4	3,0	2,7
- balance	- 2,3	- 2,7	- 3,0	- 3,2	- 3,4	- 3,4	- 3,5	- 3,4	- 3,2	- 2,8	- 2,5
						9.2					
4. Balance of current account	- 2,7	- 3,0	- 2,5	- 1,9	- 1,3	- 0,5	+ 0,7	+ 1,7	+ 2,8	+ 4,2	+ 5,2
5. Credits received 1/											
- inflows	8,8										
- outflows	5,6										
- balance	+ 3,2	+ 3,2	+ 2,8	+ 2,2	+ 1,6	+ 0,8	- 0,4	- 1,3	- 2,4	- 3,0	- 3,5
6. Balance of credits granted	- 0,2	- 0,2	- 0,3	- 0,3	- 0,3	- 0,3	- 0,3	- 0,4	- 0,4	- 0,4	- 0,4
7. Others, balance	- 0,3	-	-	-	-	-	-	-	-	- 0,8	- 1,3
8. Balance of capital movements	+ 2,7	+ 3,0	+ 2,5	+ 1,9	+ 1,3	+ 0,5	- 0,7	- 1,7	- 2,8	- 4,2	- 5,2
9. Indebtedness											
01.01. changes	21,0	22,9	26,1	28,9	31,1	32,7	33,5	33,1	31,8	29,4	26,4
31.12.	+ 1,9	+ 3,2	+ 2,8	+ 2,2	+ 1,6	+ 0,8	- 0,4	- 1,3	- 2,4	- 3,0	- 3,5
	22,9	26,1	28,9	31,1	32,7	33,5	33,1	31,8	29,4	26,4	22,9

1/ credits obtained by Poland from the USSR in convertible currencies are included in this table

BALANCE OF PAYMENTS WITH MARKET ECONOMY COUNTRIES 1977-1985 /in Million US \$/

in million dollars

	1977	1978	1979	1980	1981 ^{x/}	1982 ^{x/}	1983 ^{y/}	1984 ^{y/}	1985 ^{x/}
A. Current account	-2,530	-2,375	-2,092	-2,783	-3,000	-2,480	-1,930	-1,300	-500
Exports f.o.b.	5,076	5,446	6,414	7,965	6,500	7,500	9,000	10,400	11,900
Of which									
Coal	921	943	1,067	1,003	540	963	1,207	1,482	1,720
Copper	108	153	204	279	277	373	447	522	627
Sulphur	108	120	125	205	231	268	298	339	350
Silver	45	57	101	340	190	242	280	300	433
Semi products	1,065	1,117	1,347	1,673	1,360	1,512	1,720	2,010	2,270
Manufactured	1,513	1,858	1,925	2,390	1,950	2,160	2,550	2,880	3,240
Imports, f.o.b.	7,097	7,242	8,157	8,757	7,200	7,500	8,300	9,000	9,700
Of which									
Crude oil	365	332	521	780	561	667	1,090	1,214	1,435
Agricultural goods	1,034	1,313	1,430	1,880	2,100	1,400	1,200	1,100	900
Semi products	1,838	1,845	2,120	2,277	1,870	1,900	2,070	2,100	2,350
Raw materials	627	715	950	420	439	633	690	786	875
Manufactured	2,594	2,631	2,936	3,153	2,230	2,600	2,850	3,000	3,100
Trade account, f.o.b.	-2,021	-1,796	-1,743	-792	-700	-	+700	+1,400	+2,200
Services, net	-875	-1,199	-1,752	-2,515	-2,920	-3,230	-3,380	-3,500	-3,500
Freight and insurance	-10	-68	-153	-142	-140	-200	-180	-100	-100
Interest on debt	-868	-1,116	-1,597	-2,334	-2,700	-3,000	-3,200	-3,400	-3,400
Other	-11	-15	-2	+39	+80	-30	-	-	-
Unrequited transfers, net	+386	+620	+503	+524	+620	+750	+750	+800	+800
Private	+406	+630	+513	+526	+620	+750	+750	+800	+800
Official	-20	-10	-10	-2	-	-	-	-	-
B. Capital account									
Nonmonetary capital /long term/	+2,254	+2,259	+3,013	+3,190	+3,200	+2,800	+2,200	+1,600	+800
External borrowing 2/	4,146	5,234	8,154	8,800	10,100	9,400	7,700	7,200	7,500
Debt amortizations	1,892	2,975	4,341	5,610	6,900	6,000	5,500	5,600	6,700
Short term capital /net/	+202	+547	+100	-737	-	-	-	-	-
Other capital account	-74	-431	-921	-407	-200	-320	-270	-300	-300
C. Overall balance	-	-	-	-	-	-	-	-	-
D. Foreign exchange reserves									
Assets	327	457	654	312					
Liabilities									

Balance of payments with state economy countries 1981-1990
/payments in roubles/

in billion of dollars

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1/ Goods exports	9,0	8,6	9,4	10,5	11,8	12,3	13,7	15,1	17,0	19,2	21,7
imports	10,2	10,4	10,9	12,0	13,2	14,5	14,5	15,5	15,2	21,2	21,9
balance of trade	-1,2	-1,8	-1,5	-1,5	-1,4	-2,2	-0,8	-0,4	+1,8	-2,0	-0,2
2/ Balance of services and remittances	+0,3	+0,2	+0,3	+0,3	+0,3	+0,3	+0,3	+0,4	+0,4	+0,4	+0,4
3/ Balance of interests on credits received and granted	-	-0,1	-0,1	-0,1	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2
4/ Balance of current account	-0,9	-1,7	-1,3	-1,3	-1,3	-2,1	-0,7	-0,2	12,0	-1,8	-
5/ Bilateral credits - inflow received	0,2	0,5	0,7	2,0	2,6	0,8	0,9	0,7	0,8	0,8	0,9
- outflow	0,1	0,1	-	0,2	0,3	0,6	0,9	1,0	1,1	1,1	1,2
+/- balance	+0,1	+0,4	+0,7	+1,8	+2,3	+0,2	-	-0,3	-0,3	-0,3	-0,3
6/ Term credits of IBEC and IIB - inflows	1,2	1,2	0,3	-	-	2,2	-	-	-	2,2	-
- outflows	0,5	-	0,3	1,2	1,5	-	-	-	2,2	-	-
- balance	+0,7	+1,2	-	-1,2	-1,5	+2,2	-	-	-2,2	+2,2	-
7/ Balance of credits granted	-0,1	-	-	-	-0,1	-0,1	-0,1	-0,1	-0,1	-0,2	-0,2
8/ Balance of movements on bank accounts	+0,2	+0,1	+0,5	+0,6	+0,6	-0,2	+0,8	+0,6	+0,6	+0,1	+0,5
9/ Others	-	-	+0,1	+0,1	-	-	-	-	-	-	-
10/ Balancing figures	+0,9	+1,7	+1,3	+1,3	+1,3	+2,1	+0,7	+0,2	-2,0	+1,8	-
11/ Medium and long term debt - increase or decrease	-	2,1	3,7	4,4	5,0	5,8	8,2	8,2	7,9	5,4	7,3
31.12.	-	+1,8	+0,7	+0,6	+0,8	+2,4	-	-0,3	-2,5	+1,9	-
	2,1	3,7	4,4	5,0	-5,8	8,2	8,2	7,9	5,4	7,8	7,3

+/- intentions

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Balance of payments with state economy countries 1977-1985
/payments in roubles /

In million US \$

	1977	1978	1979	1980	1981	1982	1983	1984	1985
A. Current account	- 236	+ 28	- 101	994	- 1.656	- 1.315	- 1.325	-1.250	-2.065
Exports f.o.b.	6.932	7.811	8.598	8.994	8.564	9.400	10.500	11.800	12.900
of which									
Coal	640	715	740	562	530	555	573	645	667
Copper	58	50	39	43	38	39	39	40	45
Sulphur	94	96	117	130	87	92	108	118	137
Silver	5	3	2	5	-	-	-	-	-
Semi products	1.157	1.203	1.435	1.500	1.430	1.570	1.750	1.970	2.010
Manufactured	4.932	5.616	6.190	6.475	6.100	6.700	7.560	8.495	8.856
Imports f.o.b.	7.271	7.912	8.674	10.217	10.400	10.900	12.000	13.200	14.500
of which									
Crude oil	821	1.060	1.217	1.370	1.856	2.290	2.900	3.000	3.700
Agricultural goods	366	360	371	413	520	420	350	355	490
Semi products	1.436	1.540	1.739	1.992	2.030	2.010	2.510	2.600	2.700
Raw materials	299	722	866	1.042	494	790	940	945	840
Manufactured	3.848	4.440	4.690	5.400	5.500	5.390	5.500	6.300	7.100
Trade account f.o.b.	- 339	- 101	- 276	-1.223	- 1.836	- 1.500	- 1.500	-1.400	-2.200
Services net	+ 59	+ 66	+ 116	+ 165	+ 120	+ 120	+ 110	+ 75	+ 50
Freight and insurance	+ 212	+ 255	+ 268	+ 299	+ 300	+ 330	+ 350	+ 365	+ 370
Interests on debt	- 26	- 41	- 37	- 31	- 75	- 110	- 140	- 110	- 210
Other	- 127	- 148	- 115	- 103	- 105	- 100	- 100	- 100	- 100
Unrequited transfers, net	+ 44	+ 63	+ 59	+ 62	+ 60	+ 65	+ 65	+ 75	+ 75
Private	- 1	+ 7	+ 1	+ 5	+ 5	+ 5	+ 5	+ 5	+ 5
Official	+ 45	+ 56	+ 58	+ 57	+ 55	+ 60	+ 60	+ 70	+ 70
B. Capital account									
Nonmonetary capital /long term/	+ 472	+ 52	+ 54	+ 882	+ 1.600	+ 700	+ 600	+ 800	+2.400
External borrowing	924	215	482	1.412	1.700	1.000	2.000	2.600	3.000
Debt amortizations	452	267	428	530	100	300	1.400	1.800	600
Short term capital /net/	-	-	-	-	-	-	-	-	-
Other capital account 1/	- 236	- 80	+ 47	+ 112	+ 56	+ 615	+ 725	+ 450	- 333
C. Overall balance	-	-	-	-	-	-	-	-	-

1/ among them credits granted.

2/ intentions

The final stabilization program will be approved by the Party Congress before 20 July 1981 r.

The assumptions of the 1981-plan and stabilization program given in this report are rather on the low side. Assuming successful effects regarding structural changes in industry the actual economic results may turn out to be better. It is equally difficult now to foresee the production effects linked with the enforcement of the economic reform and its influence on the rate of growth of the economy.

3. Taking into account the country's payments possibilities and then available volume of supply of imported raw material and intermediate products and having in mind increasing difficulties linked with the output of domestic raw material the following targets are being assumed for the 1981-1983 years aimed, in particular, at the improvement of the balance of payments:

	1981	1982	1983	% 1983 1981
- National income produced mld zl /constant prices/	1800	1850	1900	105,5
- Industrial production mld zl /constant prices/	2750	2900	3050	110,9
- Output of main raw materials:				
- coal mill.tons	173	182-185	190	109,8
of which for export	19	25-26	27-28	142,0 147,0
- copper thous.tons	340	350	360	105,9
of which for export	160	182	190	118,8
- silver tons	675	700	720	106,7
of which for export	399	436	446	111,8
- sulphur mill.tons	4,7	5,0	5,2	110,6
of which for export	3,4	3,5	3,7	108,8

- Agricultural production mld zl	586	605	630	107,5
of which: plant production	336	350	365	108,5
animal production	250	255	265	106,0
- crops of cereals mill.tons	19,5	20,5	21,5	110,3
- import of cereals mill.tons	6,7	5,0	4,0	59,7
- Total investment outlays mld zl	435	435	450	103,4
- Export to market economy countries mld \$ +/	6,5	7,5	9,0	138,5
- Import from market economy countries mld \$ +/	7,2	7,2	7,8	108,3

+/ current prices

see - page 41a

4. It is being assumed that the industrial production in 1981 will be by about 10% lower than in 1980. The fall in coal output estimated at 10% has particularly painful consequences for the whole economy bringing about serious disturbances in the energy balance of the country let alone the lost in hard currency earnings. The main task of the polish economic policy is to bring about increasing output and export of coal.
5. The difficult position in supply in raw materials demands that a severe saving policy be implemented. Special steering system will be introduced which will allow to allocate the raw material in such a way as to ensure rhythmical production in factories playing utmost role in the whole economy while looking from the viewpoint of its current, most important needs. Having this in mind we have to ensure, first off all, necessary supplies to export oriented enterprises as well as to those producing foodstuffs and means for agriculture. It means that it won't be possible to ensure adequate raw materials supplies to many



Office Memorandum

TO : Mr. Whittome *Wh*

FROM : A. Mountford *AM*

SUBJECT : Poland--The Indonesia Precedent

DATE: May 7, 1981

1. Indonesia is the only case, to my knowledge, of a country that has left the Fund and then subsequently became a member again. It may therefore offer some precedents, if Poland reapplies.

2. Indonesia left the Fund in August 1965, reapplied in June 1966, and became a member again in April 1967. The most relevant feature of the negotiations on Indonesia's application, from our point of view, is that the staff and management were guided by the principle "that Indonesia should be placed in substantially the same position it would have been in if it had not withdrawn from the Fund." More specifically as regards the size of quota, this principle led to a recommendation that Indonesia should have the option of choosing between the quota that it had on leaving and the quota that would have resulted if Indonesia had accepted the general quota increase under the Fourth Quinquennial Review. The Executive Directors embraced this principle, which had the obvious advantages of being fair and avoiding any political difficulties over quota negotiations.

3. If the Indonesian case constitutes a precedent, and Poland were to apply for readmission to membership, the consequence would be that the Fund would propose to Poland a range of possible quotas between the original SDR 125 million and SDR 587 million, 1/ and Poland would choose within that range. If Poland wished a higher quota, it would have to apply for an increase and justify it in the usual way.

4. There is, however, a question of whether this would, or should, be regarded as a binding precedent by management and staff, or by the Executive Board, or by an applying country. This is presumably an untested question that might have to be addressed at some stage.

If it were not desired to have the Indonesian case regarded as a binding precedent, I can think of the following distinguishing arguments that might be made. One is that the Indonesian case is so different from Poland as to be essentially different in kind: it is distinguishable in terms of the length of time elapsing between leaving the Fund and becoming a member again, and in terms of the width of range of possible quota (US\$165 million to US\$207 million for Indonesia, and SDR 115 million to SDR 587 million for Poland). The other argument is that apparently the main reason for the principle mentioned in paragraph 2 above was to ensure a reasonable treatment of outstanding repurchase obligations, and only secondarily was it a question of the size of quota.

1/ This figure is based on a single extrapolation using the general increases in each of the quinquennial reviews, including the average increase of 33.6 per cent in ^{the} 1975-76 increase. Other rough estimates by Mr. Manison suggest that a case could be made for a higher quota of SDR 800 million or more.

cc: Mr. Tyler, Mr. Manison, Mr. Maciejewski



Office Memorandum

TO : Mr. Whittome *car* *Thaly*

DATE: May 6, 1981

FROM : A. Mountford *AM*

SUBJECT : Poland

1. You asked if the Indonesian precedent throws any light on whether Executive Board approval would be required for the staff to participate in intergovernmental talks on a nonmember. The files are not very helpful on this, but suggest there may be a difficulty if the nonmember has not yet applied for membership. Indonesia left the Fund in August 1965 and reapplied in July 1966. In June 1966, some three weeks before the application, there is a reference by Mr. Savkar to a forthcoming meeting of creditor countries: in this context the U.S. representatives had indicated that "there was a chance" that the Fund might attend if both Indonesia and the creditors made a request. In the margin, however, there is an annotation to the effect that this should not happen before the country formally applied. Later, a few days after the application was sent, a staff mission to Indonesia stopped in Tokyo to brief the Japanese on the status of membership talks. The mission apparently did not need Board approval for this. The Fund was not represented at the next meeting of the intergovernmental group itself, although its Memorandum of Understanding was formally transmitted to the Fund. There is, finally, a reference in a memorandum by Mr. Gold to the Managing Director being "willing that the mission...discuss Indonesia's problems with the next meeting of the Multilateral Conference...." This did not occur, however.

2. Mr. Evans (LEG) notes that in any case the rules have changed since the Indonesian case (although he believes that even then the staff would have sought Board authorization before participating in the intergovernmental group). In particular, the Board has taken decisions designed to prevent the Fund from giving technical assistance to other international bodies without Board authorization, and to stop the staff from expressing "Fund opinions" without prior Board authorization. In his opinion, the present decisions governing Fund representation probably mean that Board approval would be required if the staff would be providing technical expertise or participating in the work of the group. On the other hand, if the Fund were to be represented merely as an observer, he thinks it might not be necessary to have Board authorization.

3. Mr. Lang (SEC) gives as his opinion that we would certainly need to get Board approval, on two grounds. Firstly, that the staff has no authority to act in a representative capacity without Board approval. And secondly, there is the well-established rule that in potentially controversial situations we try to defuse possible difficulties by touching base with Executive Directors first. In the case of the intergovernmental group on Poland, he thought it would be very advisable to have formal Board approval.

cc: Mr. Tyler

cc: GT

cc: The Managing Director,
You may wish to be aware. The request that the Fund be
an observer, was made by the US (despite their 'careful'
attitude) & backed by the other creditors. If agreed
it will cause a lot of work & will require us to obtain
Board approval.

MEMORANDUM FOR THE FILES

Subject: Poland

April 30, 1981

AM/30/4

Mr. Escoube (Director, Office of East-West Economic Policy, U.S. Treasury) called about some aspects of the meeting earlier this week between Poland and the leading Western creditors. The Polish delegation had been unable to respond to a proposal that the IMF be invited to attend future meetings as an observer; they were referring this question to Warsaw, and would reply later. The next meeting of the commission would be on May 26, at which a schedule of work for the coming months would be established. The Poles had agreed to prepare a paper on the economy and on stabilization measures by end-August, which would then be looked at by a working group (representatives of the 15 major creditors and some others): by end-September 1981, the full commission would discuss the question of rescheduling of debts coming due in 1982.

A. Mountford

cc: Mr. Whittome ✓
Mr. Tyler
Mr. Manison
Mr. Maciejewski

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INTERFUND PARIS, APRIL 28, 1981

INTERFUND
WASHINGTON DC

U R G E N T - FOR IMMEDIATE DELIVERY PLEASE

FOR ACTING MANAGING DIRECTOR
CC: MANAGING DIRECTOR ON RETURN
MR. WHITTOME
MR. WATSON

FURTHER TO MY TELEX OF APRIL 10, INTERGOVERNMENTAL GROUP ON POLISH DEBT REACHED FINAL AGREEMENT ON CONSOLIDATION OF MOST OF THE DEBT SERVICING DUE IN 1981 TO THE 15 PARTICIPATING WESTERN GOVERNMENTS.

THE AGREED MINUTE NOW PROVIDES FOR:

- (1) RESCHEDULING OF DOLLARS 2.5 BILLION, OR 90 PER CENT OF PRINCIPAL AND INTEREST DUE BETWEEN MAY 1 AND DECEMBER 31, AND APPLICATION OF IDENTICAL PERCENTAGE TO AN AS YET UNDETERMINED, BUT APPARENTLY RATHER SMALL AMOUNT OF ARREARS ACCUMULATED BY MAY 1.
- (2) REPAYMENT OF CONSOLIDATED AMOUNT IN 8 EQUAL SEMI-ANNUAL INSTALMENTS BEGINNING JANUARY 1, 1986.
- (3) INTEREST RATES ON CONSOLIDATED DEBT BASED ON THE "APPROPRIATE" MARKET RATES IN EACH OF THE PARTICIPATING COUNTRIES.

Reply via RCA: call 212-248-7000

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(4) REGULAR PERFORMANCE REVIEWS ON THE BASIS OF POLAND'S ECONOMIC PROGRAM--WITH POSSIBLE ATTENDANCE OF AS YET UN-NAMED OBSERVERS--STARTING AT END OF SEPTEMBER (DURING DISCUSSIONS POLES ADJUSTED THEIR PROGRAM TO SUIT THE CREDITORS, BUT AMENDMENTS WERE BOTH SUGGESTED AND ACCEPTED IN A RATHER LIGHT VEIN) AND

(5) GOODWILL AS WELL AS "FORCE MAJEURE" CLAUSES.

POLES WERE HAPPY WITH THE TERMS OF THE RESCHEDULING. THEIR EFFORTS TO OBTAIN FRESH ASSISTANCE MET WITH CONSIDERABLE RESISTANCE FROM UNITED STATES, BUT PRELIMINARY DISCUSSIONS ON THE REMAINING FINANCING GAP FOR 1981 HAVE BEEN SCHEDULED FOR THE END OF MAY.

HOPE TO MAIL THE FULL TEXT OF THE AGREED MINUTES SHORTLY.

REGARDS
GUETTA
INFUND PARIS

✚
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WELL RCVD PLS ??~~XXXXXXXX~~
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Office Memorandum

For Poland
Folder

TO : Mr. Whitcomb

FROM : P. Dhonte P. Dh

SUBJECT : Debt Service Ratios

DATE: April 20, 1981

There is little operational literature on debt service ratios - in the Fund or elsewhere. The matter was covered in the review of external debt management policies (SM/79/125, pp.8 to 11) and in supplement 1 of the recent study of external indebtedness of LDCs (SM/80/273, supplement 1, pp.10 to 15).

I would consider that the basic reference is C Loser. External Debt Management and Balance of Payment policies, Staff Papers, March 1977 especially page 176, which stresses sustainability as the operational criterion in evaluating debt policies: "Management of external debt should aim at providing the maximum possible net resource transfer that can be sustained over time while other policies must provide for a sustainable current account outcome consistent with access to foreign borrowing over the medium term". We have notably developed a small program, for use in Portugal but applicable to any country, to implement this concept.

Poland hasn't slipped over the brink yet. But it's going to. There are too many irreversible trends pushing the country into disaster for any rescue to be possible now. It is only a matter of time.

The rhetoric of the crisis is misleading. It suggests that if the West pressurises Russia sufficiently, the Russians will be persuaded to leave Poland alone. The threat of an end to detente, of a virtual freeze on East-West trade (from which Russia draws so much of her desperately needed technological back up) and the generally adverse impact upon all forms of East-West life are sufficient to make the Russians draw back. This language and these diplomatic brandishings are irrelevant. They will make absolutely no difference as to whether Russia does or does not move. That's not because they are completely valueless but just because they are irrelevant. Russia knows full well that there will be all kinds of disutilities and inconveniences flowing from an intervention in Poland, a number of which she would put a great deal higher on the list than these utterances from the chanceries of Europe; but if she has to move, she has to. It's as simple as that. What we must appreciate in the West, once and for all, is that in exactly the same way that we could not tolerate the defection of Italy, or of Western Germany into the Warsaw Pact camp, nor can they stand back and watch the defection of Poland to the West, until indeed it became part of the NATO group. The Yalta Settlement across Europe still stands and neither side can afford a major defection. This has been the case ever since 1945 and it still remains the case. We may be dismayed by the political price of the Yalta Settlement (one of the inconvenient pillars upon which the post war peace, which we have all so fully enjoyed, have rested) but, apart from wringing our hands, there's nothing much more that we can do about it. That was the case in Hungary in 1956 and over Mr. Dubcek in 1968 and it is now going to be the case over Poland. So let us leave aside the idea once and for all that the Russians will be affected by what we say on this side of the curtain.

The outcome and future events will be determined by whether or not the Polish government can keep the country together, in some semblance of order as a continuing member state of the Warsaw Pact organisation. If it can't, then there is nothing to expect other than the running of the Polish state to be taken over by outside forces. A government in Poland run by Solidarity will not be a government that can be tolerated by Russia. This is because it would not be a government the apparatus of which could be relied upon to run the Polish state as part of the Eastern Block. It would continually be stopping to ask awkward questions, such as should Poland really be part of the Warsaw Pact at all? Or should the Communist part be allowed to run the Government or

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some such other fundamentally heretical question. There is therefore only one kind of government which the Russians will tolerate in Warsaw, that is one that they can recognise as part of the Communist apparatus.

The desperate danger that such a government may not be able to last in Warsaw is because the country is becoming ungovernable (and we mean the word absolutely literally) by any kind of government which the Russians would accept. This is not because of a Dubcek-like revolt or because of a 1956 type upheaval, but simply because 'consent' is ending in Poland. The people are no longer willing to be governed in the only way that the Communist apparatus knows how to govern. They are not being offered some semi-Communist or democratic-Communist alternative which they might accept. It is not a matter of major political evolution at the top but simply that from the very grass roots up to the beginnings of the higher echelon there is a total rejection, utterly democratic and almost completely unanimous, of Communist government as such, as it has been practised in Poland and is now practised in the rest of Eastern Europe. To put it crudely, the Polish people have not simply revolted against a political system, they have vomited.

In these circumstances there is very little that even a reasonable Polish government can do about it. Certainly the present Polish leader, the General with the unpronounceable name, is a reasonable man, one to be in the jungle with, and he has put the situation very honestly and clearly. Namely he has said that unless the Poles are willing to accept a cut in their standard of living, immediate rationing of a wide range of goods, a wage freeze and a strike freeze, there is no point in him staying on. No more honest statement could be made because it is absolutely true. But although the good General is an honest man and in more happy times would undoubtedly command support, like many men who are called into the limelight after the twelfth hour, he's going to get nowhere. It isn't really him that they mind about but the whole system.

Similarly, and in exactly the same vein, Solidarity itself has now become the prisoner of the passions and the protest which brought it into being in the first place. It, no more than the General, now has no desire whatsoever of compromise. Its supporters won't let it. Its leaders may well see the desirability of cooling the act, of tempering their zeal, of delaying some of the reforms, of allowing the Government at least to continue on a day to day basis, of indeed avoiding the Russian invasion, but the man in the street is no longer interested. An important reason why he isn't is that political dissention brought on by economic lack of performance is now, of course, itself being responsible for the economic shortfalls. A ten per cent drop in industrial output in the first quarter as compared to the first quarter last year is pretty staggering. As the General said, there is now a break in the circle of confidence, meaning the goods are no longer reaching the shops. That's how the Russian revolution started in 1917. It is the fatal mixture of economic breakdown and political unrest which leads to the ultimate flashpoint.

Outside its borders, Poland is surrounded by Communist neighbours who have little sympathy for what is going on and who are irritated almost beyond measure by Warsaw's inability to cope with its problem. When we first wrote about this issue last summer we thought, as it turned out far too optimistically, that the Polish movement towards political

independence was part of a wider development in which several other of the Eastern block countries were potentially involved. We saw Poland as one of a group, admittedly at the head of these developments, but not isolated. We were wrong. Poland is isolated. There may be historical overtones here as well. It was interesting to note that the greatest venom in the many condemnations which have been made of Polish behaviour in the Communist camp was uttered by Mr. Husak the Czech leader at the Czech Party Congress. This was a meeting which Mr. Breshnev could safely attend. The Czechs have become the shrill leaders of the anti-Polish camp. This is partly because they themselves are hard timers, a rebound from the Dubcek era. There is furthermore a very conformist element in the Czech make up, the country of the 'Good Soldier Schweik'. Maserec was perhaps an exception who proved the rule. And they don't really like the Poles. It may not be in the forefront of everybody's mind at the moment but, following the Munich Agreement when the Germans stepped in to carve up their hapless victim, others amongst the Czech neighbours ran quickly to the still-living carcass to see what they were allowed to hack off, after the lion had had his fill, as it were. Thus the Poles under the egregious Colonel Greck bit off a tasty morsel of the Czech state lying along the Southern Polish border. A nasty act which did the Poles little good as within the year they too were under the German jack-boot. But memories die hard in Eastern Europe, particularly along the frontiers. And there are probably still some Czechs around who are distinctly underwhelmed by the Polish tragedy now.

So there it is. Unless the Polish government can miraculously regain its grip upon the country which in turn means an equally miraculous economic recovery, then the situation will deteriorate. And if it deteriorates, the risk of a collapse of authority will increase. A collapse in authority will inevitably mean the sucking into the resulting vacuum of outside forces. There is nothing that the West can do diplomatically to affect this issue. The Russians we guess are loathe indeed to take over responsibility knowing as they do the many difficulties which will result both nationally and internationally. But they do not see themselves as having any choice. Nor, frankly, do we, until such time as they lose their will and their wish to hold together their Warsaw Pact front. A massive infusion of aid from the West into Poland might well stave off these events. But the West is already deeply in the red on Poland's account and we doubt very much whether there is either the willingness or the mechanics for the West, in these circumstances, to add immediately and substantially to its already large investment in the country. In these circumstances therefore we see the coming crunch as inevitable. It could be a matter of months but it may be a matter of weeks.

Tony Rudd
16th April, 1981

WITHDRAWAL NOTICE

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To Mr. Whittome
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Also found in EUR/AI/Country Files/Poland/Corres. & Memos 1979-81/Box 57 File 2

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Entered on 11/20/2007



The Managing Director

April 16, 1981

L.A. Whittome

Poland

Mr. Winkelmann told me this afternoon that Germany was "in principle in favor" of Polish membership.

He added that the question had been discussed at the G-5 meeting in London. France and Germany had been positive, the U.K. reluctant while the Japanese and the Americans had remained largely silent.

cc: Deputy Managing Director
Mr. Watson
EED



Office Memorandum

April 15, 1981

MEMORANDUM FOR FILES

Subject: Poland

Mr. Clark of the Citibank telephoned me this morning saying that their representatives now in London for the negotiations with the Poles which will take place tomorrow and Friday on the rescheduling of bank debt had reported that the Poles had said privately that "they are currently discussing with the IMF the possibility of joining the Fund". The Poles added that their idea was that they should become members of the Fund at the time of the next general meeting (sic). The Poles added that these discussions were taking place at a junior level.

The background to this information is the attempt by the banks, not only the U.S. banks, to make Polish membership in the Fund an implicit condition for the rescheduling of debt.

I said only that if the Citibank's representatives were able in an informal way to find out what the Poles meant by their statements it would be not uninteresting. Mr. Clark promised to try and will telephone again tomorrow.

A handwritten signature in dark ink, appearing to be "L.A. Whittome", is written above the typed name.

L.A. Whittome

cc: Managing Director
Deputy Managing Director

EED



Office Memorandum

TO : Mr. Whitcomb

DATE: April 13, 1981

FROM : L.G. Manison

SUBJECT : Poland

Please find attached some draft working notes on Poland based, hopefully, along the lines you had indicated. They will obviously have to be refined and expanded upon by colleagues. What emerges from the limited information is that for the Polish economy to have a chance of adjusting over the medium to long term a prompt and massive rescheduling of external debt is required. Due to heavy import dependence and the unfavorable export prospects modest external debt relief would not provide sufficient scope for an adequate adjustment on the supply side of the economy. The summary document of the official three-year stabilization program, while helpful for analyzing the current economic situation, is weak in that the authorities seem to have little idea, at this stage, of the specifics and timing of policy measures needed for stabilizing the economy. Moreover, given the gravity of Poland's economic problems there seems to be some official complacency in that the program only calls for gradual adjustment efforts.

Attachment

cc: Mr. Tyler (o/r)
 Mr. Mountford
 Mrs. Glirgen

cc: LM

As opportunity offers
 we need to explore the following questions:

- (i) the strengths & weaknesses of the Hungarian approach
- (ii) the changes needed in the exchange rate system to associate domestic & foreign prices
- (iii) changes needed in the domestic price system both as a result of (ii) & to reduce/abolish subsidies & various taxes
- (iv) the present trade & payments position vis-a-vis CMEA countries.

1/13/81

Poland

1. Economic Situation

The current situation of the Polish economy is one of large and mounting imbalances, manifested internally by rising shortages of raw materials and intermediate and consumer goods and externally by a substantial current account deficit and a very heavy external debt burden. While real output has fallen by over 6 per cent in the two years since 1978, real disposable income probably rose by more than 5 per cent over the same period (Table 1). 1/ For 1981, it is estimated officially 2/ that shortages of commodities on the market at existing prices would amount to 15 per cent of the national income. Large falls in agricultural production in the last two years, caused mainly by unfavorable weather conditions and inappropriate government policies 3/, necessitated food grain imports (over half of domestic production) costing US\$1.7 billion in 1980 (10 per cent of total imports). The average output in the last two years was 20 per cent below the average grain harvest in the 1971-75 period. Industrial production in 1979 and 1980 was hampered by supply bottlenecks, particularly of imported materials and electrical power, and by work stoppages, especially in coal mining. The fall in industrial production of 3 per cent in 1980 had its main impact on allocations for exports as deliveries to the home market fell by only 1 per cent.

1/ By October 1980 money wages were 17 per cent above those of 12 months earlier.

2/ Unless otherwise stated, refers to official estimates presented in the paper on the three-year stabilization program prepared by the Polish authorities.

3/ The private sector accounts for about 80 per cent of the cultivated land but received only about 25 per cent of total investments and credit allocated to the agricultural sector. Production has been affected adversely also by restrictions on the supplies of fertilizers and other inputs and by a price structure that acts as a disincentive.

Table 1. Poland: Rates of Change in
Selected Economic Indicators

	1971-75	1976	1977	1978	1979	1980
	Annual percentage changes					
Net material product	9.8	6.8	5.0	3.0	-2.3	-4.0
Agricultural output	3.7	-1.1	1.4	4.2	-1.4	-10.0
Industrial output	10.5	9.3	6.9	4.9	2.1	-3.0
Fixed investment	18.4	2.2	4.3	1.6	-7.4	...
Consumption	8.7	8.8	6.8	1.7	3.3	...
Total disposable money income	13.2	12.1	12.2	9.0	9.5	12.8 <u>1/</u>
Consumer price index	2.5	4.4	4.9	8.7	6.7	9.9 <u>1/</u>
Real income per capita	9.6	7.2	6.1	-0.6	2.0	...

Sources: Richard Portes, The Polish Crisis: Western Economic Policy Options, The Royal Institute of International Affairs (London), February 1981; and press reports based on official statistics.

1/ Estimates based on partial data.

Table 2. Poland: Balance of Payments in Convertible Currencies ^{1/}

(In millions of U.S. dollars)

	1976	1977	1978	1979	1980 Estimate
Current account, excluding official transfers	-3,130	-2,599	-2,637	-2,806	-3,500
Trade balance	-2,930	-2,154	-1,891	-1,688	-900
Exports, nonsocialist countries (f.o.b.)	4,439	4,875	5,491	6,356	7,700
Imports, nonsocialist countries (f.o.b.)	-7,369	-7,029	-7,382	-8,044	-8,800
Services and private transfers, net	-200	-445	-746	-1,118	-2,600
Services, credits	625	670	739	868	500
Services, debits	-1,250	-1,560	-1,922	-2,471	-3,700
Interest	-700	-903	-1,120	-1,570	-2,800
Private transfers	425	445	437	485	600
Capital account (all maturities)	3,010	2,209	2,447	3,121	3,100
Credits granted, ^{2/} and errors and omissions	-303	-81	78	-209	-100
Credits received, ^{2/} net	3,313	2,290	2,369	3,330	3,200
Inflow	4,518	4,187	5,488	7,860	9,200
Outflow	-1,205	-1,897	-3,119	-4,530	-6,000
SDR allocations	--	--	--	--	--
Overall balance	-120	-390	-190	+315	-400
<u>Memorandum item:</u>					
Gross external debt (in billions of U.S. dollars); end-period, medium- and long-term	...	12.9	15.0	19.4	24.6

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; Richard Portes, The Polish Crisis: Western Economic Polish Options, The Royal Institute of International Affairs (London), February 1981; press reports; and staff estimates.

^{1/} Approximated by nonsocialist countries.

^{2/} May include some bilateral payments agreements movements.

Production in the first quarter of 1981 appears to have been well below that officially planned, and increasingly it seems likely that the target of limiting the decline in national income to 3 per cent in 1981 will not be met.

The external current account deficit and debt servicing positions have reached horrendous levels. In the summary of the official stabilization program it is stated that the external payments situation with market economies is critical. The trade deficit with convertible-currency countries is estimated to have amounted to about US\$0.8 billion in 1980, compared with a planned minimum surplus of US\$300 million, while the external current account deficit is estimated to have risen to US\$3.5 billion in 1980 (Table 2). Officially, convertible currency external debt is estimated to have risen to US\$23 billion by the end of 1980. However, others--like Portes--suggest a figure for such debt of US\$1-2 billion higher. ^{1/} Interest payments in convertible currencies on that debt in 1980 alone amounted nearly US\$3 billion or 30 per cent of estimated exports of goods and services, while principal repayments were estimated at around US\$5.2 billion bringing the debt service ratio to over 80 per cent. Principal repayments falling due in 1981 are estimated at about US\$7.5 billion, and with the current account deficit estimated at around US\$3.5 billion, the gross financing requirement would be about US\$11 billion. The Polish authorities have already indicated to major Western banks that they will be unable to meet principal repayments due between March 27 and June 30 and have requested that some US\$3.1 billion in commercial bank debt falling due in 1981 be refinanced. In addition, the Intergovernmental Group on Polish debt has agreed in principle to reschedule

^{1/} See Richard Portes, The Polish Crisis: Western Economic Policy Options, The Royal Institute of International Affairs (London), February 1981, p. 20.

80 per cent of principal and interest on government and government-guaranteed debt to Western countries due between May 1 and December 31, 1981 as well as on arrears as of May 1, 1981. Such debt relief would total around US\$2.2 billion.

The policies pursued by the Polish authorities in the first part of the 1970s of promoting the rapid growth of labor productivity through the incentive effects of the fast growth of personal incomes and consumption and through the import of Western technology and capital goods, were unsuccessful insofar as they did not reap benefits in improving the efficiency of the economy and generating a pattern of domestic production that matched up with the demands of Western markets and Polish consumers. Exports to convertible-currency countries were not generated and import substitution appears to have been minimal. A considerable part of the imported capital equipment has been completely unproductive in that it has been left idle or has constituted part of the substantial number of unfinished investment projects. Furthermore, the policies were costly, not only in building up substantial external debt and placing supply strains on the economy, 1/ but also in raising consumer expectations and addicting Polish consumers and producers to Western imports.

In response to the deteriorating external situation, the Polish authorities beginning in 1978 intensified import restrictions and increasingly financed the current account deficit and principal repayments with shorter-term expensive credits. These policies, however, created more production bottlenecks which reduced the supply of exportables 2/ and in conjunction with the poor weather conditions for agriculture and rising international interest rates worsened the external debt position and exacerbated excess consumer monetary demand.

1/ In recent years the labor force has declined.

2/ Press reports suggest great difficulties currently in meeting delivery dates for the supply of coal and coke to CMEA partner countries.

2. Current economic policies and prospects

Present piece-meal economic policies are not even producing a short-run "holding" situation 1/, and offer no prospect of arresting the underlying decline in the economy. Very little is being done to halt the excessively rapid growth of consumer demand and to increase the supply of exportables. In fact, the proposed reforms emanating from the Gdansk agreement of October 1980 between the Government and Solidarity could magnify existing economic imbalances. In this connection, the Government has agreed to raise money wages and pensions, while keeping the prices of consumer goods constant and reducing the workweek. Changes in working time and shift arrangements are likely to have an adverse effect on coal and copper exports, which comprise about 50 per cent of total earnings, and on the production and exports of manufactured goods. Coal output is estimated officially to fall by 4-11 per cent in 1981 following a decline of 4 per cent in 1980. 2/

The three-year official stabilization program calls for no growth in the value of imports in 1981 and very small growth in volume of imports in subsequent years. Although one would wish to have knowledge of the planned developments in the commodity structure of imports and production, it seems

1/ External debt servicing is currently in arrears in certain cases. According to the Financial Times of April 8, 1981, major Western banks have been informed that principal repayments falling due in the second quarter of 1981 cannot be met.

2/ Given the experience in January when coal production was over 25 per cent below that in January 1980, it is unlikely that the modest production and export targets for 1981 will be achieved. The latter is 21 per cent below actual exports in 1980.

that the import targets are unrealistically restrictive and, indeed, undesirable in terms of the further supply shortages they could create.

3. Proposed policies

The gravity of the Polish economic situation, particularly the unmanageable external debt situation and the breakdown in production, indicate that there is an urgent need for action to provide substantial external debt relief, accompanied by measures to resuscitate production and curb excessive consumer demand. Piecemeal and partial rescheduling and refinancing of the external debt is likely to keep imports at an undesirably low level, especially if agriculture fails to recover and coal and copper exports continue to fall, and not provide the economy with sufficient scope for exploiting its full production and export potential. A stabilization program would have to be over at least three years, because of the very large adjustment effort, especially on the slowly responding supply side, required to put the economy on a sound basis. The official program envisages the trade deficit being eliminated by 1983 and the current account deficit by 1986. It is stated that "not earlier than in 1986 will it be possible to commence a gradual reduction of our foreign indebtedness and that gross financing needs will be maintained at about US\$9-10 billion for a number of years."

a. Supply side

(i) Boosting the supply side in the Polish economy will require sufficient external debt relief so as to enable an adequate flow of imports for boosting production, especially of exportables. Some questions relating to the nature of the debt rescheduling and/or restructuring exercise needed are discussed below.

(ii) A reform of government policies with respect to the agricultural sector is required. In addition to the recent increase in agricultural procurement prices, 1/ fertilizers and higher investment, including spare parts for the under-capitalized private sector of agriculture 2/ are needed.

(iii) One of the most contentious areas is how to raise productivity in industrial enterprises. Whether the Gdansk agreement based on giving greater independence to enterprises and on workers' participation in management is implemented is, of course, debatable. If so, the likely effects on industrial efficiency raise are difficult to ascertain. The economic reforms in Hungary decentralizing decision-making appear to have had both favorable economic and political effects. In contrast, Yugoslav experience with workers' self-management and periodic autonomy in wage and price determination suggests that such a system can be quite destabilizing at a time of loose monetary policy and rising consumer expectations.

(iv) Poland is well endowed in terms of natural resources, and recorded an energy trade surplus up to 1979. Measures designed to exploit the strong resource base, including better employment conditions in the coal mines and voluntary overtime work, will have to be explored.

b. Demand side

One of the most pressing tasks required in order to achieve economic stability would be to halt the rapid growth of real consumer demand. This is a daunting task, especially in view of the promises of Solidarity to raise

1/ It was reported in the Financial Times of April 8, 1981, that the Government has raised considerably procurement for agricultural goods, including increases in excess of 100 per cent for beef and milk.

2/ Somewhat incredibly, the three-year program states that the "deficit of spare parts and tires for tractors and agricultural machinery will be overcome within 3-4 years."

living standards. An explicit goal of the stabilization program is "to maintain the living standard of the low-income groups of the population, while lowering to some extent the living standard of the rest." In the same paragraph, however, it is stated that "at the same time all obligations resulting from the agreement concluded with the trade unions should be fulfilled." With agreements with the trade unions promising increases in wages, it seems that the authorities will attempt to achieve this balancing act by enforcing a reduction in living standards via a stricter rationing of consumer goods 1/ (i) through raising consumer prices (goods and services officially stated for increases include subsidized basic foodstuffs, alcoholic beverages, cigarettes, petroleum, coal, electricity, transportation fares, and housing rents); (ii) through delaying wage restraint so that "in 1982 and 1983 there will be no further centrally regulated raises of wages, except for workers in the lower income brackets;" and (iii) through "progressive taxation of higher income outside agriculture" and through the raising of interest rates on bank deposits and the introduction of new types of deposits and a system of advance downpayments for purchases of consumer durable goods in short supply.

The specifics and timing of these measures proposed for cutting back real consumer demand, together with likely rise in real wages in 1981, are generally unclear. One suspects that the authorities are uncertain as to the extent to which they wish to raise consumer prices, interest rates, and

1/ It is considered officially that a reduction in per capita consumption of meat from 72 kg. in 1980 to 63 kg. in 1981 and to about 60 kg. by 1983 as being unavoidable, despite plans for a temporary increase in meat imports.

taxation, and how they wish to define lower income groups. Even if the authorities have a clear notion of what they consider is a desirable decrease in real consumer demand and the exact measures to be employed to effect such a reduction, the feasibility of implementing such a program will depend on the authorities convincing Solidarity and the Church and-- simultaneously or subsequently--the population of the need for the desired degree of austerity.

In view of the dearth of statistics, the role of fiscal and monetary policies in creating excess demand and contributing to supply problems cannot be assessed. The statement that "proper organizational and financial means will be employed, aimed at lessening the pressure of money on the market"^{1/} obviously suggests that the authorities would like monetary policy to be tightened. It is the official intention to progressively reduce the state budget deficit between 1980 and 1983. 1/ The number of employees in the state administration and in state enterprises and economic organizations is to be reduced by 15-20 per cent. 2/ Undoubtedly, cutting back on food subsidies will have to play a crucial role in any stabilization program. It is estimated officially that the increases in agricultural procurement prices announced last week will add 42 per cent or US\$10.1 billion to food subsidies.

Although the rate of fixed capital formation was very high in the period 1970-77, the scope for further cutbacks in fixed investments would

1/ As the magnitude of the deficit in 1980 is not given the extent of the intended tightening of fiscal policy is difficult to judge.

2/ The net effect in decreasing state expenditures is likely to be reduced by proposed outlays for retaining dismissed employees.

appear to be limited in view of the 20 per cent fall in investment over the last two years, the commitments for participation in COMECON projects, and the need for increased capital formation in key sectors, particularly in order to turn the agricultural and energy trade balances around, and to bring about the completion of many unfinished projects. 1/ The official attention of reducing the ratio of investment to national income to 14 per cent from 23.2 per cent in 1979 would seem to be overreaction to the past excesses.

c. External debt relief exercise

The Polish authorities have been trying to ease their heavy external debt servicing burden by piecemeal efforts to obtain refinancing of maturing debt, frequently through the use of expensive shorter-term credits. This approach has not only aggravated the debt servicing burden in 1981 and 1982 2/ but also no worthwhile conditionality has been attached to the refinancing secured.

In his article, Portes makes a strong case for a multilateral, comprehensive rescheduling of both officially backed debt and unguaranteed debt to the commercial banks. A number of questions are raised as to the type of external debt relief program that is appropriate and what entities should participate in such an exercise.

1/ It is estimated officially that investment outlays required to bring about the completion of on-going projects would amount to about 75 per cent of national income.

2/ In 1981, the average repayment period on medium- and longer-term debt was about three years.

Among these include questions as to whether the government and officially backed debt should be simultaneously rescheduled with that of unguaranteed commercial bank debt, the extent to which debt servicing should be stretched back and what would be the extent of "new money" required. How far should the rescheduled debt be stretched back?

Should the IMF be involved in the external debt relief exercise? Portes is of the view that the large magnitude of the debt makes any potential IMF role relatively insignificant in financial terms. A rough calculation suggests that if Poland joined the Fund, the maximum amount it could obtain in any year could be no more than SDR 1.5 billion. When compared with an annual gross financing need of about US\$10 billion Fund financing may not be that directly significant. However, if a Polish stand-by arrangement with Fund helps elicit substantially more funds from other sources then joining the Fund may not be significant from a financial viewpoint. Portes does recommend that an IMF type stabilization program should accompany the rescheduling arrangements and suggests that bankers and financial officials, both East and West, should have the ingenuity to design such a program. Lawrence Brainard of Bankers' Trust, however, feels that banks are looking to the IMF to play an important role in a rescheduling exercise, to provide new financing, and to help formulate and monitor a stabilization program.

4. IMF membership requirements

been
There appears to have/little change in membership requirements for joining the IMF since the time of passing of the Articles of Agreement. Examples of the membership requirements for centrally planned economies are well documented in the files of the Eastern European Division for Romania (a relevant memorandum by Mr. Somogyi is attached). I have talked

to Mr. Szapary, Division Chief in the Asian Department, about the possibility of one of my colleagues discussing the material relating to China's request for membership in the Fund.

From my brief contacts on the membership question, the main change in the membership requirements relates to the proportion of quota that a member would have to pay in hard currency and SDRs. This percentage can be reduced below 25 per cent depending on the economic circumstances of a country. The proportion can be reduced to as low as 10 per cent, and is 19.9 per cent in the case of Zimbabwe.



Office Memorandum

TO : Mr. Evensen

FROM : Janos Somogyi ^S

SUBJECT : Information from a Socialist Member Country

DATE: November 20, 1973

Information is required by the Fund for the calculation of the quota and under the provisions set out in Article V, Section 7(b) and Article VIII, Section 5 of the Articles of Agreement.

A. Data for quota calculations

In accordance with the procedures followed in connection with the Fifth General Review of Quotas, the following data are needed for quota calculations:

- a. National income, 1967.
- b. Reserves of gold and foreign exchange as of December 31, 1967.
- c. Average imports, 1963-67.
- d. Average exports, 1963-67.
- e. Average receipts from exports, services, and private transfers, 1963-67.
- f. Average payments for imports, services, and private transfers, 1963-67.
- g. Variability of exports, 1955-67. Defined as one standard deviation from a five year moving average centered on the third year.
- h. Variability of receipts from exports, services, and private transfers, 1955-67 (defined as under g.)
- i. Rates of exchange of the national currency in terms of U.S. dollars for conversion of data into U.S. dollar.

The Romanian quota calculations were carried out with a-d, g and i, as no other data were available.^{1/}

B. Reporting on monetary reserves to Treasurer's Department

For the calculation of eventual repurchase obligations under Article V, Section 7(b), member countries have to send reports on their monetary reserves^{2/} as of April 30 of each year to the Treasurer's Department. Romania is providing such data on total reserves in gold and convertible foreign exchange.

^{1/} For the calculation of quotas of all Fund member countries as of March 31, 1969, no sufficient data were available for the Republic of China.

^{2/} As defined under Article XIX of the Articles of Agreement.

C. Furnishing of information under Article VIII, Section 5

As the minimum information for the effective discharge of the Fund's duties, national data on the following matters are considered to be necessary:

- (i) Official holdings at home and abroad of gold and foreign exchange.
- (ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of gold and foreign exchange.
- (iii) Production of gold.
- (iv) Gold exports and imports according to countries of destination and origin.
- (v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.
- (vi) Balance of payments, including trade in goods and services, gold transactions, known capital transactions, and other items.
- (vii) International investment position.
- (viii) National income.
- (ix) Price indices of wholesale, retail, and export and import prices.
- (x) Buying and selling rates for foreign currencies.
- (xi) Comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.
- (xii) Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

Article VIII, Section 5(b) stipulates that "in requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested."

Of the information listed under Article VIII, Section 5(a), Romania has been providing data on official gold and foreign exchange reserves (i), exports and imports (v), balance of payments (vi), social product and national income (viii), index of producer prices (ix), exchange rates (x), and information on exchange controls (xi). Some of the above data have been provided on a confidential basis as have been some figures on foreign debt in convertible currency.

The main items from the above list on which no data have been supplied to the Fund are the production, export and import of gold and balances from official clearing arrangements. Social product and national income data are on the material product basis, and no detailed breakdown by uses has been provided. Only few data have been made available on money and credit, and they are mostly expressed in terms of percentage changes.

cc: Mr. Tyler

WASHINGTON DC

1981 APR 10 PM 1:35

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CONFIDENTIAL

CABLE ROOM

Handwritten marks: circled '1', '2', checkmarks, and initials.

URGENT - FOR IMMEDIATE DELIVERY PLEASE

FOR MANAGING DIRECTOR

cc: Pl copy to Carter

CC: DEPUTY MANAGING DIRECTOR

MR. WHITTOME

FOLLOWING TWO DAYS DISCUSSIONS IN PARIS, INTERGOVERNMENTAL GROUP ON POLISH DEBT AGREED IN PRINCIPLE TO RESCHEDULE EIGHTY PER CENT OF PRINCIPAL AND INTEREST ON GOVERNMENT AND GOVERNMENT-GUARANTEED DEBT TO WESTERN COUNTRIES DUE BETWEEN MAY 1 AND DECEMBER 31, 1981 (AS WELL AS ON ARREARS AS OF MAY 1) WITH A GOODWILL CLAUSE FOR 1982 AND 1983. DEBT RELIEF GRANTED FOR 1981 AMOUNTS TO ABOUT DOLLARS 2.2 BILLION. NO AGREEMENT WAS REACHED ON TERMS YET, BUT CONSENSUS EMERGING FOR RESCHEDULING OVER NINE YEARS WITH FOUR TO FIVE YEARS GRACE.

AD HOC WORKING PARTY OF MAJOR CREDITORS WHICH HAD BEEN SET UP BY GROUP AT THE PREVIOUS MEETING TO STUDY POLISH ECONOMIC SITUATION AND THREE-YEAR ECONOMIC PROGRAM (1981-83) MADE SOME "NON-BINDING SUGGESTIONS" AIMED AT STRENGTHENING STABILIZATION EFFORT. MOREOVER, INTERGOVERNMENTAL GROUP DECIDED TO MEET TWICE A YEAR TO REVIEW ECONOMIC SITUATION AND PROGRESS TOWARDS TARGETS "AS SET" BY THE POLISH GOVERNMENT.

NO SPECIFIC REFERENCE TO IMF WAS MADE DURING DISCUSSIONS, BUT GROUP AGREED THAT "PROVIDED ALL PARTICIPANTS CONCUR" OBSERVERS COULD BE INVITED TO PARTICIPATE IN FUTURE REVIEWS. GROUP WILL MEET AGAIN ON APRIL 27 TO FINALIZE AND FORMALIZE AGREEMENT.

Handwritten number: 111

REGARDS

GUETTA
INFUND PARIS

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Office Memorandum

April 10, 1981

MEMORANDUM FOR FILES

Subject: Poland

I spoke today to Mr. Narvekar about the discussions leading to China's membership (or more strictly the recognition by the Fund of a different Government as the representative of China). He said that the first initiative of any authority was provided on February 21 when the Economic Counsellor at the Embassy called at the Fund. Mr. Tun Thin and his colleagues visited Peking in March and Peking became the member on April 17. Narvekar added that in the fall of 1979 rumours were strong enough to lead the Asian Department to begin work on the question.

I also asked him whether such negotiations were basically still concerned with:

- (a) a full explanation of the rights and obligations of member countries;
- (b) the gathering of sufficient material to enable a background, largely descriptive, paper to be written;
- (c) information necessary for the quota calculation; and
- (d) as much information as possible on the exchange system.

He confirmed that these remained the main areas of interest. He added that with small new members membership discussions might last for six to nine months when time was not of prime importance.

A handwritten signature in dark ink, appearing to be "L.A. Whittome".

L.A. Whittome

cc: EED

Mr. Manison

April 9, 1981

L.A. Whittome

Poland

I attach a copy of an official (Polish) summary which I have obtained privately of the Polish Government three year stabilization program. On a quick reading it leaves most questions unanswered.

I should be grateful if, to the extent possible, you and your colleagues could analyse this document. Please also ensure that we are up-to-date on requirements for membership, this will mean reminding ourselves of our experiences in Hungary and Romania, contacts with Asian on their experience in China, and making sure with Legal and Secretary's that we are abreast of any recent changes.

Attachment

cc: Mr. Tyler

1-3 L.A. Whitome
International Monetary Fund

Personal

With cc; Earle
the Compliments of
Kuhn Loeb Lehman Brothers
International Inc.

Memo enclosed, as promised.

○ Thank you for giving up so much
time to us on Tuesday.

It would be nice to have
one of our old-style gossips over
lunch or dinner if you ever have
time while you are passing through
London ---

Best regards meanwhile

○
Derk

99, Bishopsgate
London, EC2M 3HD

Telephone: 01-638 6911
Telex: 899621

9/4/81

MAIN ELEMENTS OF THE 3-YEAR PROGRAM
OF STABILIZATION OF POLISH ECONOMY

Main Elements of the 3-Year Program of Stabilization of Polish Economy.

1. State of Economy and Sources of Difficulties

1.1. Up to 1980 Poland has reached a relatively high level of economic development. With the population amounting to nearly 36 mln there was full employment in the country. 12 mln people were employed in the socialized sector of economy. In the span of the last 10 years the number of work-stands has increased by 2 mln and a considerable industrial potential has been developed.

In coal mining the volume of hard-coal production reached 193 mln tons /2nd place in Europe and 4th in the world/. Copper production amounted to 357 thous.tons /6th place in Europe/, zinc - 215 thous.tons /5th place in Europe/, sulphur - 5 mln tons /3rd place in the world/. In the iron and steel industry the volume of 19,5 mln tons of steel has been reached. Electric power production reached the level of 122 billion kWh which places Poland sixth in Europe.

A high level of development has been reached in the manufacturing industry. A modern engineering industry has been created. It now employs 1.6 mln people including nearly 300 thous. in electro-technical and electronic industries. Modern chemical and petro-chemical industry employing 325 thous.people has been developed. Traditional light and food industries have been modernized.

A high level of professional qualification has been achieved. The number of people with college education exceeded 1.2 mln and with secondary education - 5 mln.

The living standard of the population has improved, particularly during the past 10 years, though it has deteriorated somewhat in the years 1979 and 1980. Real wages rose during those 10 years by almost 50 per cent. The level of food consumption and the supply of durable goods for the population has improved.

But the demand has not been fully satisfied and in the recent years this resulted in the market disequilibrium. In spite of the intensification of dwelling houses construction, the housing problem has not been solved.

1.2. The rate of economic growth was subject to a considerable change during last few years. The growth rate of national income generated /at constant prices/ which averaged 6.1 per cent annually before 1970 exceeded 10 per cent in 1972-1974. Afterwards, however, this rate gradually decreased, to 3 per cent in 1978. For the first time in the post-war period the national income decreased by 2.3 per cent in 1979 and by further 4 per cent in 1980.

This was the consequence of the decline in the growth rate of industrial production from the level of about 11 per cent yearly in the years 1972-1975 to 2.7 per cent in 1979. In 1980 for the first time after the II World War, there was a slight decrease in the industrial production, caused by social disturbances, difficulties in imports of raw materials and a disastrous drop in agricultural production which aggravated the situation in food industry. It was also the consequence of the stagnation in agricultural production. Within the past 6 years it was only during 2 years that a slight increase in agricultural production took place, while during the 4 years there was a decline, the biggest /by about 10 per cent/ in the disastrous year 1980. Agricultural production in that year dropped to the level of 8 years ago.

The deteriorating economic situation had an unfavourable impact on social processes. Labour productivity decreased. Shortages in the supply of consumer goods for the market led to the outburst of the working class discontent and in the summer of 1980 directly provoked a wave of strikes which spread over the main industrial centres.

New independent trade unions were formed. They obtained considerable rises in wages and social benefits as well as a shortened working week. This factor deepened the existing economic difficulties and further affected the economic equilibrium of the country.

1.3. Many factors contributed to the deterioration of Poland's economic situation during the last few years and to the disturbance of the general economic equilibrium.

First and foremost, the centralized planning and management system which was no longer adequate to the level and structure of national economy was kept unchanged too long. This system, hampering the initiative and self-dependence of enterprises did not promote effective production and introduction of innovations in the national economy. Moreover, the unchanged irrational structure of wholesale and retail prices encumbered effective management and burdened the state budget with growing subsidies for enterprises.

Mistakes made in the economic policy during the last 10 years represent the second important factor. The most fundamental mistakes were the following:

The extent of investments connected with the expansion and modernization of various branches of industry exceeded the absorption capacity of national economy.

The proportion of capital investments in the national income increased from 19.5 per cent in 1970 to 28.4 per cent in 1975. In 1979 it still amounted to 23.2 per cent. The difficulties were made worse by the fact that over half of the investments still required many years to be completed. What's more, unexpected delays arose in their realization. In consequence, investment outlays indispensable for the completion of projects already embarked upon increased to about 1.300 billion zł in 1980. This represents nearly 75 per cent of national income generated. In the structure of investment outlays too much emphasis was laid on the expansion of industries consuming a great deal of power and materials, some of them imported. This increased the already high consumption of power and materials, as well as of imports by the Polish economy, whereas power industry and railway transportation remained insufficiently developed.

The economy failed to create conditions for the accelerated growth of agriculture. Investments in agriculture were unsatisfactory. For many years past, agriculture was not adequately supplied with means of production. Production level of ferti-

lizers, pesticides and tractors has remained almost unchanged for several years. There were no adequate conditions to develop production on private farms.

The level of animal production was raised and maintained owing to the growing imports of grain and fodder, but this increased the balance of payments' deficit.

An excessive growth of foreign indebtedness was allowed: the foreign debt rose to 23 billion dollars in 1980 with relatively short average maturities. Simultaneously, no sufficient efforts were made to create conditions for an adequate development of exports to market economies. Consequently, the necessity of servicing the growing foreign debt, combined with insufficient increase of exports, have recently limited imports possibilities. This in turn has affected the supply of materials and raw-materials to the industry and resulted in the fact that productive capacity of numerous newly-constructed industrial plants was not fully utilized.

In recent years, the policy of raising wages and monetary incomes combined with insufficient growth of food and industrial consumers goods production, resulted in an unbalanced domestic market. Considerable rises in wages and social benefits introduced as a result of agreements concluded with trade unions have considerably increased the market disequilibrium towards the end of 1980.

The third factor contributing to Poland's economic difficulties includes adverse weather conditions which for several years impeded the growth of agricultural production, and unfavourable external conditions in which the development of economy was taking place since midseventies. Among the latter one should mention the increasing prices of crude oil and of industrial and agricultural raw materials, the slowing down of the rate of growth in market economies which limited our prospects for exports and, finally, a substantial increase in the rate of interest on international money-market.

In consequence of all these factors, many disproportions have evolved in the Polish economy in the recent years. The economic equilibrium was considerably disturbed and the volume of national income decreased.

1.4. Nevertheless, Poland has the necessary means and conditions to steer its economy out of the present crisis and to secure its stabilization and further development. Poland abounds in skilled manpower in all sectors of the economy. It also has considerable resources of minerals and arable land, as well as a substantially increased modern industrial potential, especially in electroengineering industry. This potential should still expand in the approaching years, when numerous industrial projects already under construction are completed. Poland has at its command a large scientific, research and organizational potential.

The 3-year government program of stabilization of the Polish economy provides for our taking advantage of all those opportunities. Its implementation will require both intense efforts, as well as certain sacrifices on the part of the population.

2. Goals of the 3-Year Program

The main goals of the 3-Year Program are as follows:

- a/ to gradually restore the economic equilibrium of the country while checking the decrease of the national income and of industrial production - and at the same time creating conditions for their further growth.
It will be impossible to achieve a growth of industrial production in 1981, in view of a shortened working time and limited prospects for imports. But the growth of agricultural production seems to be attainable.
- b/ to maintain the living standard of the low-income groups of the population, while lowering to some extent the living standard of the rest. At the same time all obligations resulting from the agreement concluded with the trade unions should be fulfilled. It will be impossible to attain any new social goals.
- c/ to remove the main disproportions in the branch structure of investments and in industrial production. Most important are the disproportions between the development of industry on the one hand, and of power plants and transportation means

on the other; between production of investment goods and consumption goods.

- d/ to gradually improve the payments situation of the country in relation to market economies. We assume that beginning with 1982, the growth of our foreign indebtedness will gradually decline and towards the end of the present quinquennium or at the beginning of the next, the current account with those countries /including interests on credits/ will be equilibrated. Up to that time our indebtedness will continue to grow.
- e/ to rapidly restore the equilibrium on the domestic market while securing the necessary supplies of food, even at the cost of a temporary delay in the improvement of the payment situation.
- f/ to put a proper emphasis on the development of agriculture and its cooperating industries and to utilize all capacities of peasant farms.
- g/ after a temporary but substantial reduction of capital investment outlays, to stabilize them on a level that would secure a further development of the economy.
- h/ to considerably increase the effectiveness of the economy through the introduction, as soon as possible, of the economic reform. Within the framework of this reform, appropriate conditions for stimulating enterprises to increase exports will be created.

3. Measures of Restoring market equilibrium

The surplus of monetary means at the disposal of the population over the volume of commodities and services on the market considerably increased during several previous years and in the last months of 1980 became very large indeed.

In 1981, shortages of commodities on the market are estimated to amount - at the existing prices - to 15 per cent of the annual income of the population, apart from the surplus remaining from previous years.

Thus, the most urgent task at present is the gradual restoration of the market equilibrium. This calls for the application of a number of measures aimed on the one hand, at increasing the supplies of commodities and services to the market and on the other - at easing the pressure exerted on this market by the excessive purchasing power of the population.

3.1. First of all, it is necessary to eliminate the most severe shortages of food on the market. At this moment, it is essential to temporarily increase imports of meat and fat in 1981. Introducing for a certain period of time the rationing of meat, butter and sugar seems unavoidable. Specific forms of rationing will be agreed upon following consultations with the trade unions. However a reduction in the consumption of meat from 72 kg per capita in 1980 to 63 kg in 1981 and to about 60 kg in 1983 cannot be avoided.

All possible organizational and economic measures will be taken to rapidly increase the production of food in private peasant farms. In this connection, shifting a part of the labour force from industry to agriculture is taken under consideration.

3.2. Measures will be taken to increase the supply to the market of industrial consumption goods and services for the population. This will be effected, in the first place, by the utilization of existing productive capacities.

In industrial enterprises producing capital investment goods, present capacities will be partly utilized to produce consumer goods.

Conditions will be created to increase production in the existing plants of small industry, in the cooperative enterprises and in handicraft. In particular, those sectors will be better supplied with raw materials and other necessary goods. The equipment insufficiently employed in large state enterprises will be transferred to those workshops. Possibilities of establishing new socialized enterprises in the small industry

and services will be created. They will be given assistance in obtaining necessary production accommodations. They will also obtain assistance in the form of credits; a preferential taxation policy will promote their development.

Possibilities of establishing new private enterprises in the small industry, handicraft, trade and services will be created.

Furthermore, conditions for a rapid development of various service enterprises in cities and in the countryside will be created, in order to increase services by 40-50 per cent within the next 3 years.

3.3. Proper organizational and financial means will be employed, aimed at lessening the pressure of money on the market.

In the years of 1982 and 1983 further centrally regulated raises of wages will be abandoned, except those in the lowest brackets. The growth of wage fund will be based on individual growth of labour productivity. This rule will be universally applied, including individual work-stands.

In order to diminish the existing surplus of purchasing power of the population, the following measures will be employed:

Progressive taxation of higher incomes /outside agriculture/ will be introduced. It will embrace incomes derived from all sources and titles and exceeding a definite minimum.

Growth of savings in the form of time-deposits will be promoted. New forms of deposits will be introduced and the interest rate on them will be raised.

A possibility of floating a long-term national loan to finance specific capital investment projects will be considered. A system of advances for the purchase of certain durables of insufficient supply, such as passenger cars, colour TV sets, telephones or construction of summer houses will be expanded. Groups of population with average incomes will - if possible - be included in this system.

3.4. The program of radically remodelling the system of retail prices will be worked out and implemented, after it has been given social approval.

A new structure of prices should create economic conditions adequate for the development of market production, better corresponding to the needs of the population. Changes in prices may be introduced at one stroke or by stages. Increases in prices should take place as early as 1981, with no compensation for some of them, and with a full or partial compensation for others. Prices of alcohol, cigarettes, petrol and luxury articles may be raised without compensation. Prices of basic food-stuffs, subsidized for the time being from the state budget, will be increased. Prices of coal, coke, electric power, transportation fares and rents will also be raised. This will contribute to an improvement in the structure of retail prices and in the structure of consumption.

Compensation for certain prices will be full but it will vary depending on the per capita income in the family. Basic changes in retail prices should be completed by 1982.

3.5. The number of employees in the state administration will decrease by 15-20 per cent and in similar proportion in the enterprises and economic organizations. Dismissed employees will be given a possibility of acquiring new qualifications or will be shifted to other jobs, particularly to services, handicraft or other productive activities. The deficit in the state budget should decrease to nearly 170 billion z1 by 1981 and to 120 billion z1 by 1983.

4. Means of development of agricultural production

The program provides for the utilization of various means to increase agricultural production in both sectors of agriculture: in the socialized sector and the non-socialized one.

4.1. In the first place, conditions for the maximum and most effective utilization of all arable land will be created.

In Poland's agricultural structure the main part is played by 3 mln peasant farms. They give 78 per cent of agricultural production, while state farms furnish 17 per cent and cooperative farms - 5 per cent.

Peasant farming has been accepted as a permanent feature of the national economy. Therefore inviolability of peasant property and the right to inherit it will be acknowledged by the law.

The majority of farms are very small. Only 13.7 per cent of farms are above 10 ha. Therefore vast opportunities for purchases of land and for expansion of individual peasant farms will be created. These opportunities will increase as many old farmers, whose children emigrated to town, will retire. The rule of giving land to the best farmers will be applied. Economic conditions of agricultural production will be so shaped as to increase interest in purchasing land and utilizing the arable land in the best possible way.

4.2. Young farmers taking over or expanding and modernizing their farms will be given ample assistance on the part of the State.

Many peasants from small farms are employed as workers by industrial enterprises in the vicinity and frequently neglect their farm work. Those willing to return to their land and to increase its production will thus be given assistance in running their farms.

4.3. Our vital task is the intensification of supplies of production means to the agriculture. Therefore, the productive capacity of industries working for agriculture will be considerably expanded.

Individual farms will have - on the par with socialized farms - the same rights of access to production means, to credits and to every other assistance from the State.

As early as in 1981, agricultural sector will be provided with 10 kg of fertilizers more per 1 ha than to date.

Up to 1985 - utilization of fertilizers should grow to 250 kg NPX per 1 ha. During the coming years the whole additional production of fertilizers will be allocated to private farms. Supplies of tractors, accompanying machinery and means of agricultural transportation will be increased.

The deficit of spare parts and tyres for tractors and agricultural machinery will be overcome within 3 to 4 years.

During the next 2 years agriculture will be supplied with basic small equipment and other agricultural implements in adequate quantities.

Supplies of cement, construction materials and coal to the country-side will be increased.

4.4. Profitability of agricultural production, both in crops and in livestock, will be secured. Decisions concerning prices of agricultural products, as well as taxes and credit conditions for agriculture, will be based on economic considerations. Prices actually paid to the peasants for agricultural products will be increased. Production of grain and fodder will be given particular assistance in order to ease the strain on the balance of payments. Measures will be taken to limit losses during harvesting, transporting and storing agricultural products.

The State's credit policy will stimulate modernization and mechanization of agricultural holdings. Interest rate on credits for production and technical progress will be low.

Taxation system will be modified so that it may promote investments in the farms and the development of agricultural production.

4.5. In socialized farms a new financial and economic system will be introduced in order to ease the State budget of the burden of excessive subsidies.

4.6. Polish agriculture has a long, over 100-year-old tradition of agricultural self-government and cooperative movement. The role of this self-government, now in the process of renewal, will be greatly emphasized. Legal and organizational conditions will be created to grant to the self-government the right to directly influence social and economic activity in the villages and in the agriculture.

The agricultural and cooperative self-government is becoming a defender and representative of farmers' social and professional interests. It is a partner on equal footing with administrative and economic authorities in settling all matters regarding the country-side and agriculture.

5. Means of Improving the Situation in the Sphere of capital Investments

5.1. General volume of capital investments in the national economy should be reduced, otherwise the volume of consumption would have to be unduly restricted. The proportion of outlays on fixed assets in the national economy, which in 1975 amounted to over 28 per cent, will be reduced by half, to about 14 per cent.

In the next 3 years, investment outlays in socialized economy will be maintained virtually on an unchanged level of 460-470 billion z1 yearly, whereas the growth of investments financed from the population's own means will be promoted. The volume of these investments should increase from about 70 billion z1 in 1981 to about 95-100 billion z1 in 1983. These investments will particularly include those in housing in farms and in handicraft. To private investors the State will extend assistance in credits, materials and organizational advice.

5.2. Steps will be taken to reduce considerable financial means still needed to complete investment projects already under construction.

In the past years expenditures on these projects increased

monetary incomes of the population but did not bring about the increase in the volume of goods. They contributed in this way to the increase in the inflationary pressure presently burdening the national economy.

In principle, no new industrial projects, save those producing for export and for the market, will be started within the next three years. Nevertheless, investments for modernization of the existing industrial plants will be promoted.

Main emphasis will be laid on prompt completion of advanced investment projects in order to put them in operation.

The realization of some industrial projects not far advanced and having a long production cycle will be stopped. Workers from construction and assembly enterprises implementing such projects will be transferred to more advanced projects as well as to housing construction or other works.

Some building enterprises will have to be closed in consequence of the reduction in general volume of investments. Their workers may be employed in exports of construction services and in individual housing.

5.3. Building materials stored for the discontinued investment projects, particularly stocks of steel products, pipes, cables, etc., will be directed to the rural market.

Measures will be taken to rationally employ machines destined for the unfinished industrial plants, where they cannot be installed in view of the reduction in investments. These machines will be transferred to the existing industrial plants, including the small-scale industry and handicraft. Under favourable circumstances some of these machines will be exported.

5.4. Changes favouring better market conditions and improvement in the balance of payments will be introduced in the branch-structure of investments.

The share of investments in heavy industry will be reduced, except the investments in the production of raw-materials which may entail export production. On the other hand, the share of investments in agriculture, in industries working for the benefit of agriculture and food industry, as well as in transportation and power industry, will be considerably increased.

Engineering industry will start the production of basic equipment for industries producing consumers' goods, means of production for agriculture, as well as simple machines for small-scale industry and services.

In view of power and material shortages, socialized housing construction will be kept at a level slightly higher than in 1981. Private construction, will however be promoted, particularly that utilizing local building materials.

On the basis of bank credits, favourable conditions will be created for investments bringing prompt results, with implementation cycle up to 2 years, highly efficient and utilizing domestic raw-materials. Such investments should contribute to a faster growth of exports or to a reduction in consumption of fuels, power and raw-materials, especially of the imported ones. Credits for such investments by the banks on the basis of open competitive bidding should be granted.

6. Measures improving the balance of payments

6.1. Poland's payment situation has sharply deteriorated over the last few years. Payment deficits with socialist countries are not excessive thanks to the system of bilateral and multilateral settlements, but in the relations with market economies the payment situation has become critical.

Over a number of years foreign trade deficit with market economies amounted up to 3 billion dollars annually and was financed by foreign credits. Though the foreign trade deficit was reduced to 1.8 billion dollars in 1979 and to 0.8 billion dollars in 1980, we were unable to eliminate it in spite of

the efforts undertaken in 1980. Events of summer and autumn of last year became an obstacle in reaching this goal. The servicing of the growing foreign indebtedness has created an ever increasing burden for the balance of payments. The situation has been worsened by the fact that at present medium term credits constitute a major part of our indebtedness. In 1981, the average repayment period of long and medium-term credits amounts only to about three years. This results in the total of annual repayments reaching 7.5 billion dollars. In this situation, it is necessary to undertake definite and firm actions aimed at restoring the equilibrium in the balance of payments and at restraining further growth of foreign indebtedness. First of all, these actions will be aimed at accelerating incomes from exports and at limiting imports to the indispensable volume. They will be also aimed at improving the structure of foreign indebtedness with a view to lengthen the average repayment period of credits and, by the same token, to ease the burden of annual payments.

6.2. Highly developed economic relations with member countries of the Council for Mutual Economic Assistance are of vital importance for Poland's balance of payments with socialist countries. The fact of their being planned is an important factor favouring our country's economic development.

In the difficult period nowadays we avail ourselves of valuable economic aid of the Soviet Union and other countries which, in view of a drastic drop of our coal exports, have agreed to a temporary change in the structure of our mutual trade. Consequently, we anticipate an excess of imports from those countries over exports for some time to come. Our difficulties in supplying the country with imported goods, which presently result from the limited possibilities of imports from market economies, will thus be lessened.

We will have, however, to take action aimed at gradual improvement in our balance of payments with socialist countries.

We will take advantage of all possibilities of increasing exports of machinery and equipment to socialist countries. In view of a temporary reduction in exports of coal to these countries it will be possible to maintain the level of hitherto existing imports from CMEA member countries of raw-materials and other goods needed for production, as well as of indispensable imported goods.

We will examine all the possibilities of participation of socialist countries in the completion of some investment projects in Poland, including the possibility of undertaking joint ventures.

We will also consider the possibility of our partners from socialist countries utilizing free production capacity in Polish enterprises. The raw materials supplied by our partners would be processed in our plants and the resulting products would cover our partners' own needs or would be exported jointly to third countries.

6.3. The basic target of our efforts aimed at improvement in the balance of payments with capitalist countries consists in a steady growth of exports receipts in convertible currencies.

This will be a difficult task and will require appropriate social atmosphere. To this end, the Government will establish close co-operation with trade unions, based on partnership, and will consult with them adequate economic and organizational measures. This task will require enormous efforts in the domain of export production and organization of the economy. However, we may count on a favourable influence of the changes in the management and planning system, to be brought about by the anticipated economic reform. One may also count on additional production from some investment projects that had been started in the past years and will be now put on stream.

However, possible difficulties in increasing exports to market economies, due to general decrease in the rate of economic

growth and to stronger and stronger protectionist tendencies, will have to be taken into consideration.

6.4. Efforts will be made to improve the situation in the sphere of coal exports to market economies. Exports of coal decreased from 28 million tons in 1979 to about 18 million tons in 1981. This decrease has resulted from the diminished coal production in Poland - from 201 million tons in 1979 to 193 million tons in 1980 - caused by the shortened worktime in mining. In 1981, coal production is expected to range from 172 million tons to 186 million tons. In this situation, the basic task is to gradually increase coal exports to market economies. To this end, all possible efforts will be made - financial, organizational and technical.

6.5. Economic and organizational measures will be introduced to ensure increase in receipts from exports of raw-materials, semi-finished products and manufactured industrial goods.

a/ Poland abounds in various raw-materials. Resources of coal, especially of hard coal, are estimated to amount to 150 billion tons. Resources of non-ferrous ores are also considerable. Deposits of copper ore amount to 2.8 billion tons, containing about 56 million tons of copper. Resources of zink and lead ore amount to about 320 million tons, containing about 14.5 million tons of zink and 6.6 million tons of lead. There are also considerable resources of silver, nickel and recently discovered deposits of tin and multimetallic ore. Deposits of sulphur are of the largest in the world. Moreover, there are considerable resources of salt, chalk, gypsum, an drite and building stone.

- With an increased production of raw materials in view, there will be an increase in outlays on geological prospecting.

New coal basin in the Lublin area will continue to expand.

Production of copper will temporarily decrease in proportion to shortened worktime in mines. However, the level of exports will be maintained, at the cost of decreased domestic demand. By the way, it will be possible to achieve a growth of export receipts through an increase in production and export of semi-finished and fully manufactured copper products.

Exports of sulphur and some semi-finished chemical products, as well as plastics, and in particular polivinyll chloride, will be increased. Production of the latter is based partially on enormous deposits of rock salt and large productive capacities in the plants involved.

The modification of technology of cement production with a view of decreasing energy consumption will allow for the possibility of exporting cement.

- b/ Productive capacities in engineering, electrical and electronic industries, considerably enlarged in the past years, allow for increased production and export of their products. It has to be emphasized that these exports, in spite of general decrease in industrial production, increased by 20 per cent, in 1980, amounting to over 1.8 billion dollars. Possibilities of further increase are fully realistic in the following domains:
- Tools /including precision instruments/, ball-bearings of various kinds, industrial automatics and electronic products. As regards the last mentioned, we have already started exports of kinescopes for colour TV-sets from the not yet completed plant in Piaseczno.
- There are realistic possibilities to increase exports of machine-tools, particularly of specialized heavy machine-tools, as well as of construction and road machinery. We perceive some possibilities of increased

exports in ships, particularly in modern, specialized ships.

As regards steel products, the basic task is to decrease deficits in trade of these products and to achieve an excess of export receipts. This will be facilitated by putting in operation modern equipment in steel plants.

In view of reduced capital investments in our country, it will be possible to increase exports of machinery and equipment for various industries, as well as complete industrial plants. In this respect, particular opportunities for exports arise in the developing countries.

Exports to those countries have already been developing dynamically. Attempts will be made to increase them, in cooperation with partners from market economies.

c/ Exports of construction services in the form of sending teams of workers abroad to implement construction works in industry and other sectors of economy will be expanded: should the opportunity arise, these exports would also include machinery and equipment. We will explore possibilities of utilizing free production capacities in our plants for starting production based on raw-materials and other goods supplied by our western partners, to cover their own needs or for exports to third countries.

In view of a future increase in agricultural production, it will be possible to expand exports of food stuffs, and particularly, of fruit and vegetable preserves, and to resume exports of sugar.

Notwithstanding the increase in the volume of exports, efforts will be made to increase export receipts through better processing of products, application of new technical methods and improvement in the quality of production, as well as through obtaining better export prices.

A reward system for producers, for increased exports of goods and services will be generally introduced and will include cooperating producers. This system should contribute to the growth of exports.

6.6. Simultaneously with actions aimed at increasing export receipts in convertible currencies, efforts will be made to rationalize the commodity structure of imports and to reduce import payments to absolutely indispensable level.

First of all, attempts will be made to increase domestic production of grains and fodder and to gradually reduce their imports. It seems that within the next few years these imports may be reduced by half. Savings in free currencies thus obtained may be used for increased imports of raw-materials, other goods and co-operative elements for industry.

In view of cuts in investments, imports of machinery and equipment will be temporarily reduced.

It will be necessary to rationally remodel the commodity structure of imports in order to eliminate purchases of products not essential for the country's economy and export production. Strict control of import expenditures will be introduced.

6.7. Despite our efforts to increase export receipts and to rationalize the structure of imports, we will not be able to achieve improvement in the balance of payments with market economies earlier than in a few years.

In 1981, it will not be possible to increase exports above the last years' level, in view of shortened worktime in mining, in manufacturing industry and transportation, and in view of reductions in imports necessary for export production. The latter are due to payment difficulties. It seems, however, that in the next few years it will be possible to achieve annual growth of exports around 6-8 per cent in volume, i.e. 14-16 per cent at current prices.

In 1981; we won't be able to increase imports, either. Only after two years, a growth of imports at current prices can be considered. This means that - first - there will be a decline and - later - a very small growth in the volume of imports. Such a situation will be tolerable only after significant changes in the commodity structure of imports and their considerable rationalization.

The process of improving the balance of payments will thus take many years. In the first phase, up to 1983, it will be necessary to achieve an equilibrium in the balance of trade. In the second phase, the current account of the balance of payments /which includes high interest on foreign credits/ should become equilibrated. We expect it to happen in 1986. It necessarily follows that in the next 5 years we will have to contract foreign credits to cover our deficit on the current account. Not earlier than in 1986 will it be possible to commence a gradual reduction of our foreign indebtedness.

Credit policy consisting in temporarily increasing our foreign indebtedness, in order to repay old and new loans later, requires close cooperation with our creditors. We count on their help in this respect since the credits granted to Poland in the past years were unquestionably of some advantage to their economy in the sphere of production and employment, especially in iron and steel industry in chemical and engineering industries. Our annual credit needs, which according to our estimation will still amount to 11 billion dollars in 1981, will be for a number of years maintained at the level of about 9-10 billion dollars. During the first two years this total would include financial credits not connected with purchases of goods, amounting to 4.5 billion dollars; later, this amount will decrease annually, so that after 1985 all credits will be exclusively connected with purchases of goods

It is extremely important to achieve as soon as possible changes in the structure of credits with a view of total

elimination of short-term credits and considerable lengthening of the period of repayment of medium and long-term credits. It is also important to decrease the burden of interests which presently take about 30 per cent of our export receipts. It is also necessary to make every effort to obtain as long grace periods for new credits as possible.

7. Measures improving the situation in industry

7.1. The principal task is to improve supply of electric power for the industry; at present it is insufficient and causes stoppages in production.

It is necessary to promptly complete construction of power stations, so as to increase generated power by over 4 thousand MW; by 1983; this would considerably reduce power shortages and would bring the country nearer to an equilibrium in the power balance.

These expectations are justified, because an important fuel and power project, based on lignite, is under construction in the region of Bełchatów. After 7 years of construction, its first power units are now being put on stream. It is expected to produce 4.3 thousand MW of power in 1985.

Measures will be undertaken to decrease consumption of power in enterprises through simple power saving programs and through applying power saving technologies. In construction, traditional methods using less power will be developed; present methods of housing construction, based on prefabricated elements are highly energy-consuming.

7.2. It is very important to reduce consumption of imported raw-materials and other goods needed for industrial production. To this end, strict saving regimes will be introduced in supply and utilization of materials; necessary efforts will be taken to obtain appropriate changes in technology of production.

Organizational and economic measures will be introduced to expand recycling of raw-materials and, first of all,

of non-ferrous metals, rubber and lubricating oils.

In steel industry, the structure of production will be modified with a view to increase the share of those groups of products which are imported for convertible currencies.

7.3. As far as possible, the whole industry should change its structure of production with a view to increase production for the market, for exports, and for the needs of agriculture.

Electroengineering industry will increase the production of spare-parts; on account of their shortage a part of machinery and equipment is not utilized at the present time. Putting these machines on stream will contribute to increased production.

It is especially urgent to increase production of spare-parts for automobiles, buses, tractors and agricultural machines.

8. Introduction of economic reform

Getting Polish economy out of its present critical situation requires essential increase in economic efficiency. Hitherto, our system of economic performance has not favoured this aim. Therefore, a prompt and complex economic reform has been decided upon. Partly its introduction has already been started. The guidelines of the reform still have to be more precisely defined and require social approval. Their main outline is as follows:

8.1. The basic features of the planned economy will be preserved; the new model of planning and management will, however, distinctly differ from the old centralized one. The suggested changes aim, on the one hand, at decentralization and increase in power of lower economic units, and, on the other - at democratization of planning and management processes.

The five-year plan will play the most important part. The population will widely and fully participate in its preparation. The information about alternative possibilities of solutions of various problems and the true cost of economic ventures will be given to all concerned. The five-year plan should provide basic economic units with guidelines regarding conditions of development, its social and economic targets, and means for their implementation. The scope of the central annual plan will be significantly decreased and its importance lessened. Accordingly, evaluation of enterprises' and economic units' activities on the basis of implementation of planned - targets will be abandoned, and attention will be paid to economic results.

8.2. An independent, autonomous enterprise producing goods or rendering services that satisfy social needs is the basic organizational unit of national economy. In this activity it should yield adequate returns /excess of revenues over costs/. Enterprise is fully responsible for its performance. Non-profitable enterprises should be reorganized or closed.

Enterprises themselves work out and determine their plans and finance their activities, covering their expenses out of their own monetary revenues. They may avail themselves of bank credits. Subsidies from the state budget may be given to non-profitable enterprises only when important social considerations are involved.

Self-government of the enterprise is its important feature. It is expressed in workers' participation in the management of the enterprise, through a self-governing workers council, elected by the staff in universal, equal, direct and secret voting. The council is responsible to the workers for its activity.

The council will have an influence on the organizational structure and plans of the enterprise, on appointing and dismissing directors, on the principles of remuneration, on working regulations, organization of production and distribution of financial results. It is important that workers

participate in the profits of enterprises in the form of wage increases or bonus fund. Part of the profit must be allotted for the development fund of the enterprise.

8.3. As regards the role of central authorities in administration of the planned economy of the country it has to be noted that the role of Parliament /Seym/ and its controlling functions will be expanded. The Seym will pass five-year plans and probably also annual plans. It will set the ceiling for central capital investments and for the maximum level of foreign indebtedness.

The Planning Commission should act as the economic staff to the Government, working out drafts of economic plans in several versions, as well as proposals of government decisions in economic affairs. But the Planning Commission as such should not take operative economic decisions.

Steering the activities of autonomous state enterprises by central authorities should be based on application of economic instruments: on appropriate shaping of motivating systems, on regulating prices and granting subsidies, on rate of interest, fiscal policy, on establishing criteria for granting loans, allocating free currencies etc. The present system of managing the national economy by centrally established directives will be abandoned.

Directives will be used only on a limited scale. Due to present shortages of goods and foreign exchange, rationing of articles in short supply, as well as import ceilings and obligatory targets for exports, will be temporarily introduced. The scope of those restrictions should be kept within reasonable limits.

The number of industrial ministries will be reduced and their functions will be changed. Official subordination of managers of enterprises to their respective ministries will be reduced. Within the framework of the economic reform, a comprehensive reform of prices of raw-materials and intermediate goods used in production will be prepared in 1981.

This reform should bring closer the structure of wholesale prices in Poland to that existing on the international markets.

Summarizing the above considerations about the main elements of the 3-year program it may be stated that there are fair chances for stabilization of Polish economy by the end of the present five-year period and for assuring its future development after 1985.

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OFFICIAL MESSAGE

Poland

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431 9:22

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Mr. Aldo Guetta

Infund

Paris, France

Special Instructions

18 Please do not forward 1972 publication we discussed.
17 Peter Hole will be in Paris on April 6 and will deliver
16 copies of 1979 edition.


15 Whittome

Distribution

MESSAGE MUST END HERE

Drafted by: LAWhittome/vrb
Department: FIR
Date: 4/2/81

~~LAWhittome~~
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Office Memorandum

April 2, 1981

MEMORANDUM FOR FILES

Subject: Poland

Mr. Vera phoned me from Geneva this morning to say that a member of the Permanent Mission of Poland to the GATT, who was in origin an official of the Ministry of Foreign Trade, had approached the Geneva Office to ask for information about membership in the Fund. The official volunteered that the Geneva mission had been asked to learn all they could about membership in the Fund and the Bank.

I am also told that Mr. Zegers has been approached by the Deputy Director of the Department of International Organizations which is also a part of the Ministry of Foreign Trade with a similar question.

I have asked both Mr. Vera and Mr. Zegers to use discretion in their replies and to make sure that any more pointed queries are routed to this Department.

A handwritten signature in dark ink, appearing to be "L. A. Whittome", is written above the typed name.

L. A. Whittome

SECRET

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

Telex
Night Letter
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TIME RECEIVED

ADDRESSES

Mr. Aldo Guetta
Infund
Paris, France

Special Instructions

18 Please do not forward 1972 publication we discussed.
17 Peter Hole will be in Paris on April 6 and will deliver
16 copies of 1979 edition.

Whittome

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Department: EUR
Date: 4/2/81

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INTERNATIONAL MONETARY FUND

4/2/81
11.10

Mr. Whittome,

Mr. Guetta called to say that he had found a copy of the publication he had told you he didn't have but that it was dated 1972. If you thought the copy would not do, could you please send him a telex overnight? If he hadn't heard from you by tomorrow morning he would assume it was all right and he would send the copy to Mr. Monory.

He also asked whether you would be kind enough to send him a few more copies since that was the last one he had.

INTERNATIONAL MONETARY FUND

April 2, 1981

Mr. Whitton:

Attached is the "normal" list of documents provided for new members. Mr. Lang handled China on his own and, although we have searched through his personal files, we have so far been unable to trace a list of the documentation that was provided to Beijing. We are continuing to search and if we find anything, we will let you know immediately.

○ It is Mr. Evans' recollection that only printed publications were given to the Chinese prior to their actually becoming members.

Att.

AW
Alan Wright

NEW MEMBER DOCUMENTS

IMF Directory

IMF: Purposes, Structure and Activities

By-Laws

Membership Booklet

Annual Report

Articles of Agreement

International Financial Statistics

(IMF Survey)

Finance and Development

Selected Decisions

Some countries may wish to receive the appropriate papers
in the pamphlet series on Special Drawing Rights


February 26, 1980

Dear Mr. Cao,

Further to my letter of February 22, I enclose a listing of publications, 4 sets of which are being delivered to you under separate cover.

I also enclose a pamphlet listing the publications of the Fund, a number of which are not included in the above. Should you wish copies of any of these I would, of course, be pleased to supply them.

Sincerely yours,



Leo Van Houtven
Secretary

Enclosures

Mr. Cao Guisheng
Counselor (Political Affairs)
Embassy of the People's Republic of China
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008

JWL

Enclosure

Articles of Agreement of the International Monetary Fund
By-Laws, Rules and Regulations of the International Monetary Fund
Proposed Second Amendment to the Articles of Agreement
Selected Decisions of the International Monetary Fund
and Selected Documents - 8th Issue
+ Supplement to 8th Issue
Balance of Payments Manual - 4th Edition
Special Drawing Account Manual of Procedures
+ Revised Supplement No. 1: Principles and Procedures for Reconstitution
Finance and Development - December 1979 Issue
Annual Report - 1979
Annual Report on Exchange Arrangements and Exchange Restrictions - 1979
Summary Proceedings - Annual Meeting 1979
International Financial Statistics - February 1980
Direction of Trade - January 1980
Direction of Trade Yearbook - 1979
Government Finance Statistics Yearbook - 1979
Balancy of Payments Yearbook - 1979
History of the Fund - Volumes 1, 2, and 3
International Reserves - Needs and Availability - IMF
Membership and Nonmembership - Joseph Gold
Admission to Membership in the International Monetary Fund
--Manual of Procedures
Legal and Institutional Aspects of the International Monetary System:
--Selected Essays - Joseph Gold
Pamphlet Series - Nos. 20, 25, 26, 27, 28, 29, 30, and 31.

INTERNATIONAL MONETARY FUND

Mr. Whitton

This is an interesting article on Poland and the IMF, written by a Vice President of Bankers Trust Co., New York.

It should be available in English.

Mr. Mansfield

Please check, Mr. 3/30 20/3

AM
Sending us a copy. 3/31

Horst Ungerer

Poland and the IMF

Dr. Lawrence J. Brainard
Vice President and Senior International Economist
Bankers Trust Co.

Bank Handlowy, the Polish foreign trade bank, met recently in London with over 60 commercial banks to discuss the refinancing of credits due for repayment in 1981. At the end of 1980, Poland's foreign debt reached a total of over \$24 billion. Sixty percent of the debt is owed to commercial banks; most of the rest represents export credits or guarantees extended by the major western countries. Poland is asking for refinancing of \$7.5 billion in maturing credits.

In previous debt rescheduling operations the International Monetary Fund has played a key role. In the case of Turkey, for example, the IMF negotiated an economic stabilization program and granted the country loans under its usual facilities. The commercial banks and government creditors then used the IMF stabilization program as the basis for rescheduling their credits. Subsequent to the rescheduling, the IMF continued to monitor Turkey's economic performance under the stabilization program that was agreed upon.

Poland is not a member of the IMF. The Fund, therefore, cannot play a role in refinancing Polish loans. One of the major worries the banks have is that there does not seem to be any mechanism at hand for accomplishing the needed restructuring of debt. For this reason many bankers have suggested that Poland

join the IMF before a new debt refinancing is attempted.

The question of IMF membership for Poland has become a major issue for the banks during the past two years. In March 1979 an international syndicate of U.S., Canadian, Japanese and British banks negotiated a \$550 million credit for Poland which included full disclosure of information on the Polish balance of payments and foreign debt. Such information, normally released by all IMF members, had previously been treated as state secrets by the Polish government.

In April 1980 these same banks meeting in Warsaw were disappointed to discover that this information disclosure had not been effective in encouraging Poland's leaders to implement needed economic stabilization measures. Several of the banks attempted to negotiate a new credit which included the creation of a study team of bankers and economists to review and discuss economic policy with the Polish government on a regular basis. The credit signed in August 1980 was sharply reduced in size from \$500 million to \$325 million, after most banks refused to support these efforts.

Some banks, therefore, look to the IMF, to aid in rescheduling Poland's debts, a job the banks could not effectively carry out. They also look to the IMF to provide new loans and to impose discipline on the country's economic policy. The experiences of the banks during the past two years makes clear that the banks themselves are not in a position to impose such discipline.

Support for Poland's membership in the IMF also comes from several western governments. Their interest is primarily political. They see the IMF as a way to integrate Poland more closely into the international economic system. In this way western countries would be able to have greater influence over Polish economic policies. The alternative in their view is that Poland will be forced to accept close economic integration and dependence on the Soviet Union and other Eastern European countries.

The most frequent argument against the IMF option is that the Soviet Union will simply not allow it. This answer is the one given by the Poles themselves; it is widely accepted in the West. Yet it is possible to observe a growing debate about the IMF throughout Eastern Europe. Five years ago the finance ministers of the Comecon countries held a special seminar in Moscow to discuss the IMF and the international monetary system.

China's decision to join the Fund has encouraged further discussion of this subject. Last June, for example, an important article by a leading Hungarian economist on issues relating to the IMF was published in the major Soviet political journal Mezhdunarodnaya Zhizn. Such debate does not necessarily indicate a change in the Soviet position on these questions. It does suggest that such a change could be possible.

There are several reasons the Soviet Union may be willing to accept IMF membership for Poland. One is that the U.S.S.R. is not prepared to underwrite fully Poland's future credit requirements.

IMF credits would help reduce the need for Soviet credits. As Romania has demonstrated, there are substantial credit benefits. Since its 1973 membership, Romania has received about \$2 billion in such credits. Another reason is that the IMF is in a better position as an outside party to recommend the kind of economic stabilization measures that Poland seems to need.

There is a problem, however, associated with the inability and reluctance of the IMF at this time to play an active role in any rescheduling for Poland. Even if Poland were to apply for membership today, it would likely take at least a year for all of the necessary background studies and other formalities to be completed by the Fund. Additional time beyond this would be required before Poland could draw IMF loans.

Another concern is that membership by more socialist countries in addition to China, Romania and Vietnam could seriously undermine the traditional role of the IMF in economic stabilization programs. The recent request by China for a \$550 million standby credit facility brought these worries to the surface within the IMF. The Fund's familiarity with the workings of non-market economies such as China or Poland is very limited. And there is a complete lack of knowledge about how to develop effective stabilization programs in such economies. If the conditionality applied to drawings by socialist countries is seen to be weak, the Fund would surely come under pressure from market economies in developing countries for a more general relaxation of conditionality. The Fund recognizes these problems, but it will take time to solve them.

Lastly, there is a fundamental question whether a structural change should be imposed as a precondition for rescheduling. Poland's creditors clearly have a right to negotiate agreement on economic targets, such as the country's balance of trade or budget deficit. They also have a right to insist that effective measures be taken to meet these targets. But western creditors do not have the right to impose the kind of structural change in Poland's economic and political system that IMF membership represents.

IMF membership, therefore, must be a question for the Poles themselves to decide without western interference. If Poland decides to seek membership, western creditors -- both governments and commercial banks -- may wish to support this application. Such support, however, should depend on the willingness and determination of Poland's leaders to abide by IMF rules and regulations.



Office Memorandum

CONFIDENTIAL

TO : Mr. Whittome

DATE: March 18, 1981

FROM : Geoffrey Tyler *GT*

SUBJECT : Poland

The attached memorandum is self-explanatory. Mr. Mohammed is to have lunch with Mr. Pala on March 20, 1981 and he invited me. I had to decline because I shall be in Vienna on that day. I asked Mr. Mohammed to mention to Mr. Pala that I would otherwise have been at the lunch and to tell him that he should feel free to get in touch with me if he wished.

Attachment



Office Memorandum

CONFIDENTIAL

TO : Mr. Tyleⁿ)

DATE: March 17, 1981

FROM : F. Le Gall

FLG

SUBJECT : Luncheon with Mr. Pala on Possible Fund Membership for Poland

On March 16, 1981, Mr. Janusz Pala, Commercial Attache at the Embassy of the Polish People's Republic, and I had lunch. We had met last spring during a seminar on China which I attended as desk economist for China at the Fund. Yesterday, Mr. Pala indicated that he had suggested to his authorities that Poland consider joining the Fund; he is now gathering information on an informal and strictly confidential basis. After noting his interest in the fact that the People's Republic of China is now represented in the Fund and had recently negotiated a stand-by arrangement in the first credit tranche, Mr. Pala focused upon the following topics: (1) the conditions for joining the Fund and more particularly, the share of foreign exchange in the payment of the quota subscription; (2) the provision of data, notably balance of payments and reserve figures; and (3) membership in the World Bank. As for the provision of national statistics, I stated that this was part of the process of consultation and dispelled the notion held by Mr. Pala that only borrowing countries need supply information on their economies. Finally, in a brief description of the structure of the Fund, I mentioned that Poland would fall under the European Department.

Mr. Newman of the Office of External Relations had prepared a set of documents which I passed on to Mr. Pala. For specific answers to some of his questions, I suggested that Mr. Pala first contact Mr. Azizali Mohammed who has been informed of this. Drawing upon my experience with the first mission to China, I also listed Messrs. David Williams, Joseph Lang, and Mark Allen. In addition, Mr. Pala may want to contact the European Department.

cc: Mr. Tun Thin
Mr. Watson



Office Memorandum

TO : Mr. Whitcomb

DATE: March 16, 1981

FROM : Geoffrey Tyler 17

SUBJECT : Poland

At your suggestion, I met with Mr. Jacob Dreyer, Deputy Assistant Secretary for International Economic Analysis at the U.S. Treasury. He had earlier spoken to Mr. Finch. (See your Note to the File of March 5, 1981.)

I had an interesting discussion with Mr. Dreyer, who was open and well informed. The following are some of the points that emerged.

1. The Poles are currently living from hand to mouth since no government is very anxious to risk their money in Poland, although all desire to avoid having a Polish bankruptcy. As a result, recent transactions have been of an ad hoc kind. For example, Germany has lent US\$100 million short-term, which was immediately used to repay C.C.C. credits previously extended by the U.S.; this sleight of hand permits Poland to ask for new C.C.C. credits.

2. There are significant differences both in the U.S. and elsewhere on the question of whether the approach should be "economic" or "political" in its orientation. In particular, the U.S. Treasury takes the attitude that it should act as a prudent banker trying to get back its lendings. The State Department takes the line that almost any price is worth paying to obtain lasting political changes in Poland.

3. With respect to tactics, the U.S. view is that the main approach must be devised by a small number of Western Governments dealing directly with Poland, with the commercial banks being told in effect to accept the results of these negotiations.

4. All concerned are at something of a loss as to how to devise an economic program acceptable to both sides and how to monitor performance. Those concerned are well aware of what we have done in Romania but, while attracted by our methodology, are not sure that they are in a position, particularly with the information before them, to negotiate similar programs. The Europeans apparently believe that, at least for the moment, they should accept the Polish program on its face value and monitor its results only in the external sector.

5. I said that in my view it was highly desirable to have the maximum amount of information on and quantification of domestic plans so that the consistency of the balance of payments could be checked against them. (Our experience in Romania is that we have been relatively good in judging when external targets have been inconsistent with the domestic plan.) Also information on the balance of payments with socialist countries would be necessary; at present I do not think this is available. I told Mr. Dreyer that in my view it was reasonable for lenders in a predicament such as faces the Western Governments and banks to press strongly for the facts on which to judge whether new lending was safe enough, although no doubt the Poles would be reluctant to meet requests of this kind.

6. I also said that in my view one of the most important features of any program will need to be its acceptance by the new union movement. This raised the very difficult question of how the unions could be involved in negotiations between the Polish and Western Governments. I have no basis for knowing what the answer might be but I am convinced that unless the unions can accept the need for the sacrifices that will be necessary for the next few years, any program is likely to fail. The corollary of this is that the West should try to obtain some assurances of union cooperation before it risks sending good money after bad.

7. Mr. Dreyer spoke about possible Fund participation in negotiations and monitoring. The West would probably welcome this but for the moment it is not practical.

8. On the question of Fund membership by Poland and Hungary, Mr. Dreyer made a point that I have not heard expressed directly until now. It is that any application from one would be accompanied by one from the other. When I questioned him he said that this need not mean precisely simultaneous approaches but almost that.



Office Memorandum

March 5, 1981

MEMORANDUM FOR FILES

Subject: Poland

Mr. Finch told me that he recently met a Mr. Drier a Director of the U.S. Treasury who is concerned with Poland. Mr. Drier asked a number of leading questions and seemed anxious to know whether we had any recommendations as to the line as regards changes in economic policies which the Western countries might take with Poland. I have asked Mr. Tyler to contact Mr. Drier.

A handwritten signature in dark ink, appearing to read "L.A. Whittome", is positioned above the typed name.

L.A. Whittome

cc: EED

WITHDRAWAL NOTICE

PROJECT

Project number 2008-006
Project name European Dept/Front Office
Project tab number 282
Project box number 2

DOCUMENT

Series / File EUR/AI/Country Files/Poland/C
Original box /file No 57/2
Date March 4, 1981
Type Memo
From Geoffrey Tyler
To Mr. Whittome
Subject / Title Poland-Estimated quota calculation
Number of pages 1
Classification SECRET
Authority

COMMENTS

Document closed

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PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by vsmallen

Entered on 3/25/2008



The Managing Director

March 4, 1981

L.A. Whittome

Poland

1. After the riots of 1979 Gierek replaced Gomulka and immediately reversed the price increases which were the immediate cause of the riots and decided simultaneously to increase investment and consumption. Such a policy implied heavy foreign borrowing.
2. To begin with growth accelerated but lost momentum in the second half of the 1970s. The economic reasons included a lack of price incentives for agricultural production and a very large investment program seemingly unassociated with economic criteria. Foreign indebtedness rose sharply.
3. As of end-1980 gross foreign convertible debt was estimated at around \$23 billion (some reports now put the figure at \$25 billion). A large part of this debt took the form of trade credits with relatively short maturity dates and some two thirds of the total convertible debt falls due for repayment during the next two years. Total debt service is estimated at around \$9 billion in 1981.
4. To put these figures in a more familiar context debt service is now the equivalent of some 100 per cent of convertible export receipts and in 1981 interest on this convertible debt will be around one third of convertible export receipts.
5. This seems an untenable position. Apparently the Polish Reform Commission (a body set up by the Government and including as "working members" some representatives of Solidarity) has said that a three year moratorium on capital and interest payments is essential but the Polish Government have allegedly rejected this advice. Our contacts with commercial banks suggest that they would much prefer a global approach in a restructuring package. For the moment the Polish Government do not seem to have settled on a clear cut strategy nor on a medium term solution to the debt problem.
6. At the recent Paris meeting the Poles allegedly presented a three year (1981-83) program showing a deficit in 1981 alone of \$11 billion with the convertible area. Gold apart official reserves are negligible. The creditors were satisfied neither with the economic information provided nor with proposed policies. Another meeting is scheduled for April 9-10 and it is hoped to reach a rescheduling agreement by end-April.
7. We have had many queries on Poland. The dominant impression is that there would be strong economic arguments for Fund involvement—even as an observer—but politics will not permit this. I would not dissent from this view but political opinions can sometimes change rapidly.

3. As a postscript we have brought up to date some rough calculations done in 1967 when the question of Polish membership was last alive. They are crude but suggest that the quota range might be between SDR 600 million and SDR 800 million. If one simply projected the quota allotted Poland at Bretton Woods the range would be somewhat higher namely SDR 750 million to SDR 1 billion. For comparison Yugoslavia's quota is SDR 415 million, Romania's SDR 367 million, Spain's SDR 835 million, and Argentina's SDR 802 million. If Poland's quota were SDR 750 million this would mean that Poland, Romania, and Yugoslavia together would have just about the same number of votes as Nana-Sinkam's constituency.

cc: DMD
Nabow
EEO



Office Memorandum

TO : Mr. Whittome

DATE: March 3, 1981

FROM : J. Buyse 7B

SUBJECT : Poland

After the memorandum on Poland (2/26/81) was turned in, a translation of the draft report of the Polish Commission for Economic Reform became available and its salient points are the subject of the present memorandum. As mentioned, the draft report seems somewhat contradictory in that it preaches decentralization but is conspicuous of market forces. Among the positive points of the draft report are the proposals to increase significantly the autonomy of enterprises and to reduce the investment rate. On the other hand, the draft report remains vague about the implementation of price reforms and the successful implementation of the "central planning parametric model" remains dubious. Finally, although there seems to be a tendency to reduce the insulation of the domestic economy, it is not clear to what extent and under which conditions enterprises will be allowed to participate directly in foreign trade.

cc: Mr. Tyler
Mr. Wein

March 3, 1981

Following are the salient points of the Draft Report of the Commission for Economic Reform:

1. Enterprises should be independent, allowed to formulate their own plans, profitable and financially autonomous. Quantitative fulfillment indices are to be abandoned. The aim is to harmonize national plans and the plans of individual enterprises not through direct administrative intervention, but through the determination of the appropriate values of economic parameters such as prices, exchange rates, interest rates, taxes, subsidies, etc. It is explicitly stated that prices should remain a parameter outside the control of enterprises.

2. The five-year plans should be the fundamental economic development plan. Longer-term planning would be done in the form of ten-year plans. Annual plans should no longer be legally binding.

3. The report remains vague about price reforms. It states that retail prices can only be reformed jointly with incomes and that the real wage level of lower income groups has to be safeguarded. Further, it is stated that prices in international markets should be the basis for determining prices of raw and other materials, and that whenever world prices cannot be used, marketing prices should be determined on the basis of domestic production costs. Eventually, retail prices should be equal to producers' prices plus a profit margin.

4. Foreign trade should be carried out by specialized export-import enterprises, established and supervised by the Ministry of Foreign Trade and Maritime Economy, which can also authorize other economic organizations to engage in foreign trade. Foreign trade policy would tend to increase the profitability of exports rather than be anti-import. Moreover, the import structure of goods would be reviewed in favor of consumer goods and raw materials.

5. The disposability of consumer goods would further be increased through a reduction of investment and through the development of small-scale industry, services and (private) agriculture.

6. Wages will be determined by two main criteria. First, by the position occupied by a specific job in a uniform, nationwide pay rate list. Second, by the employee's share in the enterprise's economic performance (profit, income growth, etc.). The bonus system will further be reduced and wages judged excessive will be heavily taxed.

The translation of the draft report was printed in FBIS (January 27, 1981) pp. G-16-45.

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FOR WHITTOME CONFIDENTIAL

FURTHER TO MY TELEX OF YESTERDAY, I OBTAINED THE FOLLOWING
DETAILS ON POLISH DEBT DISCUSSION:

POLES PRESENTED 3-YEAR ECONOMIC PROGRAM (1981-83) INDICATING
DOLLARS 11 BILLION DEFICIT WITH WEST IN 1981, COMPRISING
DOLLARS 7.5 BILLION FOR MEDIUM- AND LONG-TERM DEBT SERVICE.
APART FROM GOLD (WHICH POLES DO NOT CONSIDER MOBILIZEABLE)
LIQUID INTERNATIONAL RESERVES PRESENTLY EQUAL 2 DAYS' IMPORTS.

CREDITORS WERE SATISFIED NEITHER WITH INFORMATION ON
PRESENT ECONOMIC SITUATION (INCLUDING SIZE OF OVERALL DEBT AND
DISTRIBUTION BETWEEN WEST AND CMEA COUNTRIES) NOR WITH ECONOMIC
POLICIES FOR FUTURE. POLES WERE ASKED TO PROVIDE ANSWERS TO LONG
LIST OF QUESTIONS, AND AD HOC WORKING PARTY OF MAJOR CREDITORS
HAS BEEN SET UP TO CONSIDER ANSWERS IN ADVANCE OF MEETING ON
APRIL 9-10.

THE UNITED STATES, UNITED KINGDOM AND GERMANY WERE PAR-
TICULARLY FIRM IN SUBJECTING FINAL AGREEMENT TO SATISFACTORY
ECONOMIC POLICIES, WHEREAS FOURTH MAJOR CREDITOR (FRANCE)
SEEMED TO ATTACH LESS IMPORTANCE TO THIS. SOME CONDITIONALITY
IN THE FORM OF ANNUAL REVIEWS APPEARS TO BE ACCEPTABLE TO POLES,
WHO HOWEVER ARE PRESSING FOR THREE-YEAR AGREEMENT. CREDITORS
RELUCTANT TO COMMIT THEMSELVES FOR MORE THAN ONE YEAR AT A TIME,
BUT PREPARED TO CONSIDER GOOD WILL AND REVIEW CLAUSES. MOREOVER,
IN VIEW OF POLITICAL WILL TO KEEP POLAND AFLOAT, CREDITORS
RESIGNED TO INEVITABILITY OF SOME ADDITIONAL BALANCE OF PAYMENTS
ASSISTANCE, BUT BURDEN SHARING HAS NOT BEEN TOUCHED UPON.

INTENTION IS TO CONCLUDE RESCHEDULING AGREEMENT BY THE END
OF APRIL--FORMALLY TO START ON JULY 1. IN MEANTIME, THOSE
GOVERNMENTS ALREADY TAKING TEMPORARY RELIEF MEASURES WILL
CONTINUE AND OTHER DELEGATIONS HAVE AGREED TO RECOMMEND TO
THEIR GOVERNMENTS THAT THEY TAKE SIMILAR ACTION.

POSSIBILITY OF FUND INVOLVEMENT AS OBSERVER CONSIDERED BY
CREDITORS BUT DISMISSED. POLES, WHO WERE IMPRESSED BY SIZE
OF FINANCIAL ASSISTANCE OBTAINED BY YUGOSLAVIA FROM IMF AND
IBRD, INDICATED THAT FUND MEMBERSHIP WAS STILL UNDER
CONSIDERATION, BUT GENERAL IMPRESSION WAS THAT NON-FINANCIAL
FACTORS WOULD AT PRESENT JUNCTURE BE OVERRIDING.

REGARDS,



Office Memorandum

TO : Mr. Whittome *Thinks*

DATE: February 26, 1981

FROM : J. Buyse *7B*

SUBJECT : Poland

I attach the paper on Poland which you requested. Poland's growth strategies, its economic reforms and its foreign trade mechanism as well as the evolution of its wages and its convertible debt are successively reviewed. The scarce information found on the country's public finances was included under the foreign trade section.

Attachments

cc: Mr. Tyler
Mr. Wein

February 26, 1981

Poland

1. Growth strategy

The immediate postwar years and the 1950s were a period of extensive growth for Eastern Europe. The effective active population increased, thanks to the reduction of hidden unemployment in the rural areas and the integration of female labor in the production process. Simultaneously, the capital stock increased, thanks to high investment ratios. By the beginning of the 1960s, as hidden reserves gradually dried up, the East European countries realized that they had to switch to a pattern of intensive growth. National income was to grow thanks to the increased efficiency of inputs rather than through their increased quantity. Consumption would receive more priority and the ideal of autarky was to be abandoned. These ideas flourished also in Poland where Gomulka tried to restructure the economy during the third five-year plan (1966-70). Paradoxically, this restructure of the economy, which aimed, among other things, at reducing the share of capital goods in national income and at raising more rapidly the standard of living of the population, required in its first stage a higher accumulation rate, and therefore slowly increasing wages. In December 1970, Gomulka tried to raise the prices of certain basic foodstuffs, but workers rioted and he was forced to resign. His successor, Gierek, reversed the price increases and decided to increase simultaneously investment and consumption. Distributed national income increased faster than produced national income thanks to capital imports and trade account deficits. In Gierek's eyes, capital inflows would enable Poland to modernize and restructure its economy, which would eventually lead to higher growth rates. Moreover, goods produced with Western technology would be exportable to the convertible currency area and therefore settle the foreign debt problem. Finally, wage increases and a higher standard of living would lead to increased productivity.

The results of the 1971-75 five-year plan were impressive. National income increased by an average of 9.4 per cent a year, 2.6 per cent more than planned and, after Romania, the highest rate in the CMEA (Table 2). The accumulation rate was hiked from an average 27.5 per cent during the 1966-70 five-year plan to 34.9 per cent in the 1971-75 five-year plan (in constant prices; Table 3). During the same period, real wages increased by 7.2 per cent a year. Gierek's strategy was basically continued during the next five-year plan (1976-80), albeit with somewhat less ambitious targets. Nevertheless, the strain put on the economy proved excessive. Growth was still respectable in 1976 and 1977, but in 1979 and 1980 national income declined by 2 per cent and 4 per cent, respectively. In order to abate the pressure on the economy, the investment rate was lowered from 26.8 per cent in 1978 to 19.7 per cent in 1980. In 1981 this rate will further be reduced, thanks to the freezing of 49 major industrial projects. Nevertheless, the future looks grim for Poland; the country has accumulated a US\$23 billion gross convertible debt (end-1980) and is confronted with social unrest and

political uncertainties. The Polish authorities now criticize Gierek's growth strategy, but to date, they have abstained from formulating an alternative strategy. 1/

2. Economic management and reforms 2/

a. Polish economic reforms

As in most East European countries, the Polish leadership tried on various occasions to improve the efficiency of the economic system, while safeguarding its socialist nature. J. G. Zielinski distinguishes five phases in the history of Polish economic reforms:

--the 1959-58 period, when an attempt was made to introduce a "guided market" or "market-parametric" model;

--the 1959-64 period, which saw a freezing and sometimes a reversing of the previous reforms;

--the 1965-68 period of gradual, pragmatic reforms;

--the 1968-70 reforms of Gomulka which were smothered by the workers' riots of December 1970; and

--the reforms introduced by Gierek after 1971 and which aimed at establishing a "central planning parametric model" (see below). 2/

Since then, Zielinski's list can be completed by the withdrawal of Gierek's "new economic and financial system" in 1975 and its replacement in 1977 by the "modified economic and financial system." Currently, a new wave of reforms is being prepared, with the publication of the Draft Report of the Polish Reform Commission.

b. Gierek's reforms

Gierek's aim at the beginning of the 1970s was to strengthen central planning while simultaneously according more leeway to enterprises. In

1/ P. Jaroszewicz, who was replaced as Prime Minister by E. Babiuch in February 1980 after nearly 10 years in office, was held responsible by a Control Commission for "handling an incoherent investment policy exceeding the possibilities of the country, increasing the debt of the country, and promoting an ill-considered conception of price changes in 1976." He was excluded from the Party. Financial Times, February 6, 1981.

2/ Sections 1 and 2 are basically a summary of Z. M. Fallenbuchl, "The Polish Economy in the 1970s," pp. 838-46 in Joint Economic Committee of the U.S. Congress, "East European Economies Post-Helsinki," 1977, pp. 1422.

3/ J. G. Zielinski, "Economic Reforms in Polish Industry," London, Oxford University Press, 1973, pp. 14-21, as summarized by Z. M. Fallenbuchl in "The Polish Economy in the 1970s," pp. 838-39 in Joint Economic Committee of the U.S. Congress, "East European Economies Post-Helsinki," 1977, pp. 1422.

order to achieve this aim, "a system of economic parameters, determined by the central planners, rather than direct commands will be used 'to steer' the economic units to make decisions in the desired direction; it is therefore not a market socialist model, but the central planning parametric model." ^{1/} Such a model is described in the works of W. Trzeciakowski, who had labeled it as a "central preferences--direct and indirect allocation of resources"--planning and management system. ^{2/}

Big economic organizations (WOGs) were formed by regrouping enterprises, industrial complexes, and some large multiplant enterprises. These (WOGs) were then guided by a complex system of criteria and centrally fixed parameters. The two main criteria were value added and profit, but priority was given to value added. ^{3/} Moreover, as the division of value added inside the economic unit between wages and profits was regulated by a parameter, which the central authorities calculated even for every WOG individually, the concept of profit was from the beginning emptied of its economic significance. (The fact that this distribution parameter varied from WOG to WOG is explained by the authorities' aim to "purify" financial results for factors beyond the control of the enterprise.) The two main criteria, value added and profit, were supplemented (initially) by four so-called "long-term normative parameters," such as the already mentioned distribution parameter on the parameter assessing the contribution of the economic organization in the foreign trade improvement. ^{4/} All these parameters were again individualized per WOG in order to allow for exogenous factors. In addition to these normative parameters, two groups of "variable general parameters" were used to determine the conditions for the economy as a whole. "The first group was composed of the parameters which were supposed to inform the economic organizations about the state of general economic activity (the macroeconomic balance of the economy), sectoral pressures, and relative scarcities of commodities and factors. They include prices, the rate of interest, rates of amortization, foreign exchange coefficients, and others." ^{5/} The second group was composed of so-called "supporting general parameters" which include "subject subsidies" in order to encourage production of certain specific commodities, price equalization subsidies, taxes on foreign trade, and occasional export taxes and import tariffs. Finally, the central authorities could impose obligatory targets and limits through direct commands.

^{1/} Ibid, p. 839.

^{2/} W. Trzeciakowski, "Systems of interest management in a planned economy: effectiveness models and their application in Poland," Uniwersitet Łódzki, Łódz, 1973, pp. 11-12.

^{3/} In an updated edition of his book, Trzeciakowski devotes an appendix to the criticism of the value-added criterion; see W. Trzeciakowski, "Indirect Management in a Centrally Planned Economy," North-Holland, Warsaw, 1978, pp. 253-254.

^{4/} The two other normative parameters were (i) the limit of the tax-free part of profit for the creation of the enterprise funds; and (ii) the relation of the managerial bonus fund to the profit. Fallenbuchl, "The Polish Economy in the 1970s," op. cit., p. 841.

^{5/} Ibid., p. 842.

The scope for the success of Gierek's "central planning parametric model" or "new economic and financial system" looked slim. From the very beginning, the profit criterion was emptied of its significance. The parametric system seems extremely complex and nothing guarantees that the central authorities will fix the numerous parameters at their optimal value. To make matters worse, the parameters conflicted sometimes with annual plan targets and, in some instances, supplementary parameters were issued with retroactive power. Finally, the authorities maintained rigid price controls, mostly for extra-economic reasons.

Gierek's "new economic and financial system" was implemented gradually. On January 1, 1973, 16 WOGs started operating according to the new principles. In 1975 this number had increased to 125. One hundred and ten of them operated in industry and produced 67.7 per cent of sold output and were responsible for 61 per cent of industrial employment. 1/ However, the combination of foreign inflation and recession and increased domestic accumulation and consumption put excessive strain on the Polish economy. "Instinctively, the authorities moved back towards greater centralization in the decision-making process, restriction of the autonomy of the big economic organizations, and increased reliance on direct commands." 2/ Gierek's "new economic and financial system" was withdrawn in 1975 and replaced in 1977 by the "modified economic and financial system." 3/ In theory, the modified system was again based on the use of economic parameters and incentives, but, in practice, the role of direct commands, administrative controls, and de facto obligatory indicators increased once more.

c. The draft report of the Polish Reform Commission

In September 1980, the Polish Economic Reform Commission was created by the Government and on January 10-11, 1981 its draft report was published in certain Polish newspapers. Solidarity economists were present as observers when the draft was worked out but until now the union has observed a reserved attitude. The authorities proclaim that they aim at a public discussion of the draft before the document is presented, possibly in an altered form, to the Ninth Congress of the Polish Communist Party.

The basic objective of the draft report is "to improve economic efficiency by eliminating operational planning at the enterprise level and to restrict the role of the central authorities to the setting of general goods and to the adoption of economic and financial (as opposed to administrative) measures which would provide incentives for the managers of individual enterprises to pursue these general goals of their own initiative." 4/ There is no commitment to market principles but the benefits of decentralizing the economy are

1/ Ibid, p. 842.

2/ Ibid, p. 845.

3/ Z. M. Fallenbuchl, "The Impact of External Economic Disturbances on Poland since 1971," p. 302 in E. Neuberger, L. Tyson (eds), "The Impact of International Economic Disturbances on the Soviet Union and Eastern Europe," Pergamon Policy Studies, New York, 1980, pp. 493.

4/ Radio Free Europe, Research, RAD Background Report/15 (Poland), January 22, 1981, p. 2.

emphasized. Indirect financial regulation from the center would be substituted for direct administrative regulation. The five-year plan and longer-term prospective plans would provide the basic information to enterprises about governmental targets. Annual plans would no longer be binding to individual enterprises; operating profitably would be their sole objective. Moreover, enterprises should be allowed to determine their own investment program and self-financing would be encouraged.

The draft report suggests implementing the economic reform in three phases between the first half of 1981 and end-1982. The main points would imply that increased financial autonomy should be granted to the enterprises during the first six months of 1981. During the second half of 1981, the system of foreign exchange rates and other quantitative economic regulations are to be improved. Finally, during 1982 producer prices have to be reformed and new priorities of planning have to be introduced.

3. Foreign trade mechanisms

In Poland, as in most socialist countries, a domestic currency and a foreign trade currency coexist. The value of the foreign exchange zloty appreciated slightly from US\$0.301 per Zl 1 in 1973 to US\$0.314 per Zl 1 in mid-1980. However, the foreign exchange zloty is no more than a unit of account, and its value is fixed rather arbitrarily.

During the 1960s Polish enterprises were totally insulated from developments in the outside world. Foreign trade was channeled through specialized foreign trade organizations which paid enterprises the domestic price for their exports and also charged them the domestic price for their imports. Basically, the price equalization scheme worked as follows: if realized export prices exceeded domestic prices, the resulting profit was creamed off through an export tax; inversely, when import prices exceeded domestic prices, subsidies were given. The shortcomings of such a system are obvious, as the enterprises are insensitive to the signals carried to them through the means of foreign prices. Enterprises have no interest whatsoever in exporting to expensive markets and importing from cheap sources. The system seems also import biased, as enterprises can be expected to prefer Western goods to domestic substitutes. Some improvements were made during the beginning of the 1970s under Gierek's "new economic and financial system" when WOGs were allowed to get involved in foreign trade at transaction prices. "Transaction prices are those which are actually paid for imports, or received for exports, in foreign currencies recalculated in domestic currency units, not at the official rate of exchange, but with the help of currency exchange coefficients, differentiated according to the payments area (i.e., different coefficients for transactions with hardcurrency countries and with CMEA countries). In addition to the new transaction prices, a series of price reforms, introduced on January 1, 1971; January 1, 1975; and January 1, 1976 were also implemented. They were aimed at the adjustment of domestic prices to world prices by administrative methods." ^{1/} However, when world inflation increased, the Polish authorities partly reversed their strategy. An export tax was levied

^{1/} Z. M. Fallenbuchl, "The Import of External Economic Disturbances in Poland since 1971," op. cit., p. 286.

to reduce the expansionary import of inflationary profits (the part of export prices exceeding domestic prices by more than 7-9 per cent was taxed at an 85 per cent rate). Similarly, import subsidies were greatly increased.

Table 4 gives some information on the evolution of the state budget and the global price equalization scheme. ^{1/} The state budget shows a surplus for every year. Price equalization taxes and subsidies decreased greatly in 1971 as a consequence of the Gierek reforms. Price equalization taxes continued to decline gradually until 1975, but then they increased again, and by 1978 they were just above their 1971 level (in current prices). Price equalization subsidies declined only in 1971 and increased rapidly until 1975. For later years no information on these subsidies is available, but it is beyond doubt that they increased rapidly. Net price equalization taxes (taxes, subsidies) were positive until 1971 but became negative from 1971 onward. Instead of being a source of revenues to the State, the price equalization scheme thus became an increasing burden for the public finances. Nevertheless, the state budget showed exceptional surpluses in both 1977 and 1978, and an above-average surplus in 1979.

As mentioned before, the Polish Reform Commission proposed in its Draft Report to discuss the system of foreign exchange rates, customs, and taxes during the second half of the agenda. A new phase of experiments with decentralization and somewhat more realistic prices seems likely.

4. Wages

Total wages of the socialized economy are fixed by the basic economic plans. Individual wages are determined by the skills, the physical effort, and the responsibility the job requires. The bonus system is not very

^{1/} Information on the distribution of the price equalization taxes and subsidies among the different sectors of the economy is given in the same article of Fallenbuchl, Table XIX, p. 82. However, this information is not always consistent with the information of the previous table as, from 1965 onward, the total amount of price equalization taxes and subsidies differs considerably between the two tables. Nevertheless, even if the absolute amounts are not consistent, Table XIX probably provides useful information as to the relative involvement of the different sectors of the economy in the price equalization mechanism. Foreign trade and industry are by far the most important payers of price equalization taxes as well as the most important receivers of price equalization subsidies. Few price equalization taxes are levied on sector agriculture, but this sector is an important receiver of price equalization subsidies. This is a consequence of Gierek's decision to abolish compulsory deliveries of agricultural products to the State (January 1, 1972) and to raise producers' prices (1971), while keeping consumer prices of basic foodstuffs stable. The remaining sectors (forestry, construction, transportation and communication, housing and communal economy, and a residual sector) are little involved in the price equalization mechanism, although "construction" and "housing" received increasing amounts of subsidies.

developed. During the 1960s, an insufficient premium for years of additional studies has been identified as one of the main reasons for the low number of employees having technical and higher education. 1/

Until 1970 real wages increased very slowly. The only exception was the 1956-58 period when, in the wake of riots which brought Gomulka to power, real wages increased by 7.7 per cent a year. But from 1959 to 1967 real wages increased by a mere 1.9 per cent a year and during the 1966-70 five-year plan the average yearly increase was 2.1 per cent. Matters changed when Gierk came to power and wage increases were considered a condition for increases in productivity. During the 1971-75 five-year plan nominal wages were to increase by 7.7 per cent and real wages by 3.4 per cent a year, but, in the event, nominal wages increased by 13.7 per cent a year and real wages by 7.2 per cent. In order to regain control of the situation, wages were planned to increase at the more modest pace of 3.0 per cent to 3.4 per cent a year during the next five-year plan, but this time targets were not attained. 2/ Between 1976 and 1979 average wages increased by only 1.3 per cent a year. In 1980 nominal wages in the socialized sector increased by 13 per cent a year and real wages by 3 per cent. Comparing the level of average nominal wages during the last quarter of 1980 with the corresponding period of the previous year, the increase was 20 per cent. The bulk of the increase in wages was obtained during the fall, under the pressure of strikes. However, increases in wages do not guarantee increases in the standard of living, as the desired goods may be unobtainable. Preliminary statistics released by the Polish National Bank and the Ministry of Internal Trade and Services show that, due to the expansion of incomes, the market equilibrium continued to worsen in January 1981; "in practice, nearly every fifth zloty had no commodity coverage." 3/

5. Poland's foreign debt

The excessive absorption of the Polish economy during the 1980s led to a series of important external deficits, which was exacerbated by the desire to import up-to-date western technology, and could only be financed by massive Polish borrowing on the international capital markets. Polish gross convertible debt soared from an estimated US\$1.1 billion in 1971 to an officially acknowledged US\$23 billion debt in 1980 (Tables 1 and 5). Officials now predict a debt of US\$26 billion in 1983 and 1984, which will, it is hoped, gradually decline thereafter.

1/ E. K. Keefe and others, "Area Handbook for Poland," American University, 1973, p. 262.

2/ UN, ECE, "Economic Survey of Europe in 1976, Part II, the Five-Year Plans for 1976-80 in Eastern Europe and the Soviet Union," New York, 1977, p. 107.

3/ Radio Warsaw as broadcast by the Foreign Broadcast Information Service (FBIS), February 17, 1981, p. G-44.

Until 1979 Poland had mainly borrowed in the form of commodity-related credits with a maturity of less than five years. 1/ As a consequence of this policy, Poland will have to repay two thirds of its US\$23 billion debt during the next two years. 2/ In 1980, Poland allegedly borrowed \$8 billion from Western sources, including approximately \$1 billion in financial credits, for debt repayment. In addition, the U.S.S.R. provided a \$1 billion hard-currency loan which has to be repaid within three years and promised a \$1.1 billion loan in 1981. Officials forecast that Poland will require US\$9 billion in 1981 to repay its debt. Some Western observers think that \$10-11 billion would be a better estimate, but even the lower figure might be higher than the total revenues of Poland's convertible exports.

In 1979, about three fourths of Polish gross debt was commercial and only one fourth officially backed (Table 1). As a consequence, Poland is critically dependent on the evolution of international interest rates. In 1976, the ratio of interest payments to convertible export receipts amounted to 15.8 per cent (Table 5). This ratio gradually increased to 24.7 per cent in 1979 and might reach 27.5 per cent in 1980 and 31.9 per cent in 1981.

In the light of these figures, some doubt arises whether Poland will be able to maintain its reputation as a punctilious debtor. The Polish Reform Commission regards a three-year moratorium on capital and interest payments as necessary in order to stabilize the economy, but to date the Polish authorities have rejected such ideas. Nevertheless, a global approach to the debt problem seems unavoidable. This week in Paris a more limited meeting will take place, as Polish officials will discuss with official creditors of more than 15 Western countries the rescheduling of export credits due during the first quarter of 1981. It seems likely that this opportunity will be seized to discuss a comprehensive debt restructuring package. Western bankers, unlike the Poles, would prefer such a comprehensive approach to a series of ad hoc decisions. Two gestures of goodwill have already been made: the U.S.S.R. granted Poland in mid-February a four-year moratorium on debt repayments and the United States accepted Poland's request for a debt deferral of \$80 million.

1/ Normally, export credits of semimanufactures have a mobility of only six months, but at the end of the 1970s Poland was often accorded repayment periods of two to four years. These export credits were often of the so-called "bullet" type, which means that there is a single lump payment at the end of the loan's term. The Economist, February 21, 1981, p. 84.

2/ Wall Street Journal, February 12, 1981.

Table 1. Convertible Currency Debt, 1971-79

(In millions of U.S. dollars, end-term)

	1971	1975	1976	1977	1978	1979
Commercial debt	420	6,547	9,159	10,393	13,430	16,000
of which:						
Liabilities to Western banks	305	5,230	7,693	8,894	11,963	15,100
Officially backed debt	718	1,467	2,324	3,574	4,414	5,100
Guaranteed export credits	370	1,091	1,849	2,921	3,700	4,400
Other	348	376	475	653	714	700
Commercial assets	374	633	803	435	872	1,100
Gross debt	1,138	8,014	11,483	13,967	17,844	21,100
Net debt	764	7,381	10,680	13,532	16,972	20,000
Debt service as percentage of exports	--	30	42	59	79	92
Gross debt as percentage of exports	--	194	259	286	324	333
Memorandum:						
Annual Euromarket borrowing (gross flow)	--	475	577	100	404	855

Source: U.S. National Foreign Assessment Center, reprinted in the Financial Times, February 10, 1981.

6. Concluding observations

Even abstracting from political considerations and the country's foreign debt obligations, Poland's problems seem manifold and intricate. Despite all efforts, the Polish economy is not yet on an intensive growth track, the new leadership has no alternative economic strategy to propose, the economic demands of the unions are self-defeating, and the latest reform proposals are reminiscent of the Gierek period.

An intensive growth pattern implies that national income expands because of the increased efficiency of inputs rather than through their purely quantitative increase. During the 1970s output per man increased faster than during any other period of the postwar era, but this was probably the consequence of the higher accumulation rate, which led to an increased

capital-labor ratio (Table 3). ^{1/} This impression is strengthened by the fact that during the same period the marginal efficiency of capital was not at its maximum. During the 1971-75 five-year plan the average marginal efficiency of capital was only moderately high (0.316), notably higher than during the 1966-70 plan (0.269), but slightly below the 1961-65 average (0.325) and far below the 1956-60 level of 0.407. Moreover, the marginal efficiency of capital plummeted to 0.107 in 1978 and the average for the 1976-78 period was 0.166.

Contrary to Gierek, the new Polish leadership does not seem to have a clear-cut economic strategy in mind. The leadership is, understandably, absorbed in political and social events, and its economic policy seems residual and consisting of a series of ad hoc decisions. As absorption is excessive and the standard of living of the population is rigid downward, the decision was taken to further reduce the investment effort. To a certain extent the Government is at the mercy of strikes which could not only lead to the third consecutive year of recession, but, worse, impede the improvement of the trade account. This is particularly true for agriculture and the extractive sector, where labor unrest might lead to increased grain imports and sharply reduced coal exports. Generally, the demand for wage increases of the unions are self-defeating and pave the way for the next rise as only few enterprises were switched from the production of capital goods to the production of consumer goods, and the increased demand exacerbates the shortages of goods that the population desires to purchase. Similarly, shorter working hours will only compound existing disequilibria.

Economic reforms seem to be a recurrent though cyclical feature of socialist economies. Economic efficiency presses the authorities to more decentralization and a greater reliance on market forces, but political considerations usually lead to a freezing, or even a reversal, of the recently initiated reforms. Although it might be premature to say so, the proposals of the Polish Reform Commission seem to have been drafted in the spirit of the Gierek proposals of ten years ago. (The one notable exception is the domain of labor relations, which was basically not touched upon by the Gierek reforms and where forms of workers' co-management are now envisaged.) Decision taking is to be more decentralized; therefore more autonomy will be granted to enterprises which will have to be profitable, but it did not yet seem clear whether profit or value added would be the main criterion to evaluate the performance of the enterprises. In their search for profits, enterprises in most sectors of the economy will be guided by parametric equilibrium prices which will replace market prices. Although the pressure to carry out the proposed reform might be greater than at the beginning of the 1970s, and a comparable deterioration of the economic environment (which was one of the factors behind the freezing of the Gierek reform) is unlikely to reoccur, the successful completion of the proposed reforms seem doubtful. The new leadership is probably less committed to its reforms than the Gierek team and initial difficulties might be a welcome pretext to return to more traditional forms of central planning, a decision which would certainly be

^{1/} Official statistics underestimate the share of accumulation in national income because national income is computed at realized prices and investment goods, contrary to consumer goods, carry no turnover tax.

applauded by some of Poland's neighbors. Moreover, a reform of the consumer prices is, for social reasons, an extremely delicate undertaking which the authorities will certainly prefer to disregard during the coming months. The dual structure of consumer and producer prices will thus continue to exist with all the inefficiencies this implies. Finally, the proposal of the Reform Commission to reform producer prices without a corresponding reform of consumer prices will require greater recourse to price equalization taxes and subsidies and increase price distortions throughout the economy.

Table 2 . Compound Growth Rates of National Income (Net Material Product)
in CMEA Countries; at Constant Prices

	1956-60	1961-65	1966-70		1971-75		1976-80		1981-85	1981
			Plan	Actual	Plan	Actual	Plan	Actual estimate		
Bulgaria	4.1	6.7	8.5	8.7	7.7-8.5	7.8	7.7	6.1		5.1
Czechoslovakia	6.8 ^{1/}	1.9	4.1-4.4	6.9	5.1	5.5	4.9	3.6		2.8
G.D.R.	8.0	3.5	5.4	5.3	4.9	5.4	5.0	4.3		5.0
Hungary	6.0	4.2	3.5-3.9	6.8	5.5-6.0	6.5	5.4-5.7	3.5	3.0	
Poland	6.6	6.2	6.0	6.0	6.7-6.8	9.4	7.0-7.3	1.5		-3.5 ^{2/}
Romania		9.1	7.0	7.7	11.0-12.0	11.3	10.0-11.0	7.2		
Eastern Europe ^{3/}		5.3	5.8	6.9	7.0	7.7	6.8	4.4		
U.S.S.R.	9.1	6.7	6.7-7.1	7.7	6.5-7.0	5.7	4.7	3.7	3.4-3.7	3.4

Sources: Calculated on basis of various issues of the United Nations, Yearbook of National Accounts. Data for the G.D.R. come from this country's Statistical Yearbook, 1979. Planned growth rates come from the Economic Commission for Europe (United Nations), Economic Survey of Europe in 1976, Part II, the Five-Year Plans for 1976-81 in Eastern Europe and the Soviet Union. More recent information was provided by the press.

^{1/} 1955-59.

^{2/} Expected.

^{3/} Arithmetic average.

Table 3 . Poland: Evolution of Selected Macroeconomic Aggregates (at Constant Prices) and of the Active Population

	National Income (Y) (bn. zloty) <u>1/</u>	Increase in Stocks (bn. zloty)	Net Fixed Capital Formation (1) (bn. zloty)	Accumulation Rate <u>2/</u>	$\frac{Y_1 - Y_0}{I_1}$	Real Growth Rate of National Income (Percentage change)	Index of Active Population <u>3/</u>	Output Per Man Per cent increase
1953	230.7 (1961)	26.9	37.4	27.9			100	
1954							104	
1955	276.5	20.8	41.1	22.4			108	
1956	296.0	18.6	42.3	20.6	.461	7.1	112	3.2
1957	327.8	28.5	46.9	23.0	.678	10.7	114	8.8
1958	345.8	26.4	51.4	22.5	.350	5.5	115	4.6
1959	363.9	24.5	60.8	23.4	.298	5.2	118	2.6
							(89)	
1960	379.7	28.2	63.6	24.2	.248	4.3	90	3.2
1961	410.7	32.9	68.9	24.8	.450	8.2	93	4.7
1962	419.3	21.4	80.4	24.3	.107	2.1	97	-0.2
1963	448.4	32.3	81.2	25.3	.358	6.9	100	3.7
1964	478.7	34.8	85.0	25.0	.357	6.8	101	5.7
1965	512.2	41.9	95.2	26.8	.352	7.0	106	2.0
1966	548.6	45.1	107.0	27.7	.340	7.1	109	4.2
							(88)	
1967	579.8	35.5	120.3	26.9	.259	5.7	92	1.1
1968	632.0	42.4	135.0	28.1	.387	9.0	95	5.6
1969	650.4	32.3	144.3	27.2	.128	2.9	98	-0.2
1970	684.2	41.6	147.6	27.7	.229	5.2	100	3.1
	(791.3)(1971)	(46.8)	(167.0)	(27.0)				
1971	855.0	62.8	184.3	28.9	.346	8.1	103	4.9
1972	945.8	64.6	235.0	31.7	.386	10.6	108	5.5
1973	1,048.1	82.9	299.0	36.4	.342	10.8	113	5.9
1974	1,157.6	94.4	366.6	39.8	.299	10.5	117	6.7
1975	1,237.6	82.5	382.1	37.5	.209	6.9	119	5.1
	(1,502.7)(1977)	(109.1)	(458.3)	(37.8)				
1976	1,605.6	127.1	461.3	36.7	.223	6.9	120	6.0
1977	1,685.9	76.3	481.1	33.1	.167	5.0	121	4.1
1978	1,736.8	84.1	465.4	31.6	.109	3.0		
1979	1,702.1					-2.0		
1980	1,634.0					-4.0		

Sources: Data for national income, increase in stocks, and net fixed capital formation come from various issues of the United Nations, Yearbook of National Accounts Statistics. Data for the active population come from United Nations, Statistical Yearbook, various issues.

1/ Figures between brackets indicate in which year's prices the increase in stocks, and net fixed capital formation were expressed.

2/ Increase in stocks and net fixed capital formation divided by national income.

3/ Excluding the agricultural sector.

Table 4. Poland: State Budget

(In millions of Zlotys)

	Revenues	Expenditures	Budget Surplus	Price Equalization Taxes	Price Equalization Subsidies	Net Price Equalization Tax (+), Subsidy (-)
1966	323,313	318,269	5,044	69,167	62,049	7,118
1967	326,666	322,006	4,660	78,879	66,865	12,014
1968	329,686	326,449	3,237	87,835	77,076	10,759
1969	357,609	351,546	6,063	93,714	75,603	18,111
1970	389,602	379,339	10,263	100,181	77,369	22,812
1971	403,482	392,537	10,945	52,417	48,864	3,553
1972	438,296	433,251	5,045	43,919	56,960	-13,041
1973	483,835	482,222	1,613	40,015	74,948	-34,933
1974	604,142	602,291	1,851	42,552	128,019	-85,467
1975	720,140	714,663	5,477	39,912	165,467	-125,555
1976	881,401	872,494	8,907	49,530		
1977	993,948	887,599	106,349	54,790		
1978	1,103,457	994,158	109,299	55,575		
1979	1,154,800	985,900 <u>1/</u>	44,677 <u>2/</u>			

Sources: Z.M. Fallenbuchl, "East European Reactions to International Commodity Inflation," Joint Economic Committee of the U.S. Congress (ed), op. cit., p. 80. This table was completed by various issues of "Rocznik Statystyczny" and "Poland, Statistical data," Central Statistical Office, Warszawa, 1980.

1/ This figure comes from "Poland, Statistical Data, 1980." It represents "current expenditure" (wydatki bieżące) whereas the data for previous year represent "expenditure" (wydatki). In 1978, expenditure exceeded current current expenditure by 12.6 per cent.

2/ Assuming that if current expenditure is Zl. 985,900 million, expenditure will be close to Zl. 1,110,123 million (see footnote 1).

Table 5.* Poland: Balance of Payments in Convertible Currencies 1/

(In millions of U.S. dollars)

	1976	1977	1978	1979	1980 Estimate	1981 Estimate
Current account, excluding official transfers	-3,130	-2,599	-2,637	-2,806	-2,395	-2,500
Trade balance	-2,930	-2,154	-1,891	-1,688	-980	-500
Exports, nonsocialist countries (f.o.b.)	4,439	4,875	5,491	6,356	7,630	8,775
Imports, nonsocialist countries (f.o.b.)	-7,369	-7,029	-7,382	-8,044	-8,610	-9,275
Services and private transfers, net	-200	-445	-746	-1,118	-1,415	-2,000
Services, credits	625	670	739	868	925	1,000
Services, debits	-1,250	-1,560	-1,922	-2,471	-3,000	-3,800
Interest	-700	-903	-1,120	-1,570	-2,100	-2,800
Private transfers	425	445	437	485	660	800
Capital account (all maturities)	3,010	2,209	2,447	3,121	1,995	2,500
Credits granted 2/, and errors and omissions	-303	-81	78	-209	-200	-100
Credits received 2/, net	3,313	2,290	2,369	3,330	2,195	2,600
Inflow	4,518	4,187	5,488	7,860	8,195	9,500
Outflow	-1,205	-1,897	-3,119	-4,530	-6,000	-6,900
SDR allocations	--	--	--	--	--	--
Overall balance	-120	-390	-190	+315	-400	--
<u>Memorandum item:</u>						
Gross external debt (in billions of U.S. dollars) end-period, medium- and long-term	...	12.9	15.0	19.4	23.0	26.0

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; and press reports.

1/ Approximated by nonsocialist countries.

2/ May include some bilateral payments agreements movements.

* This table comes from Mr. Wein's country note on Poland dated February 5, 1981.

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Mr. A. Guetta

Director

Interfund

Paris, France

Special Instructions

18 Many thanks-for your telex.

17 Alan

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Department: European
Date: February 26, 1981

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WASHINGTON DC

FOR MR WHITTOME

REYURTEL, POLISH DEBT NEGOTIATIONS KEPT HIGHLY SECRET.
HAVE SO FAR BEEN UNABLE TO GET DETAILS. UNDERSTAND,
HOWEVER, THAT GROUP--FORMALLY NOT PARIS CLUB--FAILED
TO AGREE ON TERMS FOR RESCHEDULING, DECIDED TO MEET
AGAIN IN EARLY APRIL, AND IN MEANTIME AGREED ON BRIDGING
OPERATION UNTIL JULY. IF I CAN GET MORE INFORMATION WILL
LET YOU KNOW.

REGARDS, GUETTA
INTERFUND PARIS

Reply via RCA: call 212-248-7000

: call 212-248-7000

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Special Instructions

Mr. A. Guetta

Interfund

Paris, France

18 If you are able to obtain details of the conclusions of
17 the meeting on Polish debt would be most interested.

16 Best regards

15 Alan

Distribution

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Drafted by: LAWhittome
Department: European
Date: February 23, 1981

L. A. Whittome
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NAME (TYPE)

LAWhittome
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Operator: JJ



Office Memorandum

TO : Mr. Whitton *W*

DATE: February 9, 1981

FROM : J. Buyse *JB*

SUBJECT : Poland

I attach the note on Poland's external debt situation which you requested.

Attachment

~~Mr. Buyse~~ *Talked*
~~Thank you.~~
~~Can you remind me of the history~~
~~of the recent calendar~~

In the wake of the workers' riots of December 1970, the Polish leadership opted for a strategy of accelerated growth. The investment rate was to increase in order to modernize and restructure the economy. Simultaneously, consumption would be allowed to increase in order to satisfy the aspirations of the population. As a consequence of this policy, the accumulation rate was hiked from an average 25.1 per cent of national income during the sixties to an average 34.3 per cent of national income during the 1971-75 Five-Year Plan. 1/

At first, this policy seemed successful, Between 1971 and 1975 national income increased by a yearly average of 9.4 per cent or 2.6 per cent more than planned. However, growth gradually lost its momentum during the second part of the seventies and became negative in both 1979 and 1980. In the meantime, excessive absorption, exacerbated by the desire to import up-to-date Western technology, led to a series of important external deficits which Poland could only finance by borrowing heavily on the international capital markets. Poland's gross convertible debt increased from US\$12.9 billion in 1977 to an estimated US\$23 billion in 1980, exceeding by far the debt of any other individual Eastern European country and although the part of official debt is relatively important, Poland is much affected by the evolution of interest rates on the international markets (Tables 1 and 2). 2/

Table 1. An Estimate of the Eastern European Debt and its Composition (end 1979)

(In millions of U.S. dollars)

	Commercial Debt	Officially Backed Debt	Other Borrowing	Gross Debt	Commercial Assets	Net Debt
Poland	15,400	5,090		20,490	900	19,590
Five other Eastern European Countries	<u>29,370</u>	<u>3,160</u>	<u>835</u>	<u>33,365</u>	<u>3,640</u>	<u>29,725</u>
Total	44,770	8,250	835	53,855	4,540	49,315

Source: Estimating Soviet Bloc Debt, by Ron Miller, as reprinted in International Currency Review, volume 12, No. 5, p. 31.

1/ Measured in current prices. Accumulation is the sum of net investment in the productive and the nonproductive sectors and of the increase in stocks and circulating assets.

2/ Table 2 comes from Mr. Wein's country note on Poland, February 5, 1981.

In 1976, the ratio of interest payments to the convertible export receipts amounted to 16 per cent. This ratio gradually increased to 25 per cent in 1979 and might be as high as 27 per cent in 1980 (Table 2).

Given its difficult social and economic situation, Poland has appealed for help from other countries. The U.S.S.R. is said to have lent Poland US\$1 billion in 1980 and plans to lend another US\$1 billion in 1981. 1/ The U.S.S.R. and the Eastern European countries also sent foodstuffs to Poland while the EC promised to send US\$300 million of foodstuffs at reduced prices. Nevertheless, prospects for 1981 are dim. The difficult social and economic situation will probably persist and the convertible trade deficit is forecast at US\$500 million, which seems optimistic. Interest payments alone might be as high as US\$2,800 million and to cover its current account deficit, Poland might have to borrow another US\$2.5 billion.

Even leaving aside political considerations, the situation of the Polish leadership is extremely delicate. On the one hand, the newly formed unions ask for a 5-day workweek and wage increases. On the other hand, the external deficit becomes gradually unsustainable and Western bankers become more and more reluctant to lend to Poland. 2/ Reducing imports from the convertible area is difficult and would, in the eye of planners, jeopardize future growth. Increasing convertible exports is problematic, given the economic situation in Western countries and the position of the unions, who would like to see some exports, such as meat, diverted to the domestic market. In such a climate rumours about debt rescheduling or a moratorium on foreign debt are unavoidable. According to East-West, the Polish opposition and those who wrote the final version of the economic reform are in favor of a three-year moratorium on capital and interest payments, which they consider as an important pre-condition to economic stability by 1983-84. 3/ The same source reports that Poland asked OECD countries in December 1980 in Paris for a rescheduling of debt repayment over 3 years. However, according to other sources, Polish leaders rejected to date the idea of moratorium or even of debt rescheduling. 4/

1/ This section uses information from Mr. Wein's country note of February 5, 1981.

2/ The British Export Guarantee Department has recently decided to classify Poland into class D of credit risk instead of Class A. Source: East-West (fortnightly bulletin) of January 1981, p. 1.

3/ Ibid.

4/ See the article of R. Eisenstein, Financial Times, January 29, 1981.

Table 2. Poland: Balance of Payments in Convertible Currencies 1/

(In millions of U.S. dollars)

	1976	1977	1978	1979	1980 Estimate	1981 Estimate
Current account, excluding official transfers	-3,130	-2,599	-2,637	-2,806	-2,395	-2,500
Trade balance	-2,930	-2,154	-1,891	-1,688	-980	-500
Exports, nonsocialist countries (f.o.b.)	4,439	4,875	5,491	6,356	7,630	8,775
Imports, nonsocialist countries (f.o.b.)	-7,369	-7,029	-7,382	-8,044	-8,610	-9,275
Services and private transfers, net	-200	-445	-746	-1,118	-1,415	-2,000
Services, credits	625	670	739	868	925	1,000
Services, debits	-1,250	-1,560	-1,922	-2,471	-3,000	-3,800
Interest	-700	-903	-1,120	-1,570	-2,100	-2,800
Private transfers	425	445	437	485	660	800
Capital account (all maturities)	3,010	2,209	2,447	3,121	1,995	2,500
Credits granted <u>2/</u> , and errors and omissions	-303	-81	78	-209	-200	-100
Credits received <u>2/</u> , net	3,313	2,290	2,369	3,330	2,195	2,600
Inflow	4,518	4,187	5,488	7,860	8,195	9,500
Outflow	-1,205	-1,897	-3,119	-4,530	-6,000	-6,900
SDR allocations	--	--	--	--	--	--
Overall balance	-120	-390	-190	+315	-400	--
Memorandum item:						
Gross external debt (in billions of U.S. dollars) end-period, medium- and long-term	...	12.9	15.0	19.4	23.0	26.0

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; and press reports.1/ Approximated by nonsocialist countries.2/ May include some bilateral payments agreements movements.

Table 3: Position of Western Banks in Domestic and Foreign Currency Vis-à-Vis Poland 1/

(In millions of U.S. dollars; end of period)

	<u>Liabilities</u>	<u>Assets</u>
1975	508	3,870
1976	643	5,442
1977	384	6,791
1978	822	11,732
1979	...	15,000 <u>2/</u>

Source: Bank for International Settlements, Annual Report, from 1975/76 through 1979/80.

1/ From 1975 to 1978 this covers the positions of the banks of the G-10 (Belgium -Luxembourg, France, Federal Republic of Germany, Italy, Netherlands, Sweden, United Kingdom, Canada, Japan, and the United States) and Switzerland, as well as/ ^{the Caribbean, and} Far-East branches of U.S. banks. In 1979 the position of Austrian, Danish, and Irish banks is included. Data provided by U.S. and Japanese banks are less precise than those of the other countries.

2/ According to the B.I.S., Poland increased its gross borrowing by approximately US\$3.3 billion during 1979.

February 5, 1981

Poland--Country Note

In Poland, today's political stirrings go hand in hand with an enormous economic mess. Its makings, to condense greatly, are the result of a centrally planned version of supply-side oriented policies implemented particularly in the first half of the 1970's. The idea was to use imported machinery and technology, paid for largely by external borrowing, to create new capacity and higher productivity. In the event, a substantial share of these imports were used inefficiently or not at all, and there does not appear to have been a substantial ripple effect from the more advanced imported technology. The latter did, however, addict some factory managers to Western imports.

Poland now finds itself with about US\$23 million of gross medium- and long-term external debt in convertible currencies, on which the interest amounts in 1980 may have been about US\$2 billion. On a crude reckoning, debt service on all maturities of debt in 1980 may have been more than 85 per cent of current account earnings. The trade deficit in convertible currencies in 1980 was probably around US\$1 billion, and the current account deficit (less reliably estimated) around US\$2.4 billion. Poland probably borrowed in excess of US\$8 billion (gross) last year.

The convertible area trade deficit in 1980 was considerably smaller than that of 1979, although, partly as the result of stoppages and lost production associated with the volatile political situation, the result was far different from the small surplus which the Government had projected earlier in the year. National income too, rather than growing slightly in real terms, seems to have shown substantial negative growth. While investment growth had been planned to be negative (for the third year in a row), it was expected that industrial output would show modest real growth, and that this would be accompanied by a recovery of agricultural output. This would have allowed a modest growth of national income, of about 1 1/2 per cent in 1980. In the event, production losses associated with work stoppages and bad weather, resulted in substantial underfulfillments in both the industrial and agricultural sectors, leading to a second consecutive year of declining national income. The poor agricultural result and the political importance of food supplies in the current situation have necessitated further imports of grain and feedstock, 1/ and the import bill for grain and feedstock this year will be about US\$1.5 billion. There have been calls to direct exportable meat to the home market, but so far this does not seem to have taken place.

Poland imports most of its oil from the Soviet Union. Crude oil imports in 1980 were probably around 17 1/2 million metric tons, in addition to which some petroleum products and natural gas are also imported. Poland is, however, a major world exporter of coal, more than half of which is sold to nonsocialist countries. Coal exports account for about a third of earnings from exports to nonsocialist countries. Obviously, interruption of coal production could have serious consequences for the balance of payments.

1/ Imports of grain and feedstock probably exceeded 8 million tons and a million tons, respectively, in 1980.

Poland has appealed for help from other countries to help meet its debt servicing commitments, and to ameliorate domestic shortages, particularly of food, on the domestic market. The Soviet Union has loaned Poland a large sum in convertible currency, said possibly to be as high as US\$1 billion, and the Soviet Union and other CMEA countries have also delivered food to Poland. The Soviet Union has said that further credits of US\$1.1 billion in convertible currency, and additional goods, will be made available in 1981. The EC agreed in December 1980 to supply food-stuffs amounting to US\$300 million at reduced prices, while the Federal Republic of Germany agreed to guarantee further credits of DM 230 million (net of DM 70 million included in the EC package). The American Government has also been approached, but the attitude of the new Administration is not yet clear. Poland is the largest user of the U.S. Commodity Credit Corporation.

The outlook for 1981 is, to put it mildly, daunting. The forecast trade deficit of US\$500 million in convertible currencies is made on the assumption that the supply of exportables can be maintained along with restraint of domestic demand. If this is not the case, the trade deficit could widen unless a lack of credits sharply curtails imports. Exports will probably decelerate in line with world market conditions, but Poland's coal exports may provide a cushion. Imports are essentially assumed to be restrained to the level which would produce the desired improvement in the trade balance. With another year of sharply restrained investment expenditure, and, on the output side, a reasonable agricultural outturn and steady coal production, the forecast trade deficit seems possible, with the prospect of balance in 1982. Largely as the result of large interest payments, the current account deficit in 1981 is forecast to be slightly larger, at US\$2.5 billion, than in 1980. Gross borrowing is estimated at US\$9.5 billion, and external debt is estimated at US\$26 billion. It seems doubtful that the Government will be able to decelerate the growth of expenditures on food subsidies, or to end food shortages, since excess demand at the administered prices is very large. This in itself calls into question the "optimistic" scenario for 1981 given above. If the political situation deteriorates further the 1981 outturn could be much worse.

Table 1. Poland: Selected Indicators

(In per cent)

	1975	1976	1977	1978	1979	1980 Plan
National income <u>1/</u>	9.5	7.5	5.6	2.8	-2.0	1.4-1.8
Industrial production	10.9	10.7	8.6	5.8	2.8	3.0-4.0
Fixed investment	14.2	5.8	2.5	-0.2	-8.2	-8.1
Agricultural output	-2.1	-0.7	-0.8	4.2	-1.4	9.4
Consumer prices	3.0	4.7	4.9	8.7	6.7	...

Source: Press reports based on official statistics.

1/ Differs slightly from growth rates derived from United Nations, Monthly Statistical Bulletin; at constant prices.

Table 2. Poland: Balance of Payments in Convertible Currencies 1/

(In millions of U.S. dollars)

	1976	1977	1978	1979	1980 Estimate	1981 Estimate
Current account, excluding official transfers	-3,130	-2,599	-2,637	-2,806	-2,395	-2,500
Trade balance	-2,930	-2,154	-1,891	-1,688	-980	-500
Exports, nonsocialist countries (f.o.b.)	4,439	4,875	5,491	6,356	7,630	8,775
Imports, nonsocialist countries (f.o.b.) *	-7,369	-7,029	-7,382	-8,044	-8,610	-9,275
Services and private transfers, net	-200	-445	-746	-1,118	-1,415	-2,000
Services, credits	625	670	739	868	925	1,000
Services, debits	-1,250	-1,560	-1,922	-2,471	-3,000	-3,800
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Overall balance	-120	-390	-190	+315	-400	--
Memorandum item:						
Gross external debt (in billions of U.S. dollars) end-period, medium- and long-term	...	12.9	15.0	19.4	23.0	26.0

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; and press reports.1/ Approximated by nonsocialist countries.2/ May include some bilateral payments agreements movements.

Table 3 . Poland: Foreign Trade

	Exports			Imports		
	Total	Socialist countries	Nonsocialist countries	Total	Socialist countries	Nonsocialist countries
(In millions of foreign exchange zlotys)						
1976	36,600	21,853	14,747	46,071	21,588	24,483
1977	40,748	24,552	16,196	48,558	25,206	23,352
1978	44,685	27,310	17,375	50,938	27,579	23,360
1979	50,192	30,577	19,616	54,317	29,490	24,828
1979 IV	14,937	8,959	5,979	18,159	9,390	8,769
1980 I	12,657	6,916	5,741	11,415	5,807	5,608
II	14,048	7,863	6,185	15,060	8,469	6,591
III	11,966	6,798	5,258	13,894	8,263	5,630
(In millions of U.S. dollars) 1/						
1976	11,017	6,578	4,439	13,867	6,498	7,369
1977	12,265	7,390	4,875	14,616	7,587	7,029
1978	14,120	8,630	5,491	16,096	8,715	7,382
1979	16,262	9,907	6,356	17,599	9,555	8,044
1979 IV	4,840	2,903	1,937	5,884	3,042	2,841
1980 I	4,101	2,241	1,860	3,698	1,881	1,817
II	4,552	2,548	2,004	4,879	2,744	2,135
III	3,877	2,173	1,704	4,502	2,677	1,824

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; and Monthly Bulletin of Statistics, United Nations.

1/ Exchange rates: US\$ per f.e. zloty: 1976-77, .301; 1978, .316; 1979-80 III, .324.

Table 4. Poland: Trade Balances

(In millions of U.S. dollars)

	Total	Socialist Countries	Nonsocialist Countries
1976	-2,850	80	-2,930
1977	-2,351	-197	-2,154
1978	-1,976	-85	-1,891
1979	-1,337	352	-1,688
1979 III	-1,044	-139	-904
1980 I	403	360	43
II	-327	-196	-131
III	-625	-504	-120

Source: Table .

Table 5. Poland: Trade Balance by Sector

(In billions of U.S. dollars)

	1976	1977	1978	1979	
				Total	Convertible currencies
Fuels and power	0.59	0.31	0.12	-0.27	0.74
Metallurgy	-1.39	-1.20	-1.01	-0.98	-0.35
Engineering	-1.01	-0.37	0.06	1.49	-0.19
Chemicals	-0.54	-0.61	-0.70	-0.96	-1.10
Paper and wood	-0.06	-0.04	0.01	--	0.09
Consumer goods	0.42	0.44	0.66	0.63	0.10
Foodstuffs	0.22	0.02	0.14	--	0.07
Farm products	-0.85	-0.69	-0.94	-0.96	-0.91

Source: Press reports based on national statistics.

Table 6. Poland: Fuel Imports and Exports,
by Main Commodity

	1976	1977	1978	1979	1979 Jan.-Oct.	1980
I. Volumes						
Exports						
Coal, hard (million tons)	38.9	39.3	40.1	41.4	29.8	28.2
Coal, brown (million tons)	30.8	33.9	33.3	29.7	23.6	10.9
Coke (million tons)	3.1	2.7	2.1	2.1	1.5	1.4
Synthetic fuels and petroleum products (million tons)	2.7	2.2	1.9	1.5	1.2	1.4
Imports						
Crude oil (thousand tons)	15,095	16,414	16,615	16,698	12,370	12,923
Synthetic fuels and petroleum products (thousand tons)	3,216	3,326	3,418	3,891	2,457	2,477
Natural gas (million M3)	2,510	2,549	2,759	2,753	3,005	3,936
II. Values						
Crude oil imports (billion foreign exchange zlotys)	...	...	4.5	5.3	...	...
Socialist countries	...	...	3.5	3.8	...	...
Nonsocialist countries	...	...	1.0	1.5	...	...
Crude oil imports from non- socialist countries (billion U.S. dollars)	...	...	0.3	0.7	...	...
Hard coal exports (billion foreign exchange zlotys)	...	...	5.5	5.8	...	...
Socialist countries	...	...	2.3	2.5	...	...
Nonsocialist countries	...	...	3.2	3.4	...	...
Power and energy						
Exports, f.o.b.	6.61	6.67	6.94	7.50	5.48	6.48
Imports, f.o.b.	-4.65	-5.64	-6.54	-8.30	-5.53	-7.61
Balance (billion foreign exchange zlotys)	1.96	1.03	0.40	-0.80	-0.05	-1.13
Balance (billion U.S. dollars)	0.59	0.31	0.12	-0.27	-0.02	-0.37

Sources: Biuletyn Statystyczny, Central Statistical Office, Warsaw; IMF, International Financial Statistics; and unpublished reports.

Table 7. Poland: Grain and Feedstock Imports

	1976	1977	1978	1979
(In millions of metric tons)				
Volumes				
Wheat	2.3	2.6	2.3	2.9
Barley	0.7	1.3	2.4	1.5
Corn	0.2	0.9	--	--
Total grain <u>1/</u>	6.2	5.8	7.4	7.3
Feedstock	1.1	1.2	1.2	1.4
(In millions of U.S. dollars)				
Values				
Grain	782	613	745	922
Seed and feedstock	<u>199</u>	<u>282</u>	<u>272</u>	<u>369</u>
Total	981	895	1,017	1,291

Source: Press reports based on national statistics.

1/ Includes sorghum, rice, and seedgrain.

248331 IMF UR
RCA OCT 20 1212⊕
248331 IMF UR
INFUND PARIS

Orig: Mr. Mohammed
cc: MD
DMD
Mr. Whittome
Mr. Van Houtven

RECEIVED
I.M.F.

1980 OCT 20 PM 12: 17

CABLE
ROOM

432303

cc EEF

INTERFUND PARIS, OCTOBER 20, 1980

INTERFUND
WASHINGTON DC

FOR IMMEDIATE DELIVERY

MR. MOHAMMED

CC: MANAGING DIRECTOR
DEPUTY MANAGING DIRECTOR
MR. WHITTOME

FOR YOUR INFORMATION PLEASE FIND HERewith EXCERPT FROM PRESS
CONFERENCE IN FRANKFURT AT THE SIGNING OF CREDITS FOR THE
PEOPLE'S REPUBLIC OF POLAND ON OCTOBER 10, 1980

QUESTION

I WOULD LIKE TO ASK WHETHER THE PEOPLE'S REPUBLIC OF POLAND
HAS STARTED TO CONSIDER THE QUESTION OF JOINING THE IMF AND
THEN HAS BEEN WHISTLED BACK.

MINISTER KRZAK

AS REGARDS THE INTERNATIONAL MONETARY FUND, I CAN SAY THAT WE
ARE STUDYING THIS ISSUE. ONE HAS TO TAKE INTO CONSIDERATION,
HOWEVER, THAT POLAND IS A MEMBER OF THE COUNCIL FOR MUTUAL
ECONOMIC ASSISTANCE OF THE SOCIALIST COUNTRIES. AND INTEREST
IN THE FORMER ISSUE WILL HAVE TO TAKE THE INTERESTS OF THE
COMMUNITY OF THE SOCIALIST COUNTRIES INTO ACCOUNT. IN THE
SOCIALIST COUNTRIES A SPECIFIC, COMMON PAYMENTS SYSTEM IS IN
OPERATION. JOINING THE INTERNATIONAL MONETARY FUND HAS POSITIVE
AS WELL AS NEGATIVE ASPECTS. WE ARE NEVERTHELESS DISCUSSING
THIS ISSUE AND KEEPING IT UNDER CONSIDERATION. BUT WE ARE NOT
YET READY FOR A DECISION.

REGARDS
GUETTA
INFUND PARIS

⊕
248331 IMF UR
WELL RCVD PLS ?????? WELL RECD BIBI
RELY ON YOU FOR PROMPT DELIVERY THKS AND BIBI

Reply via RCA: call 212-248-7000

Reply via RCA: call 212-248-7000

Reply via RCA: call 212-248-7000

Global Telegram

Global Telegram

Global Telegram



Office Memorandum

TO : Mr. Whittome

DATE: September 24, 1980

FROM : Geoffrey Tyler 57

SUBJECT : Poland

You may be interested in seeing the document that the Poles provided to the consortium for the recent \$300 million loan. It has been given to me on a confidential basis by Mr. Guenther of City Bank.

Attachment

Mr. Tyler

September 5, 1980

L.A. Whittome

Poland

When staffing requirements allow it I should like to see a paper assessing the Polish economic situation and external debt situation. I should also be most interested in a piece which sought to explain why the socialist economies seem to have been running into difficulties at the same time as, or perhaps slightly in advance of, the western economies.



Office Memorandum

CONFIDENTIAL

Mr. Whittome

*cc: BT, one preliminary
work would be in order.*

DICTATED FROM NEW YORK

TO : Managing Director

FROM : Jan-Maarten Zegers

SUBJECT : Poland

DATE: September 3, 1980

Yesterday, September 2, 1980, I met with Mr. Antoni Czarkowski, Deputy Director, Department of International Organizations, Foreign Ministry of Poland, who wished to explore with me aspects of possible Polish membership in the IMF. I have been on friendly terms with Mr. Czarkowski for some years as he was Minister Plenipotentiary in the Polish Permanent Mission to the United Nations in New York prior to his present assignment. He is currently attending the Special Session of the UN General Assembly.

Mr. Czarkowski said that the subject of Poland's membership in the IMF has been discussed internally over the years but that the matter is now under active consideration. No decision has been reached but in his judgment such a decision--one way or the other--could be expected at an early date. Recent events in Poland and in particular recent Government reshuffling meant that new personalities would have to be included in the decision.

Mr. Czarkowski indicated that recent events and in particular the economic and financial causes as well as consequences of the strikes have made the issue of membership even more relevant. He suggested that access to Fund resources is considered a very attractive proposition and that, in case of a positive decision, Poland might wish to develop gradually a rather active financial involvement with the Fund. He also speculated on the effect Fund membership might have on Poland's borrowing potential elsewhere.

There was some discussion of Poland's current economic problems and how its case history showed similarities to that of other cases in which the Fund has been involved. Membership in the World Bank was also mentioned to me as well as to my World Bank colleague (in a separate conversation). There is, however, some doubt whether Poland would qualify for World Bank loans.

Mr. Czarkowski also went into the political constraints relating to the Soviet Union but did not seem to consider these constraints decisive.

I provided Mr. Czarkowski with some general information on application procedures.

It was agreed that I would report on the conversation, which lasted for about one hour, to Fund Management and the Director of the European Department and that I would stress the informal and exploratory nature of the discussion as well as its strictly confidential character.

cc: Deputy Managing Director
Mr. Whittome

CGW
3

CONFIDENTIAL

MEMORANDUM FOR THE FILES

Subject: Hungary and Poland

Mr. Whittome has decided that it would not be useful to visit Poland at present and he would want to visit the two countries in the one trip. Therefore, for the moment he is postponing both visits. As a result, he does not want briefing papers prepared.

57

Geoffrey Tyler

cc: Mr. Whittome

C

C

CONFIDENTIAL ✓

June 10, 1980

MEMORANDUM FOR FILESSubject: Eastern Europe

When Mr. Whittome called from Basel yesterday he mentioned that:

1. Mr. Bogoev had told him there was a fifty-fifty chance that Yugoslavia would seek further Fund help in October and Mr. Whittome had replied that we should discuss the matter further at the Annual Meeting.

2. He had, through the Hungarians, met the Poles and it was clear that he must pay a visit to both countries in the fourth quarter. He asked me to warn Mr. Tyler that he would in due course need to be briefed.

Brian Rose ^{BR}

cc: Mr. Tyler

Hold for Mr. Whittome

[Handwritten signature]

Memorandum for the files

Subject: Hungary and Poland

October 16, 1979

Mr. Charles Menil of the Economist rang from London. He said that he understood from Hungarian diplomatic sources that Hungary was planning to apply for membership in the Fund next March after the Communist Party Conference. He asked me if there was any substance in this. I said that I knew nothing about it and that in any case I did not work on Hungary. Mr. Menil then said that he also understood that a representative of the U.S. Department of Commerce was now in Poland in connection with the forthcoming application to the Fund planned by that country. Again I said that I knew nothing about such a trip. Mr. Menil then said that he would try further members of the staff regarding the information which he had received.

JW
James Wein

cc: Mr. Whittome ✓
Mr. Tyler

AIRGRAM

AÉROGRAMME

ORIG: ETRD
CC: MD
DMD
LEG
RES
MR. VAN HOUTVEN
MR. ROBICHECK
MR. WHITTOME
MR. ZEGERS
MR. GARHARD
MR. BHAGWAT

12
cc: CED
EEJ

462546

GATT/AIR/1580

30 AUGUST 1979

SUBJECT: AGREEMENT BETWEEN FINLAND AND POLAND

1. AS INDICATED AT THE JULY 1979 MEETING OF THE COUNCIL (C/M/134) AND FOLLOWING CONSULTATIONS WITH DELEGATIONS, THE FIRST MEETING OF THE WORKING PARTY ON THE AGREEMENT BETWEEN FINLAND AND POLAND WILL BE HELD DURING THE WEEK OF 24 SEPTEMBER 1979, AFTER THE PRECEDING MEETING OF THE WORKING PARTY ON THE AGREEMENT BETWEEN FINLAND AND THE GERMAN DEMOCRATIC REPUBLIC HAS TERMINATED ITS WORK. THE MEETING WILL BE HELD IN THE CENTRE WILLIAM RAPPARD.

2. COPIES OF THE TEXT OF THE AGREEMENT HAVE BEEN CIRCULATED TO EACH CONTRACTING PARTY WITH DOCUMENT L/4652. THE TERMS OF REFERENCE OF THE WORKING PARTY ARE SET OUT IN DOCUMENT L/4669/REV.1. THE QUESTIONS SUBMITTED BY CONTRACTING PARTIES AND THE PARTIES' REPLIES ARE CONTAINED IN DOCUMENT L/4786.

3. RECENT TRADE STATISTICS, TO BE SUPPLIED BY THE PARTIES TO THE AGREEMENT, WILL BE CIRCULATED SHORTLY.

4. MEMBERS OF THE WORKING PARTY AND OTHER CONTRACTING PARTIES, ASSOCIATED GOVERNMENTS AND INTERGOVERNMENTAL ORGANIZATIONS WISHING TO BE REPRESENTED BY OBSERVERS ARE REQUESTED TO ADVISE ME AS EARLY AS POSSIBLE OF THE NAMES OF THEIR REPRESENTATIVES.

O. LONG

INTERNATIONAL
SECRETARY FUND

1979 SEP -5 AM 11: 18

COMMUNICATIONS
DIVISION

UNITED NATIONS  NATIONS UNIES

POSTAL ADDRESS—ADRESSE POSTALE UNITED NATIONS, N.Y. 10017
CABLE ADDRESS—ADRESSE TELEGRAPHIQUE: UNATIONS NEWYORK

4

REFERENCE: C.N.175.1979.TREATIES-3

28 August 1979

VIENNA CONVENTION ON SUCCESSION OF STATES IN RESPECT OF TREATIES
CONCLUDED AT VIENNA ON 23 AUGUST 1978

SIGNATURE BY POLAND

Sir,

I have the honour, upon instructions from the Secretary-General, to inform you that, on 16 August 1979, the Vienna Convention on Succession of States in respect of Treaties, concluded at Vienna on 23 August 1978, was signed on behalf of the Government of Poland.

Accept, Sir, the assurances of my highest consideration.



John F. Scott
Director, Office of the Legal Counsel
in charge of the Office of Legal Affairs

RECEIVED
INTERNATIONAL
SECRETARY FUND

19 SEP -5 PM 4: 27

COMMUNICATIONS
DIVISION

COPY

ORIG: UN REP.
CC: MD
DMD
LEG
RES
ETR
SEC
~~EUR~~
MR. BHAGWAT

Sent to the Ministry of Foreign Affairs
of Member States



Office Memorandum

CONFIDENTIAL

TO : Mr. Whitcomb *[Handwritten signature]*
FROM : Geoffrey Tyler *[Handwritten initials GT]*
SUBJECT : Hungary and Poland

DATE: August 24, 1979

I had lunch yesterday with Mr. John Huber who looks after Eastern European matters at the ExIm Bank. He has just returned from a visit to the area with Mr. Morre, the ExIm Bank head. The trip included visits to Hungary, Poland, and Yugoslavia. He made a number of comments on attitudes of these countries to Fund membership and related matters. While the points will not be new to you, it may be worthwhile mentioning them to you.

He said that at the working levels, both Hungary and Poland appeared very much in favor of Fund membership. Mr. Huber's view, based on his discussions with officials at the National Banks, is that the only remaining requirement is a political decision at the highest level. He does not expect that a decision will be made this year but thought that one would not be unlikely in 1980. He surmized that the Soviet Union would not take a position on any decision that the two countries might make, although he thought that the top politicians in the countries would no doubt try to guess what the Soviet Union would prefer.

The Hungarians told the ExIm team that they originally had received an invitation from the Yugoslavs to send representatives to Belgrade at the time of the Annual Meeting. Subsequently, however, the invitation had been withdrawn. This was allegedly a big disappointment to the Hungarians who said they had no idea why the turnaround occurred. They wondered whether the Chinese had had anything to do with the Yugoslav decision. In a subsequent conversation with Mr. Kostić, the Yugoslav Federal Secretariat for Finance, Mr. Morre raised the matter, but the former made no comment.

In discussions with the Poles, the ExIm representatives were told that the Soviet Union had been providing Poland with convertible currency loans needed to repay some maturing debt. However, the Soviets' have not given a single large loan but have been doling out smaller amounts to cover particular maturities as they arise.

Officials at the National Bank of Hungary are anxious to persuade the Hungarian Government to permit more publication of economic data and apparently asked Mr. Huber to give them any documentation that would support a case for more publication.



Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler 47

SUBJECT : Poland and the Fund

DATE: August 10, 1979

You will remember that Mr. Gardner of the Information Office had asked whether I would speak to a Mr. Barry, who is a Deputy Assistant Secretary in the Bureau of European Affairs at the State Department. You agreed that I could see him but asked me to clear the matter with Mr. Cross. After speaking to the latter, I agreed with him that I would not have a meeting with Mr. Barry until Mr. Cross had been able to look into the matter himself.

Mr. Barry rang me this morning. I explained the understanding that I had with Mr. Cross and asked whether clearance for a discussion had been obtained. Mr. Barry said that he was not aware of any such clearance and I said that in the circumstances I was not able to go any further at this stage. I asked whether he would like me to speak to Mr. Cross again but he said no and mentioned that the matter was being pursued by Mr. Solomon and Mr. Cooper. Mr. Barry asked me one question, namely whether membership by Poland would involve a payment in hard currency. I said that it was normal practice for any new member to pay 75 per cent of its quota in domestic currency and the remaining 25 per cent in convertible currency.

Unless you suggest otherwise, I propose taking the view that I have abided by my agreement with Mr. Cross and there is, therefore, no reason to refer the conversation to him.

Agree /
1/8
10/8 original returned to G/T



Office Memorandum

TO : Mr. Whitton *[initials]*
 FROM : Geoffrey Tyler *GT*
 SUBJECT : Poland and the Fund

*Best please let 97 7131
 Sam Cross know -
 this is a Treasury request.
 [Signature]*

DATE: July 30, 1979

Mr. Gardner of the Information Office rang me to say that he had had some discussions with a friend, Mr. Barry of the Bureau of European Affairs in the State Department. The latter has apparently had several conversations with the Polish Ambassador and he has been asked repeatedly about the possibilities of Polish membership in the Fund.

I told Mr. Gardner that I saw no reason why I should not see Mr. Barry and suggested that he get in touch with me to arrange a time. However, I pointed out that there was not too much regarding Eastern European membership in the Fund that I could speak about that was not a matter of public record. I said that Mr. Barry should be aware that I would not be able to talk to him about any matters that were confidential.

Note for file

*I spoke to Mr Cross on July 31.
 He said he would speak to the State Dept. to see what was happening. It was agreed that I would do nothing until I heard from Mr Cross. He to Barry rings I shall explain the above arrangements.*

97 7131

file



Office Memorandum

TO : Mr. Whitton *[initials]*
 FROM : Geoffrey Tyler *GT*
 SUBJECT : Poland and the Fund

But please let signed to GT
Sam Cross Brown
This is a Treasury presence.
[Signature]

DATE: July 30, 1979

Mr. Gardner of the Information Office rang me to say that he had had some discussions with a friend, Mr. Barry of the Bureau of European Affairs in the State Department. The latter has apparently had several conversations with the Polish Ambassador and he has been asked repeatedly about the possibilities of Polish membership in the Fund.

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June 18, 1979

MEMORANDUM FOR FILES

Subject: Poland - Visit by Mr. Irving Friedman

Mr. Friedman visited me today to discuss Poland. He is to visit the country for the first time and has been invited to give lectures at the Academy of Economics. He wanted to talk about Poland generally and was not overtly interested in the subject of possible Polish membership. In fact, he did not raise the subject even indirectly. He wondered whether the Fund visited Poland and I told him that our only contacts were quite casual ones and that we did not send any missions to the country or to other nonmembers.

Mr. Friedman said that City Corporation has been employing people from Poland for about one year over the last three years or so. He said that the people sent to New York had been very competent.

He said that the bank's expert on Eastern Europe for a number of years, a Mr. Brunst, is returning to the New York office and suggested that it might be useful for him to visit Washington. I said that I would be happy to see him if he were down here.

G. Tyler

cc: Mr. Whittome (o/r)

Mr. Whittome

2

MEMORANDUM FOR THE FILES

Subject: Poland--Economist Article

A Mr. Merrall, who had earlier spoken to Mr. Wein, rang me from London to speak about Poland. He referred to the article that the Economist is proposing to publish and had some questions regarding what quota Poland might obtain in the hypothetical event that it rejoined the Fund. I did no more than tell him that for any new member the question of quota was a matter of negotiation between the new member and the Fund.

57

Geoffrey Tyler

cc: Mr. Whittome ✓
Mr. Wein

6-1: Reurgent case on Mr. Whittome
all need questions

1 PM 4/5

May 4, 1979

orig. back to Mr. Tyler
5/4

MEMORANDUM FOR FILES

Subject: Poland

A Mr. Charles Merral of the Economist rang from London. He is preparing a piece on the possibility of Poland joining the Fund, and was interested in any complications or special problems which may have come up when Romania joined. He wanted to know, for example, if tacit approval by Moscow had been a factor in the negotiations. I said that before any country joined the Fund, there were membership negotiations, and that this had been true for Romania also; but I declined to comment further.

Mr. Merral was interested to know whether our consultations with the Romanians since membership entailed detailed talks, or if they were actually rather superficial (his word). He wondered if Romania took Fund policy advice. I said I thought that our discussions with the Romanians were certainly not superficial, and that we commented on a number of subjects. As to whether or not the Romanians found our talks with them useful, he would have to ask the Romanians.

Mr. Merral said that a Mr. Veloolian (I'm unsure of the spelling), who was a leading thinker on external economic policy in Poland was now advocating membership in the Fund, and wanted to know if any recent contacts had taken place between the Fund and Poland. I said that such communications, if they did take place, would probably be at a high level, and that I would not necessarily know of them.

Mr. Merral asked if he could stay in touch, which suggests to me that he thinks the Polish issue is a live one.

JW
James Wein

cc: Mr. Whittome ✓
Mr. Evensen
Mr. Tyler
Ms. Williams



Office Memorandum

CONFIDENTIAL

TO : Mr. Whitton *AW* *I had you*

FROM : C. Williams *W*

SUBJECT : Polish Loan--Information Memorandum

DATE: April 20, 1979

Subsequent to my memorandum of March 19, 1979, a banking contact has sent me the attached on a confidential basis with the request that its circulation be strictly limited. This memorandum was prepared from information provided by the Bank Handlowy w Warszawie S.A. in connection with the arrangement of a proposed US\$500 million Eurocurrency loan to help finance Poland's economic plan for 1979. As press reports have indicated, the memorandum contains data and information that up to this time have not been available for most CMEA countries, with the exception of information provided to various official leaders. For a brief survey of the memorandum, the most interesting data and information on recent economic developments, prospects, and the program supporting the loan proposal are found on the following pages:

- p. 3: Terms and conditions of the loan.
- pp. 5-7: The role of the Bank Handlowy in financing foreign trade and in the export promotion program; a description of the shift in official foreign borrowing strategy toward substituting bank credits for commercial credits in order to lower import costs.
- pp. 15-16: The nature and role of planning and the new economic and financial system.
- p. 17: The objectives of development strategy, 1970-1976.
- pp. 37-38: Economic developments, 1971-1978; and stabilization policy, 1976-1978.
- pp. 39-41: 1979 Plan.
- p. 42: Actual balance of payments with the convertible area 1970-77; detailed tables on foreign trade are found on pp. 28-34.
- pp. 43-44: Projected balance of payments with the convertible area and foreign borrowing strategy, 1979-1985.
- p. 44: Total medium- and long-term debt at end-1978 and its maturity distribution.
- p. 48: Financial incentives for export promotion, a key part of the stabilization program.
- p. 28: The official and commercial exchange rates for the zloty are determined by the National Bank of Poland with reference to a basket of currencies, and the rates are changed whenever the value of the basket moves by 1 per cent.

The ability of the Polish authorities to achieve the desired degree of domestic and external adjustment appears to hinge on several key elements of the program and certain exogenous factors. Since increases in production are to come from productivity advances alone, it is not clear that the planners will be able to improve efficiency sufficiently, particularly since they also have

recentralized investment decision-making and regard this as essential in order to increase the share of investment going to housing and the production of consumer goods. At the same time, policy-makers seem more willing to experiment again with reforms, in contrast with 1975-76 when their response to stagflation in the West and their own internal problems was to revert to reliance on a traditional centrally planned model.

The program also relies on imports remaining flat in 1979 and 1980 and on increasing the share of imports from socialist countries. This may be difficult if poor harvests require higher grain imports, which, in any case remain substantial in order to increase supplies of meat. In addition, slow growth of imports will be more difficult to live with after 1980 due to the negative consequences for ^{economic} growth, which in the short run may not be serious since there is some excess plant capacity and a large supply of equipment already in the pipeline. Reliance on increased imports from socialist countries may not provide a sufficient cushion. For example, 98 per cent of crude oil consumed in Poland in 1977 was imported, of which 80 per cent was purchased from the U.S.S.R. If difficulties in Soviet oil production in the 1980s result in a levelling off or in a decline in Soviet oil exports, Poland may be forced to import large amounts of more expensive oil from OPEC or the West. This will not be a problem in the next two years; in fact, the U.S.S.R. recently has agreed to export more oil to Poland at well below the world price.

Finally, the program assumes that the growth of exports to the convertible area will average some 11 per cent in U.S. dollar terms in the next four years. While this does not seem overly ambitious, success depends on the following: increases in world prices of coal (which are not likely until the mid-1980s) and copper; increases in coal production in the face of capacity constraints and rising domestic demand; greater diversification of exports to the West, where markets may be difficult to penetrate and trade restrictions may inhibit trade; and effective implementation of new schemes for export promotion.

cc: Mr. Tyler
Mr. Wein

WITHDRAWAL NOTICE

PROJECT

Project number 2008-006
Project name European Dept/Front Office
Project tab number 281
Project box number 2

DOCUMENT

Series / File EUR/AI/Country Files/Poland/C
Original box /file No 57/2
Date February 23, 1979
Type Report
From
To
Subject / Title Bank Handlowy w Warszawie S.A. US\$500,000,000
Number of pages 48
Classification CONFIDENTIAL
Authority Office of the Executive Director of Switzerland

COMMENTS

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by vsmallen

Entered on 3/25/2008



Office Memorandum

TO : Mr. Whittome

DATE: March 19, 1979

FROM : C. Williams *WT*

SUBJECT : Polish Loan

As you suggested, I had a conversation with Mr. F. M. Graebner, Vice President at First Wisconsin National Bank of Milwaukee, about the new loan for Poland. He was not sure if all the information provided to the banks will be made public but offered to send a copy of the loan prospectus, the data submitted by the Polish authorities, and the final version of a paper on the Polish economy prepared by Mr. G. Eichler of the Bank of America, the agent bank for the loan.

According to Mr. Graebner, as of March 15, the proposed US\$500 million Polish loan had been oversubscribed as bankers had already offered US\$650 million. One reason was the managing banks' desire to avoid the problems associated with last year's loan to Poland when only US\$250 million was offered for the proposed US\$500 million loan. In the case of the new loan, the underwriters decided to go in heavily to ensure that the full amount would be raised. Therefore, 12 banks (including Bank of America, Bankers Trust as the lead manager, Chemical Bank, Manufacturers Hanover, Citicorp, and Lloyds International) underwrote the loan for US\$35 million each, agreeing to go in for equal portions. This meant that at least US\$420 million was committed when the loan negotiations were concluded in January. A second reason for the apparent success of the loan is its profitability to participating banks. Third, bankers were impressed by the amount of data and information provided by the Polish authorities, which up to this time is without precedent for any CMEA country, including Hungary. Fourth, they were pleased with the austere program adopted by the Polish Government, which was supplemented by projections through 1985 of external debt service, scheduled debt repayments, the convertible balance of payments, and the main macroeconomic aggregates. Finally, the fact that the authorities succeeded in cutting the level of imports in the last two years had made a very favorable impression.

The seven-year loan carries a split spread over LIBOR of 1 1/4 per cent for the first two years, and 1 3/8 per cent for the remaining five years. The management fee is 1 per cent and there is a prepayment penalty of 1/4 per cent. There is a grace period of 3 1/2 years after which repayments are to be made in equal semi-annual payments. Mr. Graebner expected that the loan would be signed in April and the full amount was to be drawn within three months of the signing. If the latter is true, the banks will not be able to exert much leverage except insofar as future credits are required. Therefore, bank monitoring of economic developments and of stabilization policy, as described by the New York Times, will not be similar to that undertaken by the Fund in upper credit tranche stand-by arrangements, unless additional credits are needed.

Among the data provided, Mr. Graebner highlighted the following: Total convertible debt outstanding (including short-term) at the end of 1978 was US\$15.3 billion, or US\$14.1 billion excluding credits to other countries. 1/ Imports from the West are projected to decline to US\$6.9 billion in 1979 and to remain at about US\$7 billion in 1980. Convertible exports 2/ are expected to expand by US\$1 billion per annum in the next two years so that balance in the trade account would be achieved in 1980.

cc: Mr. Tyler
Mr. Wein

1/ Data on debt include a breakdown of medium- and long-term loans by currency.

2/ Five per cent of total Polish exports are sold for convertible currency to other CMEA members.



Office Memorandum

CONFIDENTIAL

TO : Mr. Whittome *Wh*
FROM : Geoffrey Tyler *GT*
SUBJECT : Hungary and Poland

DATE: March 15, 1979

I had lunch today with Mr. Huber of the ExIm Bank, who is concerned with that organization's dealings with Eastern European countries. He visited Hungary with Mr. Blumenthal late in 1978 and took part in discussions earlier this year with the Minister of Finance of Hungary and with Mr. Fekete when they visited Washington. He will be going with the President of ExIm for a visit to Hungary, Poland, and Romania later in the spring.

With respect to Hungary, negotiations for a borrowing arrangement with ExIm are well advanced. The remaining obstacles have to do with guarantees for borrowings by enterprises and the supply of information. The National Bank will guarantee loans but its legal status does not equate such guarantees with government guarantees. However, apparently the Government is willing to formally undertake that the "owners of the borrowing enterprises" will also guarantee the loans. Since the Government is the owner, this formula would provide a government guarantee. As far as the information question is concerned, ExIm is particularly concerned to have adequate data on foreign debt. Mr. Huber said that, although the National Bank has published foreign debt data in the prospectuses for its various foreign borrowings, the information has covered only medium- and long-term loans made on the open market. The data have not covered short-term borrowings in the Eurodollar market, which are of the order of \$4-5 million. The Minister of Finance gave an undertaking in an aide memoire to use his best endeavors to have the information provided. Nothing further has developed as yet. For the moment, it seems that the amount of ExIm money being discussed is only some \$20 million, and the projects mentioned for using the above amount are quite small. Mr. Huber presumed that the reason for the relative lack of interest at the moment is the cutback in imports that is taking place this year to reduce the current account deficit in convertible currencies to about \$0.6 billion, compared with that of \$1.0 billion in 1978.

I asked Mr. Huber what he knew about the arrangements that have been reported with respect to the supply of data to commercial banks lending to Poland. He said that in January a group of 14 banks that were arranging a \$500 million loan for Poland met in Warsaw. At that time an aide memoire was apparently drafted, of which Mr. Huber had some understanding. However, the printed version is not yet available and he said that it was not clear to him whether the section dealing with information implied merely the supply of data, especially foreign debt, or whether it implied a monitoring system similar to performance criteria which could in some way interrupt the supply of funds. He said that so far 11 of the above 14 banks had agreed to underwrite \$35 million each. He also said that the \$500 million was unlikely to be the total amount that Poland would want this year.



Office Memorandum

TO : Mr. Whittome

DATE: February 13, 1979

FROM : A. Mountford

SUBJECT : Polish Loan

As you requested, I called Mr. Bill Hawley at Citibank. Mr. Hawley did not himself have much information readily at hand, but will make enquiries and call me again. Citibank is rather decentralized, and responsibility for the negotiation and the marketing of this loan rest with Citibank's Vienna Office (a Mr. Victor Brandt, I think). Mr. Hawley thought that the main data promised to the banks by the Poles, that is not already available, relate to the balance of payments.

Attached are three press clippings relating to the proposed loan. In brief, the Poles are seeking \$500 million at better terms than the margin of $1 \frac{3}{8}$ per cent to $1 \frac{1}{2}$ per cent over LIBOR that they are paying on their last major Eurocurrency loan. The most interesting feature of the loan arrangements is that the group of 14 banks will "monitor" in some sense the performance of the Polish economy. The analogies that the N.Y.T. and F.T. seek to draw between this "monitoring" by the banks and the Fund's relations with member countries are, presumably, rather farfetched.

Attachments

cc: Mr. Tyler (on return)
Mr. Wein

Poland seeking long-term \$500m Euro-loan

BY CHRISTOPHER BOBINSKI AND ANTHONY ROBINSON

POLAND, which has the largest hard currency debt in Eastern Europe, after the Soviet Union, is about to begin negotiations for a new long-term Euro-currency loan of at least \$500m (£256m).

It has indicated that it is prepared to go as far as it can to satisfy requests from Western banks for detailed information on the state of the economy and the debt position.

Mr. Marian Krzak, the Polish First Deputy Finance Minister, said today that he would be travelling to Frankfurt this week with representatives of Bank Handlowy to discuss the loan with Western bankers.

Mr. Krzak indicated that Poland was trying to obtain significantly better terms than the margin of 1½-1¾ per cent over London inter-bank rates which it obtained on its last big Euro-currency loan, an eight-year, \$250m loan for the Polish Copper Combine in January. Poland was now looking for a spread of around ¾ to 1 per cent.

Reports that Poland would soon be seeking a big loan for balance of payments financing have been circulating in London and other financial centres for some time. The authorities have made great efforts to reduce the balance of payments deficit and the trade deficit with the West was cut by 50 per cent to \$440m (£225.47m) during the first half this year.

With outstanding gross debt at the end of last year estimated at nearly \$15bn, rising to \$16bn this year and a debt servicing requirement put at about \$2bn this year alone, Poland is clearly in need of further substantial borrowing though.

Re-scheduling

Several banks have already reached their limit for an individual country so far as lending to Poland is concerned. However, the extent of current debt and likely borrowing requirements into the 1980s have raised the question of possible debt

re-scheduling at some stage.

The lack of complete information about the structure of the current debt and future economic prospects, particularly with regard to the generation of hard currency exports, has added to the nervousness.

To some extent Poland recognised these problems when it agreed to disclose considerable detail and allow on-site progress inspection in respect of the Polish copper loan. This time however, one banker said, Western bankers would be looking for the sort of disclosure which will make it possible to prepare a detailed loan memorandum at least as informative as that prepared in connection with the recent \$300m loan to Hungary.

Bankers also suggest that terms will have to be considerably more attractive than those apparently being considered if banks are to add to their already considerable existing Polish commitments.

Details Page 2

Poland to open its books

BY CHRISTOPHER BOBINSKI IN WARSAW

for \$500m loan

MR. MARIAN KRZAK, the Polish First Deputy Finance Minister, has confirmed that Poland is seeking a long-term Eurocurrency loan of at least \$500m for "general economic purposes" and is prepared to satisfy as far as possible Western banks' requests for detailed information.

In an interview with the Financial Times Mr. Krzak said that Western banks are showing considerable interest in the syndication and that he was travelling to Frankfurt this week with representatives of Bank Handlowy to discuss the loan. He made clear that Poland is looking for a spread in the region of 1 to 1 per cent over Libor.

Mr. Krzak said it was too early to say who would be the leaders of the consortium. "I know that some of the world's foremost banks would like to be among the leaders," he said, and he mentioned that the Bank of America was being considered.

Asked about providing com-

prehensive data on Poland's hard-currency debt, the deputy Minister said: "We shall try and satisfy the curiosity of the banks to the greatest degree possible."

In this context, he mentioned last January's \$250m loan for Poland's copper industry, where the terms allowed Western lending banks on-site inspection rights and more information than is usual in East European loans. Poland, he said, was at a crucial moment as regards its balance of payments deficits.

Mr. Krzak confirmed that the current debt service ratio was between 30 and 40 per cent, only taking into account trade with the West. He said that as much trade again is done with the Comecon countries and this strengthens the country's ability to service its foreign debt.

Ministry of Finance estimates foresee a hard-currency deficit of \$1.1bn this year. Plan proposals for next year, which were approved this week but which still have to go through the

Parliament, include a 9 per cent growth in hard-currency exports while hard-currency imports should remain at this year's level. The Ministry estimates that this will give a \$500-700m hard-currency deficit in 1979.

Mr. Krzak expects the trade balance to even out in 1980. "That year will begin a long period when we will have a positive trade balance which will enable us to cover our debt service requirement," he said.

He said that a system of money incentives was being planned which would reward workers who produce export goods. The scheme would also permit companies which increase hard-currency exports to import more from hard-currency markets.

The Ministry of Finance estimates that this incentive scheme should add up to \$300m worth of exports to the planned export figure for 1979. "As for hard-currency imports in 1979, they will certainly not rise above this year's level and might drop," Mr.

and then a delivery van project were still very much alive.

In the short term, the 1979 plan proposals approved on Tuesday foresee a 3 per cent increase in national income, a category similar to Gross National Product. This is the lowest growth for several years and compares with the planned 5.4 per cent growth in national income this year and a 5.7 per cent rise in 1977.

Mr. Krzak explains that this is so because low agricultural production has been allowed for, and there is also to be no growth in the construction sector next year. Industrial output is planned to rise by 4.9 per cent compared with 6.8 per cent rise on the 1978 plan and an 8.3 per cent in 1977. Consumer goods production is to rise next year by 7.7 per cent and export production growth is to be 9.6 per cent.

Growth in real wages over this year is to be held down to between 1.5 and 2 per cent.

Krzak added: "One area where Poland will import less in 1979 is grain and animal feeds. The harvest this year was better than average, but not as good as we expected," he said.

Poland will be looking for 5m tonnes of grain and feed in the U.S. next year, and the Minister confirmed that Poland has applied to the U.S. Commodity Credit Corporation for credits of \$500m to finance such imports. So far, the U.S. has assigned Poland only \$200m.

As to the future, said Mr. Krzak, debt repayment is a priority for the economy. Poland, he said, would "be an active client on the credit market." Investments in raw materials, especially coal but also copper and sulphur, would continue; and each year there would be one large investment project.

The Pila aromatics and polyester fibre plant was next in line; but Mr. Krzak said that plans for a heavy truck factory

SOURCE

New York Times

FILE #

COMMENTS

DATE: *1/26/79*

Poland, in Bid for Loan, Will Let West's Banks Monitor Economy

By ANN CRITTENDEN

As part of an effort to obtain a major new loan, Poland has agreed to permit Western banks to monitor its economic policies, American bankers say. They regard the concession as a historic breakthrough in financial relations with the Communist world.

The loan, now being arranged by a group of Western banks, is essential if Poland, the most heavily indebted Communist country after the Soviet Union, is to meet the payments due on nearly \$15 billion in debt to the West.

New Information Provided

To persuade the banks to agree to the financing, Poland has already had to announce a strict new budget for 1979 and provide its creditors with comprehensive new information on its financial situation.

Moreover, the banks involved in the new credit will henceforth track the progress of the Polish economy, much as the International Monetary Fund moni-

tors the economies of non-Communist countries in financial distress. An initial meeting between Western bankers and Polish officials to discuss Poland's economic program and the pending loan, possibly involving up to \$500 million, took place in Warsaw two weeks ago.

A spokesman at the Polish Consulate in Washington confirmed that the country's private creditors would monitor its economic progress in connection with the new loan, which is in the final stages of negotiation, and on future credits as they are required.

Poland's supplying of data was expected to set a precedent that other Communist-bloc nations would eventually have to follow. The Polish developments were also seen as advancing the meshing of the economies of Eastern Europe and the West.

Representatives of 14 banks met with

Continued on Page D4, Column 5

Poles Will Allow Banks To Monitor Its Economy

Continued From Page A1

Polish financial officials to discuss the country's economy and to be invited to arrange the new financing at the initial meeting on Jan. 11. Those attending included representatives of the Bank of America, Citibank, the Manufacturers Hanover Trust Company, the Bankers Trust Company, the Chemical Bank, the First National Bank of Chicago, the Security Pacific National Bank, the Bank of Montreal and the National Westminster Bank of Britain.

"We didn't have a blueprint for the Polish economy to follow," said one banker involved in the financing, "but we made it clear that belt-tightening was a prerequisite for any new credits." The meetings with Polish officials, he added, "give Western capitalists a certain say in how the Poles proceed." The purpose of the economic monitoring will be to make sure that Poland follows policies that do not imperil its debt-servicing capacities.

Most observers believe that the Bank Handlowy, Poland's foreign trade bank, will be able to obtain a commitment for at least \$300 million to \$350 million of the \$500 million that it is trying to borrow. This would be enough to forestall an immediate financial crisis. In large part this is because the Polish Government has adopted a stringent new budget for 1979, sharply curbing domestic investment and emphasizing export earnings needed to service the foreign debt.

"This marks the first time a Communist government has embraced austerity — a purposeful cut in its planned rate of growth — for balance-of-payments reasons," said Lawrence J. Brainard, an economist with Bankers Trust.

Similar Program Set Up

Poland is not a member of the International Monetary Fund, which is the agency that imposes and monitors economic stabilization plans for non-Communist countries experiencing balance-of-payments difficulties. But Poland's heavy dependence on Western credit led it to set up a similar program of economic stringency that will be monitored not by the I.M.F. but directly by its bank creditors.

In addition, the banks have already been given new data on the Polish economy, including figures on total foreign debt and debt repayment schedules, and a breakdown of the balance-of-payments deficit. Much of this information had earlier been given to the United States Government in connection with official loans made to the Poles, but with the understanding that it would not be shown to private lenders.

Some bankers believe that, because the normally secretive Poles have had to open their books to the banks, other Communist-bloc countries will eventually have to do the same. "Once the Polish data is out, others will probably have to follow," said Gabriel Eichler, a specialist on Eastern Europe for the Bank of America.

Obvious Political Implications

From a wider perspective, developments in Poland mark a further step in the integration of the economies of Eastern Europe with those of the West. The trend has obvious political as well as economic implications. On the one hand, as part of its tight, Western-approved budget, the Poles are freezing their military expenditures, despite

Soviet requests for a rise in arms outlays by all Warsaw Pact countries.

On the other hand, some bankers speculate that the Soviet Union might quietly welcome the discipline being imposed on its Polish ally. If the Poles get their economic house in order, they will be that much less likely to turn for help to the Russians, who have already provided Poland with substantial economic assistance.

The evolution of Eastern Europe toward the capitalist West is a direct result of the mounting debt accumulated by the Communist-bloc countries in recent years. In the five years from 1974 through 1978, this debt rose from about \$13 billion to about \$55 billion. More than 60 percent of these credits were extended by commercial banks, which in comparison hold about 43 percent of the debt of the non-oil-producing developing countries.

Cut Into Export Earnings

This unusual flow of capital occurred partly because of the Western recession, which cut heavily into East European export earnings needed to finance planned imports. The Communist-bloc countries were also hard hit by the rising price of fuel and other raw materials, and a series of poor harvests in the mid-1970's.

As these problems multiplied, only the Soviet Union borrowed as heavily as Poland, the 10th-largest industrial country in the world. By the end of last year, Poland had built up long-term debt of \$14.8 billion plus an estimated \$2 billion more in short-term credits of less than one year.

West Germany and Britain are Poland's major creditors; the total United States exposure in the Communist nation is about \$1.9 billion, including about \$1.24 billion in debt held by

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DATE:

American banks, some \$500 million in credits from the Commodity Credit Corporation for grain purchases, and about \$175 million from the Export-Import Bank.

Most of the private loans were made from 1974 to 1976, the year in which Poland's current account deficit peaked, at \$3.2 billion. Both the current account and the trade deficits have been decreasing, to \$2 billion and \$1.5 billion, respectively, last year.

But repayment obligations on the debt incurred a few years ago are also at a peak and will continue to place a heavy burden on the nation for several more years. According to an unclassified estimate by the Central Intelligence Agency, Poland's ratio of debt service to exports, the percentage of hard currency earnings going to interest and amortization, is about 60 percent. Normally bankers say that a ratio of about 25 percent is grounds for caution.

This year bankers estimate that Poland will have to pay some \$1 billion in interest alone, not counting repayments of principal. Moreover, payments of roughly this level will continue for years.

New credits from the West will be essential if Poland is to meet those obligations. The loan now being negotiated would mark the country's re-entry into the syndicated Eurodollar market for the first time since early 1978, when Poland went into the market for \$500 million and was able to obtain only \$250 million. The shortfall was partly because the credit was badly marketed, bankers say, but it was also "a sign that they had reached the end of their rope," as one banker put it.