

INTERNATIONAL MONETARY FUND

TO :

LAW^{now} Theobald

10/6.

FROM:

HS

I assume this letter is to be negotiated in December, and will specify the policies and performance criteria for the next year of the SBA. On that basis I agree that it seems basically sound. Just two queries:

- ✓ (i) p3 - to give enterprises themselves the task of incorporating higher costs in their prices may invite a Yugoslav-style price-wage spiral;
- ✓ (ii) p6 - to increase the role of enterprises in selecting investment projects may, as you also suggest, lead to an initial splurge the country can ill afford.

More generally, the letter is full of "we-intend" and not enough we shall or have.

HS

This looks OK to
me as a holding
operation, with an
important mission
at end 82 to set
83 objectives &
envelopes - if possible -
to last paras.

IMW 6/10

Let: WHITTON
cc: FILE

September 30, 1982

The attached paragraphs are an initial attempt to draft appropriate paragraphs for the letter that will be required from Romania to the Managing Director in the context of the review under the stand-by arrangement. The paragraphs deal with the matters raised in the note "Talking points with Minister Gigea".

This initial draft may help the Romanian authorities in their consideration of the policy measures concerned. It is a preliminary draft, representing the mission's thinking at this stage. Obviously, the continuing discussions regarding past and future economic developments and policies could lead the mission to suggest changes and additions to this first draft.

Preliminary Outline of Letter to the Managing Director

1. [The first paragraph] of the letter will deal with the following elements:

(a) Introductory remarks.

(b) Description of developments in the economy, with special reference to the balance of payments. Includes new specifications for performance criteria in the external sector.

(c) Description of the arrears position, the state of the reschedulings and the cash flow position in the external accounts for the remainder of 1982.

(d) Policy reactions to the changed external position including developments in monetary, fiscal, prices, incomes, energy and investment policies. Will include revised performance criterion for net domestic assets.]

2. The balance of payments restraint that has led to the adjustment in the forecasts and policies for 1982 described above will continue for a number of years since we have substantial repayments of foreign debt still to make. We shall therefore need to continue with measures of a demand management character in 1983 and 1984. [Description of the national account projections for 1983 and preliminary indications for 1984.] Domestic developments of this kind should permit a continued improvement in the balance of payments, including an increase of the surplus on current account to about US\$ million in 1983 and about US\$ million in 1984. With respect to 1983, gross foreign borrowing in convertible currencies, in comparison with existing gross repayments of foreign debt, an allowance for expected net export financing credits by Romania and a needed increase in gross international reserves would leave a financing gap. We therefore, intend at an early stage to approach our main creditors to discuss the possibility of rescheduling debt payments falling due in 1983.

Obviously 1983 will be a difficult year given the capital repayments that have to be made and the fact that our access to foreign capital is likely to remain severely restricted. In both 1983 and 1984 we shall need to continue with strong adjustment policies that take account of this balance of payments constraint. We are committed to achieving a sustained increase in our current account surplus in convertible currencies, and to the adoption of appropriate supporting domestic policies in order to attain this objective.

3. As you are aware, the program that was explained to you in the letter of

1981 and of April , 1982 was based upon a series of structural changes and policies in addition to demand management policies. We remain convinced that a lasting improvement in the structure of and practices in both the domestic and external sectors is a necessary condition for the longer-term equilibrium of the economy and in view of the more difficult external situation which we now face, we believe this process should be accelerated. We shall ensure that the price, exchange rate and investment reforms that have been introduced in 1981-82 are allowed to have the desired impact on the planning process and the decision-making of enterprises. We believe that the improvement of the economic mechanism must be continued. In particular, we believe that greater flexibility must be introduced and that it will be desirable for enterprises to be more involved in decision-making, ^{since they} ~~which~~ ultimately determine the growth of production and the viability of the balance of payments.

4. In particular, it is intended to introduce the following measures with effect from January 1, 1983. First, with respect to exchange rates, we shall unify the commercial exchange rate, which is one year earlier than was originally intended. Equally important, we propose a basic change in the way in which the level of the exchange rate is managed. Instead of a peg to the U.S. dollar, with

changes in the peg made only infrequently, we intend to peg to a basket of currencies weighted in accordance with their importance in our external transactions. We shall review the results of the new system and the level of the peg on a quarterly basis and we stand ready to make changes in the peg if that is judged to be necessary. Initially on January 1, 1983 we intend to set the peg to the basket of currencies of the commercial exchange rate at a level consistent with a significant depreciation of the effective exchange rate of the leu. Since we set the commercial exchange at lei 15 per U.S. dollar, the effective exchange rate has appreciated by about ____ per cent in nominal terms and about ____ per cent in real terms, and we consider that it is essential to at least restore the competitive position that was obtained following the depreciation of January 1, 1981. Moreover, we realize that a depreciation of this order may be insufficient to improve the competitiveness of the Romanian economy to the necessary degree and shall therefore carefully review the exchange rate in the light of balance of payments developments *on a quarterly basis*

Second, with respect to prices, we intend to pass through the domestic cost increases resulting from the above depreciation. Not to do so would negate the intended effects of the depreciation on exports and imports. To increase the involvement of enterprises in decision making, we consider that it would be appropriate to have enterprises themselves take the task of incorporating higher import costs into their price structure. Since it is necessary to avoid having the impact of the devaluation eliminated by having the domestic factors of production fully compensated for the increase in the cost of imports, we do not intend to give wage compensation for the price increases arising from the devaluation.

For many years interest rates on both credits and savings deposits have been low, with the exception of penalty rates on credits. This was appropriate when prices were stable but with a much higher rate of inflation now it is appropriate to raise interest rates and we intend to make significant increases starting January 1, 1983.

5. The balance between our energy sources and requirements remains a critical element in our overall domestic and external balance situation. During 1982 we moved in the direction of aligning domestic energy prices with those on world markets; further such steps will be taken in 1983. In addition, through adequate price incentives reflecting world prices, efficiency and profitability will be increased in the energy sector. Recently, the exchange rates for imports of crude oil and exports of refined petroleum products were changed to the level of the commercial exchange rate although it has previously been envisaged that this would occur only in 1984. Accompanying these changes, which will allow the profitability of processing crude oil imports for subsequent re-export to be clearly identified, we have taken measures to limit domestic use of refined petroleum products and to divorce the importation of crude oil for domestic use from transactions leading to exports of refined products. The latter can now take place only if marginal revenues from the transactions cover average variable costs. Use of existing refining capacity will be rationalized, and in the event that there are significant reductions in realized throughput, excess capacity will be closed. At the same time, our efforts to expand our crude oil reserves will be enhanced by setting the domestic producer price of crude oil on January 1, 1983 at the level of the price of imported crude oil.

The price of natural gas—our most important fuel source and a critical input into our petrochemical industry—was to have been doubled between April 1982 and January 1, 1983. This action was also taken earlier than originally contemplated, on July 1, 1982. In view of our urgent need to make the best possible use of our energy resources, we intend to double the price again in 1983. While further progress on the price front will still be needed, this will be an important step in narrowing the existing gap between the domestic price of natural gas and the world market price and, in turn, in clarifying the appropriate export and investment strategy for our petrochemical industry.

6. In addition to the above measures we intend to make during 1983 changes in economic mechanisms designed to improve the efficiency of decision-making and the use of resources as follows: (i) we propose to reduce sharply the ^x amount of budget grants for productive investment, the financing of which should rely mostly on self-financing and bank credits; (ii) at the same time, we shall incorporate the overall cost of capital, at current interest rates, into the costs of production and the price structure; (iii) we also intend to give more flexibility to price mechanisms and, in particular, enterprises themselves will be permitted to incorporate changes in foreign trade prices into their price structure; and (iv) with respect to monetary policy we believe that it would be appropriate to have a more flexible system than at present in order to adequately influence the evolution of domestic credit and liquidity in light of changing circumstances. It is intended that the National Bank, as the central bank, will have a more global and direct control over monetary aggregates aimed at a more independent monetary policy. This would imply a less rigid credit plan.

Also, in order to reduce the existing level of liquidity we intend to freeze a part of existing enterprise deposits as of January 1, 1983.

7. In general, we consider that the economic mechanisms should involve a greater responsibility on the part of individual enterprises. In particular, in 1983 and 1984 we intend to increase the role of enterprises in selecting their investment projects. Also, we believe that it would be desirable to take steps in the direction of encouraging direct access of export producers and import users to foreign markets as well as greater competition among and with foreign trade enterprises thereby improving the incentives to increase efficiency in the external sector.

8. Exchange and trade restrictions; bilateral agreements.

9. Reference to consultation with the Fund early in 1983 with regard to the program relating to 1983 and 1984—quarterly monitoring.

2

Message to Mr. Whittome from Mr. Mentré dictated by Mr. Donovan, Sept. 29, 1982

I am supplementing for 1983 data on cash flow projections given to you yesterday as follows:

1. 1983 projection
2. Breakdown of repayments to banks
3. Trade balance

cc: H copy GEE

1. Romania: Flow of Funds from October 1, 1982 to end-
December 1983

	<u>September 30- December 31, 1982</u>	<u>1983</u>	<u>(Of which 1st quarter)</u>
<u>Reserves</u> beginning of period	876	693	693
<u>Requirements</u>	1,152	2,984	703
Downpayments under the rescheduling	563	1,192	323
Other suppliers credits	75	577	75
Short-term official IBRD/IMF	186	--	--
Interest payments	28	135	35
Net credit extended	322	900	225
Import deposits	-14	180	45
	-8	--	--
<u>Resources</u>	974	3,165	721
IBRD	89	250	65
IMF Romanian projection	457	415	104
Suppliers credits	2	600 †	150
Medium and long term	73	350 †	90
Trade surplus	323	1,500 †	300
Services excluding interest	30	50	12
Gross reserves end of period	693	874	711

2. Breakdown of Repayments Under the Rescheduling Agreement

	<u>4th Quarter 1982</u>	<u>1983</u>	<u>1st Quarter 1983</u>
Commercial banks	216	921	266
Official medium and long term	84	241	56
Moscow banks	38	30	1
Arab banks	68	--	--
Suppliers	157	--	--

3. Trade Balance 1983

	<u>Total</u>	<u>(Of which: Convertible)</u>	<u>(Of which: Non- oil convertible)</u>
Exports	14,050	7,500	5,098
Imports	12,710	6,000	3,122

N.B. Oil imports and exports based on optimistic assumptions for domestic production (net imports 2 million tons).

Exports and imports to non-convertible area based on an increase of 17 per cent to be negotiated.

Total trade balance 1982:

<u>Exports</u>	<u>Of which: Convertible</u>	<u>Of which: non oil</u>
12,600	7,000	5,396
<u>Imports</u>		
11,550	5,750	3,220



Office Memorandum

September 29, 1982

MEMORANDUM FOR FILES

Subject: Romania

Mr. Mentré called this afternoon to say that they had a long meeting with Minister Gigea which was somewhat short on specifics. The Minister voiced a number of complaints about the Fund's attitude but undertook to have a second look at the question of a rescheduling in 1983 and indicated that he was openminded on this point.

As regards the suggestion that the exchange rate needed to be modified and more rapidly unified he was somewhat vague but indicated that he was ready to take some action. On interest rates he promised only a very small and irrelevant step. On the question of structural reform he said that he needed time to consider its implications and to discuss this with others. Further meetings to be held on this point.

Mentré will leave Bucharest tomorrow evening for he has commitments in Paris but will return to Bucharest on Tuesday. I suggested to him that he think in terms of keeping open the present stand-by so that it could contribute to the payments due on the rescheduling of the 1982 debt but then in the early months of 1983 cancelling it and replacing it with a longer term stand-by and at the same time attempting to get movement on the rescheduling of the 1983 debt.

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

L.A. Whittome

cc: EED

Dictated over the phone from Romania
 by Mr. Donovan on September 28, 1982
 taken by V. Ball

Table 1. Flows of Funds from October 1 - December 31, 1982

(In millions of U.S. dollars)

Reserves as of September 30	876	(projected by Romanians; last figures for 31st August are 845)
Requirements - total	1,152	
Downpayments; under the rescheduling	563	
Other suppliers credits	75	
Short-term; official	186	
IBRD-IMF	28	
Interest	322	
Net credit extended	-14	
Import deposit	-8	
Resources - total	974	
IBRD	89	
IMF (Romanian projection)	457	
Suppliers credits	2	
Medium-and long-term credit	73	
Trade surplus	323	
Services, excluding interest	30	
Gross reserves (end-December)	693	

350 usable
 183
 167 F9
 87
 20

The following message was dictated from Romania on September 28, 1982

cc. Pl copy 6-PIA
ask for
comment
urgently

On the basis of our discussion yesterday I have given to the Romanians the following "Talking Points with Minister Gigea"

1. In view of the uncertainties attached to the evolution of capital flows and the trade balance in the second part of 1982 and 1983 and of the need to build up reserves by the end of 1983 to a more adequate level, negotiations for a rescheduling of debt falling due in 1983 may prove necessary and in any case would be desirable. If so such discussions should start in early 1983. Evidently the Fund has to take into account this possibility in the phasing of the program.

2. In order to restore the confidence of the Board and more generally of the financial community, fundamental measures in the direction of a more flexible economy better able to cope with external development would have to be taken on January 1, 1983. Could they include:

(a) a unification of exchange rates, a modification of the exchange rate at least to correct the appreciation of the leu since January 1, 1981; a pegging of the leu on a basket of currencies and quarterly reviews of the result of the formula;

more
probably
needed

(b) a full ~~phasing~~ ^{passing} through in the prices on January 1 of the consequences of the devaluation while maintaining restraint on nominal wages an increase in interest rates on both credits and savings in order to achieve positive real interest rates?

3. Could simultaneously more structural reforms be introduced:

a sharp reduction of budgetary financing for productive investment which should rely mostly on self-financing and bank credits; at the same time the overall cost of all capital based on prevailing interest rates should be embodied in the price structure;

added flexibility given to enterprises in price settings; starting as of January 1, the passing through of the price of imported goods and of exchange rate movements consequences would be left to the enterprises themselves;

a more equitable control by the National Bank of monetary aggregates aimed at a more independent monetary policy; this would imply less rigid credit plans and possibly a freeze of a part of existing deposits.

Could further steps be taken (or announced with a timetable) in the direction of encouraging direct access of export producers and import users to foreign markets and greater competition among and with foreign trade enterprises, of adequate pricing incentives to achieve the desired energy targets of a gradual increase of the role of enterprises in the selection of investment, of a gradual diversification and modernization of monetary and financial instruments?

4. The Fund will have to assess if a new stand-by is needed or if the existing one can continue. In the latter case it would have to assess the appropriate phasing of purchases. In order to allow Romania to meet its commitments under the rescheduling agreements, it might be envisaged that a part of the amount undrawn under the first year of the program be released in December, provided there is a broad agreement on the adjustment program in 1982 and 1983. Such a purchase would be dependent on:

(a) an agreement with banks and governments on the timing of the rescheduling downpayments, which based on the last discussions with the banks, would include a partial postponement to the first part of 1983;

(b) the effective launching of negotiations with suppliers to ensure them a fair and comparable treatment;

(c) recent and prospective developments, describing the appropriate changes in policies, and setting new quarterly targets (and in particular a lower net domestic assets ceiling for the end of 1982).

5. The release of the amounts undrawn from the first year and part of the amount available under the second year of the program could take place around March 1983 provided:

(a) the measures described under 2 and 3 would have been taken;

(b) with respect to rescheduling in 1983 there is an assurance that rescheduling agreements will eventuate;

(c) as provided in the stand-by agreement, a new letter of intent embodying appropriate new targets for 1983;

Developments would need to be ~~maintained~~ through quarterly visits.

monitored



Office Memorandum

September 28, 1982

MEMORANDUM FOR FILES

Subject: Romania

I spoke to Mr. Mentré this evening. I said that in looking again at the notes he had made for his talk with Minister Gigea it seemed to me that the points made in section 2 were more important to the Fund and more easily monitored than the points made under section 3. I said also that under 2(a) it seemed to me a very open question as to whether or not the leu should be devalued by more than what was suggested. Mentré said that this would imply a very large correction which might be difficult.

I then said that in considering the case for cancelling or continuing the stand-by one should bear in mind that if it were continued a large backlog of purchases might build up toward the last months of the stand-by. This could well prove an embarrassment later especially if the policy commitments require monitoring beyond this date.

Lastly I drew attention to the table provided by Mr. Donovan and reminded Mr. Mentré that in Toronto we were given a very different figure for usable reserves.

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

L.A. Whittome

cc: EED



Office Memorandum

September 28, 1982

MEMORANDUM FOR FILES

Subject: Romania

I spoke to Mr. Mentré twice yesterday. To begin with we discussed the talking points which he was preparing against his meeting today or Wednesday with Minister Gigea.

In addition Mr. Mentré said that a much closer look at the figures suggested that there could be a gap of between \$200-\$300 million by the end of the year if the full amounts of the downpayment after rescheduling agreements were signed were to be paid. However, the banks have now offered to split this downpayment as to 10 per cent in 1982 and a further 10 per cent at the same date in 1983 yet to be specified. At the same time the real negotiations with regard to the arrears of suppliers have yet to begin and therefore it is already wholly unlikely that the 20 per cent payable to these creditors will fall due before the end of the year. This points up the possibility of an arrangement under which the Fund would release funds calculated to enable the necessary payments to be made in 1982 but the balance being released some time in 1983 after Romania has taken action on a number of prior conditions.

I told Mr. Mentré that I thought this approach made a lot of sense and he will work on it further.

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

L.A. Whittome

cc: EED



Office Memorandum

file
Memorandum
10/1/82

September 24, 1982

MEMORANDUM FOR FILES

Subject: East Europe

Romania

Mr. Kjelleren of Manufacturers Trust telephoned this morning from London. He said that they had just completed a series of meetings with the representatives of Romania in an effort to put together a rescheduling document that would carry conviction to all the banks concerned. In this respect they had come to the conclusion that they would have to look at both 1983 and 1984 and they were being much hampered by what were regarded as excessively optimistic Romanian forecasts. He said that in public they were still maintaining that the rescheduling agreement would be signed by the end of October but speaking privately the middle of November seemed the earliest possible date and an optimistic one at that. The next meeting of the main nine banks would take place in Frankfurt on Friday, October 1.

I then asked Mr. Kjelleren as to whether or not the banks felt assured that the Romanians would be in a position to pay the 20 per cent downpayment when it became due. He said that we had alerted him to this difficulty in Toronto for which he was grateful for their subsequent investigations had shown that indeed a questionmark surrounded this question. The nine banks had therefore proposed to the Romanians today that half of the 20 per cent should be paid on December 31 and the balance in March 1983. They have done this deliberately in order to provide a breathing space to the Romanians. The banks of course hoped that the Romanians would reach a similar agreement with the suppliers. On the question of suppliers Kjelleren emphasized that the banks would have no difficulty in debts to suppliers being repaid if at the same time there was an equal amount of new credit extended.

Yugoslavia

Kjelleren talked about the Yugoslav position which he regarded as being very desperate. He thought that even leaving aside his natural bias the New York loan had been badly handled. In particular it was a mistake to include the Yugo bank itself for \$15 million for this was an explicit expression of no confidence. He also said that the Privredna Bank was again seriously in arrears with its debt repayments and that the \$20 million that had been due to Manufacturers had not been paid on time despite frequent reminders. Earlier this week they had cabled Makic who had replied that the position would be corrected. However, he had given a similar reply on three occasions over the last several weeks. Kjelleren suspected that several other large banks must also be in the position of having arrears as regards the Privredna Bank.

Hungary

He said that the cash position of the National Bank was becoming desperate and that Manufacturers had recently been unable even to put together \$10 million for trade credits.

cc: EED and CED

L.A. Whittome

cc: PL copy to EF ^{file: EE}
Romania

MEMORANDUM FOR FILES

September 24, 1982

Subject: Meeting with Representatives of Union Bank of Switzerland (UBS)

On Monday, September 20, 1982 Mr. Tyler, Ms. Salop and Mr. Donovan met in Zurich with representatives of UBS (Messrs. Schilde and Von Schwartzberg) and of the Swiss Export Credit Guarantee Corporation (Mr. Steinegger) to discuss lending prospects for Romania.

The main points of the discussion were as follows:

Romania

1. There is considerable doubt in the mind of UBS (which is one of the nine negotiating banks) as to whether Romania can meet the terms of the 1982 rescheduling. This feeling is not based on any precise calculations but rather on information that during the early part of 1982 available data indicate that both exports and imports are much lower than projected. Although Romania may also be reporting at the same time an improvement in the trade balance relative to the original projection, these figures by themselves are quite likely to be inaccurate or not very meaningful (or both). Given the major discrepancies between what the authorities projected to happen and what appears to be taking place, not much reliance can be placed on their expectation that the rescheduling will be implemented.

2. If it proved to be the case that the 20 per cent payments could not be made in January 1983, then the banks might have to consider agreeing to a phased downpayment schedule during 1983. Such a change could involve a renegotiation of the entire agreement. However, it was essential that no indication must be given to the Romanians that the bank might agree to such a move, as otherwise they would lose every incentive to try to meet the original terms.

3. For the 1982 agreement to go through, it was essential that "substantial progress" be made on the issue of the suppliers credits. Without this taking place, the banks in Germany, the U.K. and the U.S. were likely to stall. "Substantial progress" should involve as a first step, contacting all suppliers on an organized basis (e.g., through Chambers of Commerce) and secondly, establishing a list of priorities for settlement. There had been one case in Switzerland of a supplier taking legal steps to attach Romanian assets because of nonpayment.

4. As far as 1982 was concerned, banks would certainly not consider any rescheduling exercise (the latter was a most likely outcome, however), unless and until the 1982 agreement was satisfactorily complied with by the Romanians. New lending in 1983 in the form of financial credits was not a realistic possibility.

5. In the case of government debt, the agreement with Switzerland had been essentially completed and required only approval by the Swiss Federal Council. An interest rate of 7 per cent had been agreed to. Short-term debt owed to Switzerland and excluded from the agreement amounted to about US\$20 million, considerably less than the figure initially quoted at the Paris Club meeting.

Donal Donovan

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

file: EE
Romania
cc: copy to EE K

MEMORANDUM FOR FILES

September 23, 1982

Subject: Discussions with Commerzbank

On September 17, 1982, in Frankfurt, Mr. Tyler, Ms. Salop and Mr. Donovan had discussions with Mr. Lucassen, Director, and Mr. Althaus, Procurist, regarding Eastern European debt.

Mr. Lucassen described the "order of attachment and seizure" that affected 12 German banks and totaled DM 272 million in respect of payments due to two suppliers of DM 5 million and DM 20 million. These suppliers had given credit for 180 days and were finding themselves unpaid and caught up in a rescheduling. Initially in the discussions Mr. Althaus had argued that the action was defensible on the grounds that since short-term bank credits were not being rescheduled, it was only fair that short-term suppliers' credits should not be. However, after checking the Romanian "third" telex on Fund staff advice, it was clarified that short-term bank credits secured before March 1, 1982 were being rescheduled. Under the "pari passu" terms, suppliers' credits were therefore also to be included. Nevertheless, in that these suppliers had neither been paid nor contacted by the Romanians to arrange for a deferral, their legal action was justified. Concern was expressed that, the law suits having been successful, there would be more of them.

Mr. Lucassen suggested that suppliers in a strong position vis-a-vis the Romanians were being paid. This being the case, Romania's remaining financial means would probably be insufficient to pay the necessary 20 per cent downpayments that would arise with a general rescheduling of suppliers' credits. Nevertheless, Mr. Lucassen stressed the importance of resolving the suppliers' credits issue, particularly in that without a resolution, proliferation of the aforementioned lawsuits could tie up the financial resources otherwise earmarked for the official and bank downpayments. Furthermore, he noted that in contrast to Poland, which has been able to start fresh now with a clean slate, Romania has the overhang of this unfinished business with respect to suppliers. A resolution of the suppliers' rescheduling was a pre-condition for new credits in 1983.

He said that the Romanians were not late with interest payments. For a 1983 bank rescheduling, it would be important that the 1982 would have been made in time.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

file: EE
Romania
cc: M copy GEE

MEMORANDUM FOR FILES

September 23, 1982

Subject: Meeting with the Export Development Corporation (EDC) of Canada

On Tuesday, September 14, 1982, Messrs. Tyler and Donovan met in Ottawa with representatives of the Export Development Corporation (Messrs. Bakker, James, Jeanjean, Kavanagh and Towler) to discuss lending prospects for Romania. The main points made by the EDC representatives were the following:

Romania

1. EDC is in a unique position because virtually all of its lending is connected with one major project in the nuclear energy area. The total foreign exchange cost involved in the project is US\$1 billion, of which US\$320 million represents direct bank financing and has been already drawn down. Of the balance (85 per cent of US\$680 million consisting of EDC financing for the purchase of Canadian goods and services) only US\$36 million has been disbursed (the remaining 15 per cent is to be contributed by Romania).

Since the emergence of arrears in late 1981 all EDC lending for this project has been suspended. However, some minor amounts of cash payments have continued to be made by the Romanians directly to certain suppliers, largely to avoid cancellation of contracts.

EDC have informed the Romanians that before they would consider reinstating the loan the following conditions will need to have been met: (a) the bilateral agreement concluded between Canada and Romania in the context of the Paris Club rescheduling; on the basis of recent discussions with the Romanian delegation to the Annual Meetings the prospects appear hopeful that substantial progress will be made in this area quickly; (b) the commercial bank rescheduling agreement for 1982 signed (see below); (c) reasonably satisfactory external financing and debt repayment prospects for 1983 and beyond; and (d) certain administrative and technical problems associated with the project itself resolved. Related to the last point, EDC have also indicated that they intend to formally suspend the loan once their bilateral agreement under (a) above is signed. In practice this step will enable Canada to renegotiate the terms of the loan before reinstating it. In this regard, quite apart from the debt aspects, EDC indicated that they now held substantial reservations concerning the economic viability of the project, since circumstances had changed significantly since the initial loan was agreed.


Assuming that all of the above conditions were to be fulfilled immediately, the EDC would be in a position to consider reinstating the loan quite soon thereafter. However, this was most unlikely. In the judgement of the EDC representatives, nothing would be disbursed during 1982 and it was "extremely unlikely" that "any substantial disbursements" could occur during 1983.

As regards EDC credits to Romania other than the above project (which are in any event relatively minor) it was also in EDC's view highly unlikely that new loans would be granted in the near future.

2. So far as Canadian commercial banks are concerned, there have been several complaints about the undifferentiated nature of the rescheduling provisions (similar to those voiced by other banks not in the Group of Nine). However, in EDC's view, the banks would nevertheless eventually go along with the agreement. The Romanians in Toronto had mentioned October 26 in Frankfurt as a possible signing date for the agreement. Other indications suggested however, that January 1, 1983 was more likely. Canadian banks were unlikely to have any interest in providing any new credits to Romania next year. In this respect they were following the very cautious approach of U.S. banks.

3. The EDC representatives inquired as to the status of the rescheduling of debts owed to the Moscow banks and Arab central banks. The Fund representatives said that the Romanians had indicated that they would approach these institutions and propose to them the same terms as applied to the rest of the rescheduling. Irrespective of whether there was a formal agreement subsequently concluded along the same lines with these institutions, the Romanians intended to make repayments to them only to the extent implied by the provisions of the other agreements. The EDC representatives said that they hoped this issue would be monitored carefully, as the question of "equal treatment" was a source of considerable concern to them in a number of countries at the present time.

4. With regard to 1983 in general, the EDC representatives appeared fairly resigned to the possibility that an absence of new credits, unless offset by other factors, might make a further rescheduling inevitable. However, if this were necessary, they felt it would be strongly in Romania's interest to agree to improved terms for the creditors (for example, by making a larger downpayment). Otherwise, in their mind, creditors would see little evidence of the situation improving and this would diminish the likelihood of some degree of normal financial inflows being resumed.


Donal Donovan

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

file: EE
Romania
cc: Pl copy to EE
CCEO

MEMORANDUM FOR FILES

September 23, 1982

Subject: Lloyds Bank International Limited

On September 16, 1982 in London, Mr. Tyler, Ms. Salop and Mr. Donovan had discussions with Mr. Kingshott, Director.

Mr. Kingshott outlined a proposal that had arisen following a visit by Mr. Eremia, who was concerned to obtain new U.K. credits. The proposal that emerged was that US\$130 million might be raised in short-term financing from the U.K. Basically, US\$30 million was to come from banks and US\$100 million from the Coal Board, British Steel, and ECGD, with ECGD guaranteeing all the official credits. The original approach of Mr. Eremia had been doubly to the two producers. Mr. Kingshott indicated that if ECGD were to back the proposal, he would undertake to try to raise the desired US\$30 million from private banks. He saw it primarily as a "U.K. effort", that would be possible only with strong political backing, although the actual risk would be lessened by securing the loans with designated contracts to U.K. or other western importers from Romania. Mr. Kingshott had told the Romanians that they would have to put together the political package themselves. Until now the Romanians had not returned to Mr. Kingshott on this issue. It was noted that on top of the possible lack of political inclination to help the Romanians, ECGD guarantees for grain, coal, and steel—as would be required under the proposed scheme—were unusual because of the commodities involved and the short maturities.

Mr. Kingshott indicated that Lloyds' exposure in Romania was about £50 million, and that it would likely remain at that level. While medium- and long-term credits were not being written now, no repayments were due in the rest of 1982 or in 1983; hence, there would not be an erosion of outstanding exposure. Mr. Kingshott said that there were two necessary conditions for reopening Lloyds' medium-term credit lines: first, the 1982 rescheduling exercise had to be completed; and second, there had to be evidence of an improvement in the Romanians' economic management.

Mr. Kingshott said that Lloyds had not withdrawn its short-term credit lines from Hungary, Romania or Yugoslavia. In this regard, Lloyds was "standing still". He suggested that the banks that had withdrawn short-term credit lines had acted irresponsibly. He added that Lloyds would not withdraw its short-term lines.

With respect to 1983 Mr. Kingshott suggested that financial measures would be required if the Romanians were to be able to secure another rescheduling. In addition, he thought that there would have to be an improvement in the flow of information and the quality of and commercial conditions surrounding Romania's exports. He cited widespread complaints about the goods received in countertrade for BAC equipment sales. (Mr. Kingshott was knowledgeable about the BAC deal, because Lloyds had provided the basic financing.) He thought that the "Group of Nine" would be useful to retain in a 1983 rescheduling, although he thought that

because of the different circumstances prevailing now, it would be possible to have a different relation between the group and the universe of participating banks.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

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Romania
Yugo.
Hungary

MEMORANDUM FOR FILES

September 24, 1982

Subject: Discussions at the National Bank of Switzerland

On September 22, 1982 in Zurich, Mr. Tyler, Ms. Salop and Mr. Donovan had discussions with representatives of the Economics and Foreign Ministries and the National Bank, regarding Eastern European debt.

At the outset, the Swiss representatives expressed grave concern about the Romanian situation. It was generally thought that the Romanians had deliberately hidden the truth from their creditors. While one bank had reported a complete breakdown of communications with the Romanians, virtually all banks were furious with some aspect of Romanian behavior. It was viewed as the worst perpetrator of bad faith. While this reputation would clearly prejudice the case against a generous rescheduling in 1983, even now the Romanians could help their position by appropriate conduct vis-a-vis creditors. Returning telephone calls and answering telexes would go a long way—even if the Romanians could not pay.

The distrust of the Romanians was expressed in particular concern about the short-term debt under government guarantee. Questions about this category of debt were encountered frequently in talks with bankers and appeared to be the result of the erroneous report on the Paris Club carried on the Dow Jones wire service. The Fund staff was able to provide some clarification of the short-term debt picture. It indicated that the estimate of US\$220 million outstanding at end-1981 provided by the Berne Union in June and mentioned by Mr. Camdessus at the Paris Club had not been revised. The discrepancy between the figure and the some US\$400 million indicated in the final column of the Paris Club debt table was thought to be due to the latter's inclusion of new credits extended in 1982 and upwardly biased estimates provided by creditors in Paris. ^{1/} (That the latter was most definitely the case for Switzerland had been affirmed the previous day by Mr. Steinegger who indicated that officially guaranteed short-term debt was now put at SF 50 million, in contrast with the US\$40 million reported in Paris. Moreover, of the SF 50 million about half was payable in 1982 and half in 1983, with the bulk of the credits having been received in 1982.) Fund staff also indicated that the Romanian figures provided in their Economic Memorandum and the Paris Club did not separate the short-term portion from the total guaranteed debt.

With respect to the Swiss-Romanian bilateral rescheduling, the Swiss indicated that an agreement had been initialed to reschedule 80 per cent of the SF 45 million in medium- and long-term payments due this year at an interest rate of 7 per cent. The final signing was awaiting Swiss preparation of the legal

^{1/} Apparently creditors brought with them little information about short-term credits, since typically they are not covered in the Paris Club agreement.

documentation. While a restoration of short-term cover might occur in 1983, it would depend on the Romanians establishing a prior record of good faith dealings. In any event, overly generous concessions could not be expected since the ERG was operating currently in deficit.

With respect to Yugoslavia, it was indicated that the US\$500 million gap was expected to be covered by a BIS package of Central Bank commitments involving the U.S., Switzerland, Italy, U.K., Germany, and France. This would be taken up on September 28 at the BIS. The U.S. syndication of commercial banks had reached US\$160 million and would provide a cushion for 1983. The Swiss were considering a separate initiative of US\$50 million.

With respect to Hungary, some concern was felt but there was nothing but praise and admiration for Mr. Fekete. The Swiss share of the BIS package would be US\$50 million.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

file: EE
Romania

cc: R copy to EE

MEMORANDUM FOR FILES

September 24, 1982

Subject: Discussions at Credit Lyonnais

On September 20, 1982, in Paris, Mr. Tyler, Ms. Salop and Mr. Donovan had discussions with Mr. Wolkenstein (who was on the negotiating team of the nine banks), Mr. Boutissou, Regional Director, and Mr. Dufour, regarding Eastern European debt.

With respect to the 1982 negotiations, the bankers indicated that the outcome might be delayed compared with earlier expectations. Working relations with the Romanian Bank for Foreign Trade continued to be plagued with inefficiencies on the Romanian side--unanswered telephone calls and telexes.

It appeared to the bank representatives that a rescheduling in 1983 was inevitable. Mr. Boutissou suggested that credits payable in 1983 were therefore a very bad financial risk. At the same time he thought that the underlying economic risk was small and that long-term investment in Romania was probably a good bet. In connection with continuing efforts of Fund staff to clarify the official short-term debt picture, it was established that virtually none of the short-term credits payable to French banks was guaranteed by the government. Hence, most of the short-term bank debt was subject to the rescheduling.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

file: EE
Romania

cc: Copy to EE

MEMORANDUM FOR FILES

September 23, 1982

Subject: Discussions with Deutsche Bank

On September 17, 1982, in Frankfurt, Mr. Tyler, Ms. Salop and Mr. Donovan had discussions with Messrs. Knitschell, Black and Mueller regarding Eastern European debt.

Mr. Knitschell, a representative in the "Group of Nine" reviewed the state of the negotiations. The agreement was being drawn up by the lawyers and would soon be ready for signing. All remaining problems would have to be resolved, however, prior to signing. At the earliest, the down-payments would be due in January.

One outstanding problem was the inclusion of short-term bank debt in view of the exclusion of short-term debt from the Paris Club Agreement. Mr. Knitschell said that if the Paris Club exclusion was large, banks with short-term debt might justifiably refuse to reschedule. Fund staff noted that short-term debt outstanding at the end of 1981 excluded from the Paris Club totaled an estimated US\$220 million. While this was an important part of the US\$558 million in payments due in 1982, it was a small part of the total officially guaranteed debt of US\$1.8 billion. However, after the Paris Club the Dow Jones wire service had erroneously reported that short-term credits "represent the major share of the country's US\$1.85 billion in official debt to western governments", giving rise to widespread fears that official short-term debt was very large indeed.

The other major problem was with respect to suppliers. Mr. Knitschell noted the possibility of attachment lawsuits spreading and stressed the importance of the Romanians' settling with the suppliers. He had suggested to the Romanians, visits to the Chambers of Commerce in their five largest trading partners as a start. With the exception of one supplier recently contacted by the Romanians to discuss rescheduling, no action has apparently been taken to reschedule suppliers' credits.

With respect to a 1983 rescheduling, Mr. Knitschell thought that this might be taken up toward the middle of 1983. After the Fund's position had been explained, however, Mr. Knitschell moved forward his projected timetable but stressed that discussions could only begin in earnest after 1982 had been finalized.

Joanne Salop *J*

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

cc: H G EE
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MEMORANDUM FOR FILES

September 23, 1982

Subject: Meeting with Representatives of Dresdner Bank

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On Friday, September 17, 1982, Mr. Tyler, Ms. Salop and Mr. Donovan attended a meeting in Frankfurt with representatives of Dresdner Bank (Messrs. Orth and Krieger) to discuss lending prospects for Romania and Yugoslavia. The following were the main points of the discussions:

Romania

1. Dresdner has only one financial loan outstanding to Romania, which is due in 1985. Interest on the loan (which is not large) was being paid on a current basis. Difficulties had occurred with respect to repayment of short-term deposits in the past; once they were repaid, however, Dresdner had had no interest in any further activities.

2. Even if the present "mess" was cleaned up, Dresdner would not extend any short- or medium-term financial credits. They would begin only with letters of credit on a confirmed basis. This was the general feeling among German banks and increasingly any trade taking place was on a compensating basis. If this attitude implied a further rescheduling then so be it, although of course Dresdner would not be themselves directly involved.

Yugoslavia

German banks were upset because of the Yugoslavians having assured them earlier this year that no further loans would be needed. It was now turning out quite differently and Yugoslavia had experienced great difficulty in obtaining fresh funds. In addition to Germany, other countries had come up with much less than was apparently needed to forestall a rescheduling. Also, according to reports, PBZ would be short about \$220 million dollars required to avert a rollover or a rescheduling of its obligations. The only options that might avert the looming problem would be a global approach and in this regard the U.S. would need to take the initiative.

Donal Donovan

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

MEMORANDUM FOR FILES

September 23, 1982

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Subject: Meeting with Representatives of the French Treasury

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On Monday, September 20, 1982, Mr. Tyler, Ms. Salop and Mr. Donovan attended a meeting with representatives of the French Treasury (Messrs. Trichet and Lauzun) to discuss lending prospects for Romania and Yugoslavia. The main points of the discussion were as follows:

Romania

1. French banks share in the general mood of dissatisfaction with the operating procedures of the Romanians. There are some delays of several weeks or months in interest payments. French banks will probably go along with the rescheduling; for France the question of unguaranteed suppliers credits is not a direct problem as virtually all French suppliers credits are guaranteed.
2. Cover is continuing to be provided for some existing projects (but not all; for example, the Citroen project has come to a halt, although this is primarily due to industrial reasons rather than a lack of creditworthiness per se). Once the Paris Club bilateral agreement is signed with Romania, France will consider opening a new line of short-term credit—a possible magnitude might be in the order of FF 200 million although this has yet to be decided. As a general policy, France did not want to reschedule short-term debt since they assumed that once the short-term credits were repaid by the Romanians, creditors would reextend them in the form of new credits. If this latter were not to occur then the question of the rescheduling of short-term debt might need to be reexamined.
3. If it became clear that a rescheduling in 1983 was the only feasible cause open to the Romanians, then creditors in general would probably have no objections to considering such a request. The Fund representatives pointed out that in such an eventuality it would be most desirable for a rescheduling proposal be acted upon quickly as otherwise arrears could emerge in the beginning of 1983 with adverse consequences for the continuation of the present stand-by. Moreover, were this to be a real possibility it would also have implications for whether the Fund could agree to release of the funds for 1982.

The French representatives pointed out that the only new aspect of the problem since the original timing and strategy of the rescheduling had been agreed to last July appeared to be some delays in implementing the bilateral Paris Club agreements and the commercial bank agreement. However, they noted the observations of the Fund representatives on this matter and requested that they be kept informed of developments.

Yugoslavia

The French are "very worried" about the likelihood of Yugoslavia needing a rescheduling. Yugoslavia has not been able to obtain sufficient external funds due, in the view of the French, to the absence of a multilateral

gesture on the part of other lenders. For its part, France had contributed far more proportionately than anyone else and was not prepared to consider further lending until other countries had provided their originally agreed upon shares.

Donal Donovan ^{DD}

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file

MEMORANDUM FOR FILES

September 23, 1982

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Subject: Meeting with Representatives of Barclays Bank Ltd.

On Thursday, September 16, 1982, Mr. Tyler, Ms. Salop and Mr. Donovan met with representatives of Barclays Bank in London to discuss lending prospects for Romania. The discussions also touched on Yugoslavia and Hungary.

The main points made by the Barclays representatives were as follows:

Romania

1. Although the person dealing closely with the 1982 rescheduling was not able to attend the meeting to give precise details, it was "probably" the case that most English banks would go along with the proposed terms. While some banks had not responded as yet and some others had voiced objections, the majority had accepted the proposals and it was very likely that the agreement would be signed by end October.
2. As regards 1983, at present Barclays were not at all keen to provide any fresh funds, although this attitude might conceivably change. Factors affecting adversely their outlook on Romania included the following: (a) the problem of insufficient information (in particular regarding transactions with the nonconvertible area); (b) a lack of credibility as regards even the information that was available; (c) a perception that although adjustment was being forced on the Romanians as a result of lack of foreign exchange, to the extent that it largely took the form of cutting imports this would be merely a stop-gap measure which would have adverse consequences on their ability to repay any new loans; (d) the present uncertainty as regards western governments' political attitudes to Eastern Europe; and (e) the more cautious attitude being taken by the bank in view of the substantial amounts outstanding at present to "dubious" borrowers. As regards (a) and (b), the Fund representatives said that insofar as one could discern (especially regarding the balance of payments data in convertible currencies) there was no evidence to suggest that the Romanians had provided factually incorrect information. However, there were undoubtedly problems of interpretation in many areas. It should also be borne in mind that the banks had been given (admittedly for the first time) quite detailed information in the Romanian Economic Memorandum, and moreover, a requirement of the rescheduling agreement was that such information continue to be supplied to the banks on a timely basis. The Fund representatives also observed regarding (c) that the three year structural reform program of the Romanians (as well indeed as the fact that the balance of payments had shown quite a striking turnaround prior to the deterioration of the capital account) would suggest that the authorities were certainly at least very aware of the need to undertake the required external adjustment in a meaningful sustained way.

3. While the implications of no significant amount of new funds being made available to the Romanians in 1983 was probably that a rescheduling would be needed, the bank would be resigned to this outcome since they had no other choice.

Hungary

Barclays' exposure in Hungary was considerably less than in Romania. They were continuing to supply short-term facilities. However, in the case of unutilized outstanding limits, many of these had been withdrawn and replaced subsequently on a case by case basis.

Yugoslavia

The bank's outlook was somewhat pessimistic as regards the possibility of a debt rescheduling being needed in the next six-twelve months. The PBZ affair had been very badly received in the banking community, and although a law had been promulgated to try to prevent a reoccurrence, the bank's understanding was that this loan would expire in December 1982. No external sector figures had been made available since 1981 (and in the bank's view, these latter data were not to be believed anyway) and their impression was that the 1982 figures were likely to be bad; there were reports that PBZ had told some foreign bankers that they, for example, would experience a shortfall of up to US\$200 million from their required level. Very little fresh banking funds were going into Yugoslavia and Barclays itself had cut back sharply on any new loans it might consider extending.

Donal Donovan ^{DD}

cc: Mr. Whittome ✓
Mr. Mentré
Mr. Tyler
Mission file



Office Memorandum

September 23, 1982

MEMORANDUM FOR FILES

Subject: Romania

Mr. Mentré called from Bucharest this morning to say that the mission had been presented with balance of payments figures for 1982 and 1983 which differed substantially from those presented to us in Toronto. For 1982 new estimates show that the trade surplus on convertible currencies will amount to \$ 1 1/4 billion as against a little under \$1 billion projected in Toronto. The balance on services will show a deficit of nearly \$1 billion so giving a current account surplus for the year of \$300 million as against the balance that had been projected in Toronto.

For 1983 the trade surplus was projected at \$1 1/2 billion and the current account surplus at \$650 million. On these figures the Romanians were adamant that there should be no question of rescheduling in 1983 and also no question of their not being able to find the resources to meet the downpayments on the rescheduling of debt in 1982. As regards the rescheduling of the bank debt it was still hoped that the agreement would be signed around the end of October and come into force three months later. Several of the bilateral discussions with countries on government debt had been completed and the Romanians will telex their creditors (suppliers) next week offering new proposals which should be in line with those offered to other creditors.

Mr. Mentré said that Tyler also wanted us to know that his most recent contacts with the banks had not changed the picture. The banks were still very concerned about their being fair and equal treatment as between themselves and the suppliers. None of them were presently increasing their exposure toward Romania and all thought a rescheduling in 1983 inevitable.

I wished Mr. Mentré good fortune in his subsequent discussions. He will telephone us again on Monday.

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

L.A. Whittome

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ROMANIA MISSION OF MENTRE TYLER , SALOP , DONOVAN , HEMPHILL
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WASHINGTON, D. C. 20431

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Mr. Mookerjee
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18 I REFER TO THE REQUEST BY MR. SCOTT, DIRECTOR OF
 17 THE TRADE AND TECHNOLOGY DIVISION OF THE UN ECONOMIC
 16 COMMISSION FOR EUROPE, FOR A REPORT REGARDING ROMANIA.
 15 THIS REPORT WAS PREPARED BY ROMANIA REPEAT ROMANIA AND
 14 NOT THE FUND. THEREFORE HIS REQUEST SHOULD BE ADDRESSED
 13 TO THE ROMANIAN AUTHORITIES.
 12 REGARDS
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WASHINGTON, D. C. 20431

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23 MR. STELIAN MARIN
 22 DIRECTOR, EXCHANGE AND FOREIGN RELATIONS DEPT.
 21 MINISTRY OF FINANCE
 20 BUSHAREST
 19 ROMANIA

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18 MISSION MEMBERS ARRIVING SEPTEMBER 22, 1982 AS FOLLOWS:
 17 MR. MENTRE, AF 718 AT 17.05, MESSRS. TYLER, DONOVAN,
 16 HEMPHILL, MS. SALOP AND MISS ADAMS, SR 462 AT 16.00.
 15 REGARDS
 14 WHITTOME
 13 INTERFUND

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G L.A. Whittome SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE _____

cc: Mr. Gheorghe
 Mr. Tyler
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EUROPEAN NEWS

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Portuguese shipyard workers call strike

By Diana Smith in Lisbon

WORKERS at Lisnave, the Lisbon ship repair yard, have called a five-day strike following the management's decision to cut back shifts and decrease fringe benefits.

The yard is heavily in debt as a result of the world shipping crisis. At its height it repaired 20 per cent of the world's supertanker fleet.

Overmanning and heavy wage and premium overheads have worsened the problem. Present labour laws do not permit temporary lay-offs, and the management considers that at least 2,000 of the 7,500 blue collar workforce are idle daily.

Overmanning is common to nearly every private or public company in Portugal. Wages are far below European averages, but generally represent 50 per cent or more of overheads—a serious problem for companies operating on high borrowing and low capital.

Dismissal of excess staff is difficult without lengthy court wrangles, and even dismissal of disruptive or destructive workers is hard to achieve.

Militant works committees, still under heavy Communist domination, are fighting efforts to increase productivity.

Danish deficit

Denmark's first half current account deficit increased to DKr 10.7bn (£706m) from DKr 5.8bn (£382m) in the same period last year, according to official statistics, writes Hilary Barnes in Copenhagen.

Net interest payments to other countries increased from DKr 5.5bn last year to DKr 8.7bn and constituted the main item in the rising deficit.

David Buchan outlines Bucharest's recovery plans Romania edges aside the veil over its economy

WESTERN BANKERS like to keep politics out of their dealings with Eastern Europe. The two most troubled debtors there, Poland and Romania, are in bad political odour in the West. The Jaruzelski Government is under fire for its continued martial rule and the Ceausescu regime for its bizarre recent attempt to kidnap a well-known Romanian exile in Paris. Nonetheless, western bankers are close to rescheduling Poland's debts, and are now proceeding with a similar deal for Romania.

A majority of Romania's 300 creditor banks in the West have now said they are willing to let Romania repay 80 per cent of its \$488m debt arrears from last year and the same proportion of the \$2.38bn due this year over a six-and-a-half year period starting in 1986. A draft rescheduling agreement is still being considered by Romania and a lead group of nine Western banks, and, even after that is agreed by all banks concerned, Peat Marwick, the accounting firm, will have to straighten out all the figures. Still, bankers hope to have the final deal wrapped up well before the end of the year.

Doubts creep in

Doubts, however, have crept in about some of the longer-term targets which the Ceausescu government has set for economic recovery. These are contained in a 169-page "economic memorandum" which Romania prepared with the help and apparent endorsement of the International Monetary Fund and sent to its western creditors this summer.

The memo has undoubtedly paved the way for the debt rescheduling. It has provided bankers with urgently needed data on the country's economic position and prospects and an explanation of the policy changes which the IMF has demanded as a precondition for resumed IMF lending.

Romania has traditionally been one of the most secretive



Mr Ceausescu... Doubts in West about some of his government's economic goals

of countries, so the memo is a major advance. In the opinion of Wharton Econometrics, the U.S. research group, the memo places Romania ahead of East Germany and Bulgaria in terms of data publication, though still behind other Comecon countries.

The Romanian paper also spells out the basis of the new IMF-sponsored stabilisation programme designed to put the country's current account in balance by the end of 1983:

- A squeeze on domestic demand by means of reduced credit for enterprises, less public spending, and a tighter lid on real wages growth.
- Structural changes involving bringing domestic prices nearer world levels and unifying the multiple exchange system into a single rate between the Romanian lei and the U.S. dollar.

But Romania's estimate of the result of these policies has come under critical scrutiny from Wharton and other analysts, though evidently not from the IMF itself. Assuming that they can reschedule their 1981-1982 debt, the Romanians are

forecasting that they will offset a \$1.2bn debt service bill this year with a \$750m surplus on merchandise and invisible trade, leaving the current account \$450m in the red.

An increased trade surplus in 1983 and 1984, the Romanians estimate will push their current account into balance next year and into a \$400m surplus in 1984.

Sceptics note that this rosy scenario depends on:

- Acceleration in the rate of growth from 3 per cent a year in 1980-81 to 5.7 per cent this year, and more than 5 per cent in the three following years. It seems unlikely that the IMF-inspired price and exchange rate changes can stimulate such an increase, in the light of the fact that the IMF has also persuaded the Ceausescu Government to embark on a credit squeeze.
- A 39 per cent increase in hard currency exports over 1981-85 and an increase of only 18 per cent in imports paid for in hard currency. Wharton analysts point out this could probably be achieved only at a lower GNP growth rate than the Romanian authorities are forecasting.

Achilles heel

What used to be the natural advantages of the Romanian economy—oil and agriculture—have in recent years become its Achilles heel. Growth in the Romanian petrochemical industry has far outstripped domestic oil production, which last year provided only about half (11.6m tonnes) total needs. The new Romanian plan is to curb its oil import bill, chiefly by using coal to meet increased energy demand. It calls for a rise in coal output of 25 per cent this year and of 44 per cent next year, which is high in relation to the average 5.5 per cent increase in 1975-81.

The Romanian plan is even more ambitious in the agricultural sector, calling for both a big improvement in the population's diet and larger exports. While the new IMF programme certainly holds out hope for improvement, some of the Romanian Government's projections seem to demand a measure of belief in the Phoenix legend.

ROMANIA'S PROTECTION OF HARD CURRENCY FLOWS (\$m)

	Trade balance	Services balance	Net interest	Current account balance
1982	550	200	-1,200	-450
1983	1,000	264	-1,264	0
1984	1,400	270	-1,270	400

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Office Memorandum

file: Romania
Hungary
Yugoslavia

September 17, 1982

MEMORANDUM FOR FILES

Subject: East Europe

Mr. Tyler telephoned from Frankfurt. He said that the general feeling of the German banks with whom he had met was that the rescheduling for 1982 should first be completed. They had yet to turn their minds to 1983 but most instinctively felt that there would be a need for a further rescheduling and were not unduly worried.

As regards new lending no bankers were making any further commitments nor had they any intention of doing so. At the best several were maintaining their short term exposure if they regarded it as sufficiently protected. He had, however, when in London talked with one bank which was considering providing finance for an export project which would carry an ECGD guarantee that would be for a total amount of \$130 million but neither in London nor elsewhere were the export credit agencies on cover to Romania.

As regards the present rescheduling operation most of the large nine banks mainly concerned consider that the others will all come into line. However, a particular difficulty had arisen as regards to suppliers credits and there was a general feeling most especially in Frankfurt that the Romanians were not doing sufficient to obtain a general agreement that would apply to all suppliers. If this remained a point of irritation then the timetable might not be held to because the matter of equal treatment would come up. Nevertheless most of the banks still hoped that the agreement would be signed around the end of October and be in operation in early January.

Hungary

On Hungary he did not find the banks particularly interested, they seemed relaxed and did not expect a rescheduling.

Yugoslavia

Most of the banks to which he had talked in particular those in Frankfurt thought that it was unlikely that the Yugoslav problems would be solved without a rescheduling at one time or another.

A handwritten signature in black ink, appearing to be 'L.A. Whittome'.

L.A. Whittome

cc: EED

file: EE
Hungary
Romania
Yugoslavia
EE
CED

MEMORANDUM FOR FILES

September 16, 1982

Subject: Eastern Europe - Discussions with the Bank of England

On Wednesday, September 15, 1982 I spoke with Messrs. Bull and Smith on Romania and to a lesser extent on Yugoslavia and Hungary.

Hungary

The attitude to Hungary was relatively relaxed. U.K. banks have in general not withdrawn lines of credit available to Hungary although these are all short-term and in general not particularly large for individual banks.

Romania

Thinking on this country remains pessimistic. The reaction to the day to day mistakes of Romanian bankers is the same as elsewhere—extremely negative. No new financial credits are likely to be forthcoming from the U.K. Insurance cover continues on contracts that are in place, principally with respect to the B.A.C. operations. However, the latter has reached the stage where U.K. components are being phased out so that only a trickle of new imports and credits can be expected. (Incidentally, it seems the R.R. engines used in the Romanian planes are noisy and will not be permitted to operate in European airports after 1986.) ECGD cover is not available on new contracts. With respect to 1983, it was thought that a rescheduling would be required.

Regarding gold, Mr. Bull said that he did not know whether any was pledged or had been sold. Swiss data at the end of 1981 showed some shipments of the gold to that country. (We know from the Romanians that in 1981 they sold gold in a value of \$85-90 million.) Technically it was not easy to know what the position might be since legal pledging could be avoided by drawing currencies against gold deposited in a foreign bank without formally entering into a pledge.

Yugoslavia

Mr. Bull had just returned from Belgrade. He was relatively pessimistic. He said that currently imports were being cut back very sharply to permit debt servicing, with a consequent reaction on production. We agreed that, in the absence of adequate new loans, it would be politically impossible to reduce import needs to a level that would solve the debt problem—output would fall too much. Mr. Bull's view was that a rescheduling would be difficult to avoid in 1983.

On debt service, there continues to be delays in payments especially from the Zagreb bank. However, U.K. banks have in general not reduced credit lines to Yugoslavia.

47

Geoffrey Tyler

- cc: Mr. Whittome ✓
- Mr. Finch
- Mr. Mentré
- Romania mission

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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23 MR. PAUL MENTRE
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IMF OFFICIAL MESSAGE
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	22	DIRECTOR, EXCHANGE AND FOREIGN RELATIONS DEPARTMENT	
	21	MINISTRY OF FINANCE	
	20	BUCHAREST	
	19	ROMANIA	
START TEXT HERE	18	I WISH TO ADVISE YOU THAT I HAVE ASKED MR. PAUL MENTRE	D I S T R I B U T I O N C C : M R . P O L A K M R . H O L E
	17	DE LOYE TO GO TO BUCHAREST AS THE HEAD OF THE MISSION	
	16	ARRIVING ON SEPTEMBER 22. MR. TYLER WILL BE THE SECOND	
	15	IN COMMAND.	
	14	WOULD YOU PLEASE CHANGE THE HOTEL RESERVATIONS TO	
	13	ONE SUITE FOR MR. MENTRE AND FIVE SINGLE ROOMS FOR MR.	
	12	TYLER, MS. SALOP, MR. DONOVAN, MR. HEMPHILL, AND	
	11	MISS ADAMS.	
	10	REGARDS	
	9	WHITTOME	
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INTERFUND PARIS SEPTEMBER 15 1982

INTERFUND
WASHINGTON DC

FOR WHITTOME

THANK YOU FOR YOUR TELEX OF SEPTEMBER 14. I AM LEAVING
A MESSAGE AT THE LOTTI FOR TYLER TO MEET HIM ON THE 20TH. I
WILL BE IN BUCHAREST ON THE 22ND, ARRIVING BY AF 718 AT 17:05.
REGARDS,

MENTRE

INTERFUND PARIS

248331 IMF UR
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IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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	22	PARIS OFFICE	
	21	PARIS	
	20	FRANCE	
	19		
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	17	DUE DATE. HE WILL BE IN PARIS FROM EVENING OF 19TH	
	16	THROUGH MID DAY ON 20TH. HE WILL BE STAYING AT THE LOTTI.	
	15	REGARDS	
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Subject



Office Memorandum

To: Mr. Mentré
Mr. Tyler

September 13, 1982

From: L.A. Whittome *LAW*

Subject: Romania

My personal instructions to you with regard to your visit to Bucharest are:

(i) you must make a judgment as to the possibility of Romania meeting all its various debt and other commitments between now and the time when rescheduling payments become due. You should please approach this exercise with some scepticism and through a careful analysis of cash flow projections;

(ii) you must please decide whether there is any reasonable chance of Romania meeting its various financial obligations during the course of 1983. The initial figuring suggests that this will not be possible. Convincing evidence will be needed to negate this impression; particularly as regards the current account outturn and the availability of new credits;

(iii) you must please seek to understand and to the extent possible quantify the effects of the reduction in planned imports that has been incurring and the extent to which this may affect exports;

(iv) in addition we need a considered opinion as to the merits under various assumptions of now breaking the present stand-by and replacing it with a new one or of seeking to keep it in place until arrears again occur;

(v) we also need a considered opinion as to whether the exchange rate and price changes implemented partly because of our pressure are in fact being allowed (or are able) to play their role in influencing the allocation of resources within the economy. At the same time we need to check again our view of the efficacy of controls over domestic credit as a means of influencing expenditures--up to now we have been sceptical.

Please regard this memorandum as supplementing the instructions contained in your brief.



Office Memorandum

cc: Hungary
 Romania
 Yugoslavia

September 9, 1982

MEMORANDUM TO FILES:

Subject: Meeting with Morgan Guaranty

On Wednesday, September 1, Mr. Tyler and I attended a meeting in New York City with representatives of the Morgan Guaranty Bank (Messrs. Stanton, Balenetsky and Hargreaves) in order to discuss the lending prospects for Romania in 1982 and 1983. The meeting also dealt briefly with the outlook for Hungary and Yugoslavia.

The main points made in the discussion were as follows:

Romania

1. The memorandum regarding economic performance and prospects received from the Romanian authorities was still being studied by Morgan Guaranty. The main questions worrying their analysts were (i) the ability of the authorities to obtain projected amounts of suppliers credits of US\$850 million in 1982, together with any large amounts in 1983, and (ii) the realism of the growth rates forecast for exports in 1982 and subsequent years (specific areas mentioned were the assumed rapid growth to LDCs and the projected growth in exports of oil-drilling equipment--the latter item was in substantial excess supply through the world at present). The Fund representatives said on the first point that the figure of US\$850 million consisted of US\$350 million in medium-term loans tied to specific projects and if this did not materialize then presumably imports related to the projects in question would also be reduced. However, the remaining US\$500 million was for short-term import financing and at this stage it was not possible to say to what extent these amounts had actually been forthcoming. For 1983, it should be noted that the short-term capital inflow assumed the rollover of such credits obtained in 1982. With regard to the second point, export growth in 1982 was likely to be significantly less than had been foreseen at the start of the year, partly because of a continued weak world economic environment; of course imports were also likely to be lower as a result of the unavailability of external financing. The assumed growth in exports to LDCs was probably too optimistic, but it should be noted that Romania had in the past few years succeeded in increasing their market share to these countries, in particular to oil-exporting countries.

2. The Morgan Guaranty representatives expressed considerable concern regarding the undifferentiated character of provisions in the rescheduling proposal. In particular, no distinction had been made between medium- and long-term debts and short-term debts; in their view it was not reasonable that short-term credits (on which banks like Morgan Guaranty had made less profit by way of spreads, commissions, etc.) should be treated just like

medium-term debt. This problem would need to be addressed before Morgan Guaranty would agree to the rescheduling proposal for 1982 and they intended to let the Romanians know of this position within the next week to ten days. More generally, they resented the way in which the rescheduling negotiations had been confined to the "Group of Nine" banks with other banks being explicitly denied access to decision making or information. Concerning this issue, the Fund representatives briefly reviewed the background to the start up of the rescheduling discussions last year and said that the Romanians' insistence on keeping the negotiations to a small group had been partly motivated by the desire to prevent publicity; were the latter to occur, the President might have called a halt to the entire operation. The Morgan Guaranty representatives said that while they could understand the internal reasons that might lie behind the Romanian approach, from the bank's point of view, this did not augur well for the possibility of them (or other banks) giving new loans without the issue being solved.

3. The Morgan Guaranty representatives were not at all optimistic about the possibility of any fresh loans in 1983, particularly in view of the poor atmosphere arising from the way the rescheduling had been conducted. Of course the outlook might change in the next few months (and the political influence exercised by the State Department could play some role) but the main priority from their point of view at present was to come to a satisfactory agreement for 1982. They observed that so far as 1983 was concerned it was not unreasonable to expect the Romanians to sell off some of their gold (currently worth about US\$1.5 billion) in order to address their problem; also, lower interest rates would help alleviate the burden. The Bank representatives conveyed the impression, however, that if, after allowing for these factors, the financial difficulties still were insuperable in 1983, they would have no alternative but to consider a further rescheduling. As indicated above, in their eyes the possibility of obviating the need for such a rescheduling by providing an equivalent quantum of fresh funds did not seem at this stage to be very high.

Yugoslavia

Morgan Guaranty always had a very positive view of Yugoslavia and had very much endorsed the authorities' adjustment programs. However, they were obviously very concerned at present. A factor which had exercised a major negative impact was the collapse of the PBZ bank in Zagreb, as this had raised (perhaps unfairly) major doubts about the degree of control exercised by the central authorities. The bank was continuing to lend for specific imports supplied by established customers and their exposure in this area had not decreased. However, no new term loans were being considered.

Hungary

Morgan Guaranty had never conducted a great deal of business in Hungary. What little short-term business there was was being continued at the same level. However, as with Yugoslavia, no term lending was being considered.

cc: Messrs. Finch
Whittome ✓
Tyler
Brau
Hemphill
Ms. Salop

AD
Donal Donovan
Economist
Stand-By Policies Division
Exchange and Trade Relations Department

ROMANIA : EXTERNAL INDEBTEDNESS
AND RELATIONS WITH COMMERCIAL BANKS

CC: EED

HS

Humphreys
GTI Recent DevelopmentsA. A Growing Imbalance (1976-1980)

1. During the sixth five-year plan 1976-1980, the average annual real growth of national income produced reached 7%. This rapid expansion was pulled by a massive investment program, notably in the oil and related chemical sectors, representing 35% to 40% of the national income.

Throughout the period, aggregate demand exceeded aggregate supply, due to an overambitious industrialization strategy. Since in addition Romania was hurt by adverse terms of trade development, the Romanian authorities started in 1979-1980 to restrain the growth of gross fixed investment, reducing the rate of growth of real GNP by half from 6.6 per cent in 1979 to 3.3 per cent in 1980. Finally, in 1981 they had to enter into a stabilization program supported by the Fund.

2. Before the 1981 stabilization measures, the current account (balance of payments in convertible currencies) registered a widening deficit reaching 4% of GNP in 1980, matched by an increase in external indebtedness, with a limited variation in reserves.

(billions US \$)

	1976	1977	1978	1979	1980
- current account	-0.1	-0.3	-0.8	-1.7	-2.4
- capital account	-0.1	-0.1	+0.9	+1.9	+2.2
- change in reserves (- increases)	+0.2	+0.4	-0.1	-0.2	+0.2

3. The external debt in convertible currencies increased accordingly.

Sources :

- IMF Staff report for the 1982 article IV consultation and review of stand by arrangement, G. Tyler (April/June 1982); P. Mentre; External Indebtedness ; summary of discussions May 16, 1981 (file).
- Romanian Ministry of Finance: Economic memorandum April 1982
- Wharton : Centrally planned economic outlook (April 1982)
- Vienna Institute for Comparative Economic Studies (Fink): European CMEA Countries' hard currency debt (September 1981)

(billions US \$:
end of period)

	1976	1977	1978	1979	1980	(p.m. 1981)
<u>External debt in convertible currencies</u>	2.8	3.6	5.1	7.2	9.6	(10.2)
(of which Medium and long term)	(2.4)	(3.0)	(3.8)	(5.1)	(7.0)	(7.7)

Among CMEA countries (source: Wien Institute), Romania was characterized by a relatively high level of external debt in relation to GDP (18.4% at the end of 1980 against 20% for Hungary, 18% for Poland and about 10% or less for the others) but due to the large oil reprocessing trade, the ratios of debt or of debt service to exports were more satisfactory (the net debt of Romania represented at the end of 1980, 217% of its exports to industrialized West, against an average for Eastern Europe countries of 274% and debt service as a share of non communist exports was not exceeding 22%).

But the structure of the debt was characterized by a rapid increase in short term debt (increasing by 0.6 billion \$ in 1978, 0.8 in 1979, 0.3 in 1980). In addition, Romania has maintained a very low level of International reserves; 0.7 billion \$ at the end of 1976 and 0.5 billion \$ at the end of 1980, when the short term debt in convertible currencies was in the vicinity of 2 billion \$. At the end of 1980, Romania's assets with Western banks represented 7% of its imports from the West, which was the worst ratio among CMEA countries (Poland 10% and other countries between 30% and 40%). Romania was therefore highly vulnerable to a liquidity crisis.

4. This debt structure was the result of the debt management policies of the Romanian authorities.

In addition to suppliers' credits to foreign trade enterprises (760 million \$, end of 1981) and to the direct loans from the World Bank and the Investment Bank (Moscow) to the Investment Bank and to the Bank for Agriculture, the bulk of Romanian debt was entered into by the Romanian bank for foreign trade. In addition to medium term syndicated loans, the Romanian bank for foreign trade was engaged in short term borrowing through export credit lines (financing by Swiss banks of petroleum products), through import related credits (normally up to 90 days but up to 2 years for oil imports) and through the use of the interbank market (short term deposits normally with a maturity of 3 to 6 months) notably through subsidiaries abroad (Banque Franco-Roumain, Frankfurt-Bucharest Bank, Anglo-Romanian Bank).

Continued/...

In 1978-1979-1980 during the period of large current account deficits attributed by the Romanian Bank for Foreign Trade to adverse external developments (recession, interest rates, oil prices), to delays in internal adjustment reflecting world changes, to structural difficulties (over-capacity in oil processing, leveling of oil domestic production, agriculture), the Bank relied largely on such short term borrowings. It did it notably to reduce the interest burden since short term credits and especially interbank operations were cheaper than medium term syndicated loans. But in doing so, the Romanians were highly vulnerable to a shift in the attitude of bankers, which materialized in 1981-1982.

B. The 1981-1982 Crisis

5. In the wake of the Polish difficulties, Romania was the first Eastern country to be hurt by the reduction of their exposure by Western banks. Starting in May 1981, the Romanian Bank for External Trade was unable to raise new credits in the market and to renew short term lines at their maturity.

Romania was engaged in a program of adjustment embodied in a stand-by arrangement with the Fund approved in June 1981.⁽ⁱ⁾ The program contemplated notably a reduction in the rate of growth of investment, a move toward the unification of exchange rates, an adjustment of domestic prices to world prices. It was consistent with a current account deficit of 1.8 billion \$, an inflow of long term and medium term capital of 2 billion \$ and a reduction of 0.5 billion \$ of the short term debt. But after the release of the first tranche (140 million SDR) in June, the Fund was not in a position to allow Romania to make in November the second scheduled purchase (76 million SDR) since, contrary to one of the performance criteria, Romania was accumulating arrears.

Already at the end of June 1981, the total amount of delayed payments to foreign suppliers stood at 186 million \$. But in August/September the rapid reduction of short term lines of credit by foreign bankers led to a more pronounced liquidity crisis and at the end of September total arrears had reached US \$ 1,268 million of which US \$ 588 represented overdue repayments of short term loans extended to the Romanian bank for External Trade.

For the year as a whole, against a new inflow of capital of 0.4 billion \$, as contemplated in the Fund's program, there was a net outflow of 1.5 billion \$. Romania had to adjust more severely its economy, by a sharp reduction of its investments and its imports, in order to limit its current account deficit in 1981 to 0.8 billion \$.

(i) SDR 1051 million i.e. 300% of quota

When the Fund program was interrupted, the Romanians were unable to repay the arrears accumulated, while reducing them to 1.1 billion \$ at the end of the year, and had to call a meeting of their main foreign bankers.

6. The position of the banking community was quite negative in view of the attitude of the Romanians who had not disclosed any information, were not answering telexes or phone calls, were accumulating arrears.

Gradually, through an active involvement of the Fund staff, providing the participants with balance of payments projections under various assumptions, and with a more cooperative attitude of the Romanians, disclosing information, notably in their economic memorandum of April 82, there was a convergence towards a rescheduling agreement which would have the following characteristics :

- 80 per cent of arrears as of 12/31/81 and 80 per cent of capital payment falling due in 1982 rescheduled over 6½ years with 3 years grace
- interest rate set at LIBOR plus 1 - 3/4 per cent with a rescheduling commission of 1 per cent.
- equal treatment given to suppliers (with some qualifications), governments, Arab central banks and Moscow banks.

The Romanians have found it difficult to meet these terms, notably the equal treatment clause which was imposing a burden on a multitude of suppliers (credits of more than \$10,000) and implied, in the absence of any agreement, a unilateral rescheduling of the debts due to the Moscow banks.

But overall, an agreement with the bankers was dependent upon an agreement between the governments and an agreement with the Fund on the resumption of the stand-by which both materialized in June and July. It allowed the Romanians at the end of August to send officially their proposals to all bankers. Since the group of banks selected by the Romanians were not representing a steering committee but only an advisory group, and since most bankers did have adverse feelings, the conclusion of the rescheduling agreement with bankers will take some time but should take place around the end of the year.

Continued/...

7. The new Fund program aims at a current account deficit of about 100 million \$ in 1982 and 450 million \$ in 1983. Through the rescheduling agreement (3.3 billion \$ overall), IBRD credits and new medium term suppliers credits for imports, (\$675 million) and new short term suppliers credits (\$500 million), Romania would be able to eliminate all its arrears at the end of 1982 (outstanding amount on April 30, 2.853 million \$ of which 1.557 due to foreign banks and 127 representing arrears on interest payments) and to increase slightly the level of its reserves.

The debt service payments in convertible currencies will remain high in 1983, 1984, 1985.

	(billion \$)				
	1982	1983	1984	1985	1986 and after
principal	4.3	1.4	1.0	1.2	2.2
interest	1.1	0.7	0.5	0.4	0.7

Under the standby assumptions for the new inflows of capital, Romania would have furthermore to register a balance on current account in 1983 and a surplus of around 400 million in 1984 and \$650 million in 1985.

8. In addition to the simplification of the exchange rate system, the new Fund's program aims through strict income, prices, investment, fiscal and monetary policies, at a domestic demand management consistent with the external constraints. It implies a new deceleration of the rate of growth of consumption and an average increase in 1982 and 1983 of 3% for aggregate domestic demand and 5% for GNP. Like the 1981 program, it will use the following quantitative criteria:

- quarterly limits on net domestic assets of the banking system
- quarterly targets for trade balance and international reserves
- semi-annual limits on short term debt

where the quantified criteria governing the balance of payments are used as a proxy of the main instrument, the annual plan.

II The Views of Commercial Banks and of the Romanian Authorities

A. Commercial Banks

9. In discussion with commercial banks in New York, London, Frankfurt, Vienna, Zurich, Paris and Amsterdam, emerged some

Continued/...

common features in commercial banks' attitude toward Romania (see annex).

There is a general feeling that the Romanians have "brought problems upon themselves" through a poor debt management, a "stupid" debt profile, an inadequate level of reserves. In addition, the lack of information, the default on a foreign exchange contract, the use of joint banks (Banque Franco-Roumain) to finance Romania on the interbank market without the knowledge of the other shareholders⁽¹⁾, the protracted negotiations have severely and lastingly damaged the image of Romania in the banking community. No bank contemplates increasing its exposure unless under export-guaranteed schemes. Some of them are provisioning their claims on Romania and some consider that a new rescheduling will take place in 1983.

10. As far as medium term prospects are concerned there are more contrasting views. Some, notably in Vienna and Paris, trust the ability of the heavily centralized Romanian system ("command economy") to impose the reduction in the standard of living which is needed to overcome the present difficulties and to restore credit worthiness, by fulfilling the rescheduling agreement. Others, notably in New York and Frankfurt, stress the inadequacy of structural policies (energy, agriculture, export created projects), the overall incompetent bureaucratic management and the inability to adapt the economy to changing circumstances through market-related mechanisms.

B. The Romanian Authorities

11. The Romanian authorities in the Treasury and in the Bank for Foreign Trade recognise that they have mismanaged their external debt: inadequate level of reserves; inadequate flow of information; insufficient monitoring of short term buyers' credits; use of interbank short term credits to avoid the cost associated with medium term borrowings; inadequate maturity profile through the rapid increase in short term indebtedness starting in 1977 and the peak in repayments falling due in the second part of 1981. They recognize as well that they have reacted too late to adverse external developments thought to be temporary, and that they should have initiated earlier discussions with their bankers. They know that in 1982 and 1983 they will be able to find only short term credits

(1) At the same time as it was suffering withdrawals of funds by American banks and BCEN, Banque Franco-Roumain, under a Romanian manager, used its credit line with its French shareholders to extend new loans to Romania on the interbank market.

(crude oil facility in 1982, suppliers' credits) and that, beyond, they will have to regain access to international markets by restoring confidence (fulfillment of the rescheduling agreement, serious and viable programs, use of project-financing and co-financing techniques.)

12. At the same time, the discussions in Bucharest did not give any indication that the Romanians in view of the failure of past policies, are contemplating major changes in their overall monitoring system.

They stress the new priorities in investment (oil exploration, energy conservation, irrigation, export-oriented projects) but continue to rely on detailed centralized planning and are not contemplating, for instance, joint ventures in oil exploration. The interposition of Foreign Trade Enterprises between the external world and productive entities continues to dissociate internal and external developments, while some progress has been made through the move towards a unification of exchange rate and a more realistic price structure.

As far as the National Bank is concerned, it continues to rely on quarterly credit plans determined with technical ministries, supplementing the resource of the enterprises according to the production plans. The overall monitoring is ensured by discussion of the credit plan with the Ministry of Finance and the Central Committee for Planification and by the surveillance of the currency issue ("cash plans" as a "balance between the wages fund plus other income and the merchandise fund"), without any reference to the role of interest rates (i) or to the active promotion of savings. The aptitude of monetary instruments to adapt the economy to external changes should therefore remain quite limited.

III Fund's Policies

13 The Fund was facing major difficulties in drafting a program for Romania. The available information was insufficient, the economic instruments were heavily using central-planning techniques without reference to market mechanisms and yet the Fund had to show, in conformity with its articles, that it stood ready to help its member countries whatever their domestic system. The Fund, in planned economies, is facing a dilemma; either it uses the standard instruments like credit ceilings with a limited meaning or it uses the instruments used by the country itself but there is then no built-in incentive to move in the direction of market-oriented mechanisms. The use of external

(i) The standard interest rate is 5%. For the selection of investments, however, an internal rate of return is also used (10% - 12%)

quantitative criteria for the Fund's program was a good substitute for other criteria but may have appeared as not putting sufficient emphasis on the needed internal changes and was, to that extent, criticized by several bankers. In addition, in retrospect, it was unfortunate that due to the delays between the staff mission and the Board action, the stand by was approved in June 1981 when arrears were already occurring. More intimate contacts with bankers, informed by their customers, might have been of help.

All bankers, on the other hand, praised the role played by the Fund staff in the negotiations in 1981 on the rescheduling agreement which in their view might constitute a model for the role of the Fund in other countries.

14. As far as late 1982 and 1983 are concerned, the Fund will have to take a decision before the release of SDR 330 million (100% of quota) at the end of 1982, on the basis of a new review of economic developments in Romania.

Under the terms of the Paris Club agreement (80 per cent of interest, arrears and principal due by December 31, 1982 rescheduled, but short term credits not covered by the agreement) and of the contemplated agreement with the banks, Romania will have to repay before the end of 1982 \$844 million to be compared to financing flows of about \$700 million while the level of reserves is extremely low (\$350 million).

In 1983, meeting the debt falling due would involve capital outflows of about \$ 2 billion, which would imply, beyond the amounts provided by the IBRD and the IMF, an inflow of capital of \$1.25 billion associated with a current account surplus of \$0.35 billion and a much higher current account surplus if the capital inflows contemplated by the Romanians were not materializing. A new rescheduling in 1983 cannot be excluded and the Fund would have to assess :

- the appropriate timing of the purchase under the stand by agreement in relation with the timing of the successive rescheduling agreements.
- the additional adjustment measures which would be required to meet the new external constraints.

Continued/...

15 Romania is still facing major difficulties in the years to come. In monitoring its program, the Fund will have to pay close regard to the gradual introduction of more market-oriented mechanisms, notably interest rates; and, in relation with the World Bank, which might in due course contemplate a structural adjustment loan, to more fundamental changes in the allocation of resources and the selection of investments. But it is clear that such an evolution cannot be disassociated from the overall political evolution of the country.

71

Romania : The Views of Commercial Banks

New York

- Bankers Trust - lack of credibility of Fund's program; protracted negotiations cut the ability to borrow.
- Morgan, - lack of information; breach of faith; poor
Manufacturers debt management; no new credits from
Hanover, American banks.
Chase, Chemical
- Citibank - very limited exposure

(N.B. Wharton : the first IMF program was questionable; there should have been prerequisites in the field of agriculture, energy and domestic pricing.)

London

- Lloyds - the Romanians have been "stupid in their debt profile" and by their attitude have hurt normal trade credit relations; rapid reduction of short term lines; a liquidity crisis hurting some small banks in Central Europe; an economic ability to overcome the crisis.
- Midland - "They have brought problems upon themselves" and have not played the game (exchange transactions)
- Barclays - positive role of the Fund in negotiations; liquidity problems in 1982 and 1983.

Frankfurt

- Deutsche Bank - absence of information; no competent management; after rescheduling, stalling for a long period
- Dresdner Bank - limited relations; all lines cut
- Commerzbank - "immediate adverse consequences when they did not fulfill their part of a foreign exchange deal"; problems will remain in 1983 but Romania is not Poland.
- B f G - all the lines are cut.

(N.B. Bundesbank: structural problems (agriculture, oil industry); incompetent management; a need to improve exports performance; the situation might deteriorate further).

Vienna

Creditanstalt - all credit lines interrupted

(N.B. Institute for Comparative Economic Studies: liquidity gap; a new worsening of the debt position likely in view of the increase in convertible currency oil imports).

Zurich

UBS - unreliable data
- operations will be resumed only if they stick to the rescheduling agreement

SBC - default on foreign exchange contract

Paris

Societe Generale - improvement not excluded but credits interrupted and provisions against risk (60%)

Credit Lyonnais - the 1982 rescheduling will have to be supplemented in 1983
- the present financial program is over-optimistic but a capacity to overcome difficulties (centralized system, relations with Soviet Union)
- difficulties in the implementation of new credit for the Citroen plant
- a fundamental lesson; commercial banks with borrowers should be henceforth avoided (e.g. Banque Franco-Roumaine, Anglo-Romanian Bank)

BNP - Banque Franco-Roumaine an aggravating factor; withdrawals of funds by Comecon banks and BCEN: additional involvement of French shareholder banks; abusive utilization for loans to Romania

Amsterdam

AMRO - improper behaviour

Algemene - "distressed by data"; co-financing operations not excluded.

P. Mentre



Office Memorandum

2

September 9, 1982

MEMORANDUM TO FILES:

Subject: Meeting with Manufacturers Hanover Trust

On Wednesday, September 1, Mr. Tyler, Ms. Salop and I attended a luncheon meeting in New York City with representatives of Manufacturers Hanover Trust (MHT) (Messrs Myer and Ceuvorst) to discuss lending prospects for Romania. The main points made in the discussion were as follows:

1. The MHT representatives expect that the 1982 rescheduling agreement could be signed by November. About 70 per cent of the banks involved have so far reacted favorably and MHT is confident that the remaining 30 per cent "can be brought into line."
2. MHT continues to have an extremely poor opinion of the competence and attitude of the Romanian authorities vis-a-vis the international banking community. While the worst incidents of last year have not been repeated, nevertheless only wholesale changes in the Romanian Bank for Foreign Trade (and to some extent the Ministry of Finance)--which are unlikely--could serve to improve significantly a highly negative atmosphere. Questions of emotion and politics were dominating sober economic analysis in the minds of bankers associated with Eastern Europe at the moment, and the Romanian problem was being exacerbated by the uncooperative approach of the authorities.
3. Against this background, MHT does not see any prospect of banks individually undertaking financial lending to Romania in 1983. Only if the banks were collectively pressurized by an outside agency (e.g., the IMF) might there be the possibility of significant gross inflows. In view of this, MHT expects that there will have to be a 1983 rescheduling and this prospect does not seem to greatly disturb them.
4. MHT has the impression that there may be some suppliers credits granted in 1982 although they do not have any precise information regarding commodities or amounts. The outlook for 1983 in this area is equally uncertain.

Donal Donovan *DD*
Economist

Stand-By Policies Division
Exchange and Trade Relations Department

cc: Messrs. Finch ✓
Whittome ✓
Tyler
Brau
Hemphill
Ms. Salop



Office Memorandum

10

MEMORANDUM FOR THE FILES

September 2, 1982

Subject: Romania

The Managing Director met with the Romanian delegation this evening. In this note I report only points not raised during this afternoon's meeting.

The Minister began by explaining that dates for the bilateral meetings with 10 governments under the umbrella of the Paris Club had already been agreed and he hoped that by the middle of this month dates would have been fixed for the remaining meetings. As regards the banks, he said that after ten rounds of negotiations, the last having taken place on August 26 in Paris, there now existed a draft agreement between the Yugoslavs and the nine main banks. This draft agreement would have to be approved by other banks. He also said that there would be another meeting shortly in Frankfurt between the banks headed by the Bank of America and the Romanians. It seemed from his description that a lot of this was pro forma though the precise agreement on the treatment of suppliers' credits had not yet been made known to the banks other than the main nine. The agreed treatment was that the Romanians were committed to maintain the volume of suppliers' credit debt unchanged at their March 31, 1982 level for three years with a possible swing allowing it to fall by a maximum 20 per cent.

The discussion then turned to the end-1982 position and what had occurred that made this position seem worse, and also the prospect for 1983. This discussion covered very much the same ground as this afternoon's meeting though in answer to a direct question, the Romanians said that their free foreign exchange reserves amounted to about \$350 million. In the way this figure was produced, I suspect it must be, if anything, at the top end of the range.

As a result of these discussions, the Managing Director withdrew the objections he had written on the briefing paper and adopted the line that we had advocated. He said that it was clear to him that we should not enter a revised agreement at the end of 1982 if the prospects for 1983 were not manageable. A further distinct improvement in the balance of payments in 1983 was required and this had to be attained irrespective of whether or not it implied a bleak picture for domestic demand. He went on to say that the Romanians would have to seek a large surplus on their current account in convertible currencies in 1983. In assessing the amount of this surplus, he argued that it would be right to take a pessimistic assumption as regards the availability of trade credits. He said that he fully understood that to achieve such a result would require more severe measures than those already envisaged. Although he did not quote figures, his words seemed to imply that he was contemplating a surplus adequate to cover all capital payments plus some build up in reserves account, in other words a surplus of an amount in the range of \$1 1/4 to \$1 1/2 billion and based on somewhat pessimistic assumptions.

A point also arose in discussions with the World Bank. They said that the Romanians had for several months not been making full use of their borrowing possibilities from the Bank and that we may, therefore, have projected too high figures for Bank disbursements in both 1982 and 1983.

L.A. Whittome
(Dictated from Toronto 9/3/82)

cc: Mr. Finch
Mr. Tyler

ROMANIA

Notes for Departmental Discussions with the
Romanian Delegation

Economic issues

1. Progress of debt rescheduling discussions.
2. Availability of foreign exchange to meet various downpayments and eliminate arrears by end of year.

Administrative matters

1. Review mission to visit Bucharest shortly after Annual Meeting.
2. Congratulate them on expanded IFS coverage. Raise question of circulating consultation reports and REDs to GATT secretariat (Romania is only member of Fund and GATT whose papers have never been sent.)
Would they agree to our forwarding 1982 RED?
3. They may raise question of replacement on staff for Mr. Simon.

ROMANIA

Special Brief for the Managing Director's Meeting
with the Romanian Delegation

Personalities: Mr. Petre Gigea is Minister of Finance and Governor of the Fund and the Bank. Mr. Popescu is President of the Investment Bank. Mr. Eremia is President of the Foreign Trade Bank.

Points for discussion: On June 21, the Board approved the program for the second year of the stand-by and authorized a token resumption of purchases of SDR 10 million. The phasing of the remaining SDR 585 million (159 per cent of quota) to be made available during the second year is to be determined at the time of the Board's review of current debt rescheduling operations. In preparation for this review, which will likely take place in November, a staff mission will visit Bucharest in September. You may wish to:

- (i) inquire how the debt rescheduling discussions are proceeding
 - (a) with the commercial banks, and (b) with the Moscow banks, Arab central banks, and suppliers.
- (ii) note that the rescheduling of official debt under the Paris Club provides less relief than had been assumed in the program and thus will necessitate a stronger adjustment effort in 1982.
- (iii) note that the maximum possible drawings from the Fund in 1982 (\$385 million) will cover only about half of the downpayments that Romania must make on the various reschedulings. How do the authorities expect to meet the balance? It is essential that they should.

August 1982

Brief for the Thirty-Seventh Annual Meeting

Exchange rate: Romania maintains a multiple exchange rate system which is in the process of being greatly simplified. The main commercial rate is pegged to the U.S. dollar at the rate of lei 15 per US\$1. In 1981, 28 additional commercial rates applied, but at the beginning of 1982, the distribution of these rates was narrowed and the number reduced to 14. There is to be further simplification in 1983, with full unification of the commercial rate by mid-1984. Unification of the commercial and noncommercial rates is expected only later.

Quota: SDR 367.5 million.

Fund position: In June 1981, a three-year stand-by arrangement for SDR 1,102.5 million or 300 per cent of quota was approved. Purchases under the program were interrupted by the development of payments arrears in the autumn of 1981. The second year of the program was approved on June 21, 1982, and a token purchase of SDR 10 million was authorized. Further purchases are contingent on satisfactory arrangements for the rescheduling of arrears and credits falling due in 1982. As of August 31, 1982, the Fund's holdings of Romanian lei amounted to 233.3 per cent of quota, or 141.1 per cent excluding CFF purchases.

Last consultation: June, 1982; mid-term review discussions are scheduled for late September, 1982.

Political developments and personalities: Broad changes in top-ranking personnel--including the Prime Minister and the Minister for Foreign Trade--have accompanied the deteriorating external position. The Minister of Finance and the President of the Romanian Bank for Foreign Trade, both having been appointed in 1981, have been spared.

Mr. Petre Gigea is Minister of Finance and Governor of the Fund and Bank. Mr. Popescu is President of the Investment Bank and Mr. Eremia is President of the Foreign Trade Bank.

Balance of payments and reserves: Developments in the past year have been dominated by the abrupt turnaround in Romania's capital account. In 1981, the capital account in convertible currencies showed a deficit of US\$0.6 billion, in contrast to a programmed surplus of US\$1.7 billion. As a result, imports were cut and the current account deficit in convertible currencies reduced to US\$0.8 billion (1.3 per cent of GNP), in contrast to a programmed deficit of US\$1.8 billion (3.0 per cent of GNP). Even so, external payments arrears amounting to US\$1.1 billion had built up by the end of the year. In 1982, the capital account is again expected to be weaker than originally foreseen. Correspondingly, the current account in convertible currencies is now projected by the staff to be in approximate balance, in contrast to a programmed deficit of US\$0.45 billion. Gross reserves (gold valued at SDR 35 per

ROMANIA

ounce) at the end of June, 1982 totalled about SDR 0.5 billion, equivalent to 4-5 weeks' imports of goods paid for in convertible currencies. External convertible currency debt at the end of 1981 totalled SDR 9 billion, equal to 16 1/2 per cent of GDP.

Official and officially-guaranteed debt was rescheduled under the aegis of the Paris Club on July 28, 1982. Thereby 80 per cent of interest, arrears, and principal on medium- and long-term debt due by December 31, 1982, and unpaid is to be rescheduled over six and one half years with three and one half years grace, at interest rates based on market rates. With respect to debt service due to the commercial banks, the Romanians are awaiting a response to their proposal that the banks reschedule 80 per cent of principal and arrears on all bank debt due and unpaid in 1982, over six and one half years with three years grace, at an interest rate of 1 3/4 per cent over LIBOR and a front-load fee of 1 per cent.

Domestic developments: Real GNP grew by 2.7 per cent in 1981, reflecting the second consecutive year of very poor outturns in agriculture and the large reduction in imports from the convertible area--down 13 per cent in value terms from 1980. The decline in such imports has continued into 1982, and for the first four months of 1982 they were 28 per cent lower than in the same period of 1981. In May, the authorities contended that bottlenecks were not a problem, but this cannot continue to be the case. During the first quarter net industrial production grew at an annual rate of 1.8 per cent. The staff now expects real GNP growth in 1982 to be in the 1-2 per cent range, compared with the original program projection of 3.8 per cent.

August 1982

**SPECIAL DELIVERY
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ATTENTION MR. GEOFFREY TYLER
INTERNATIONAL MONETARY FUND
WASHINGTON, DC

WE THANK YOU FOR YOUR CABLE OF AUGUST 27 AND WE INFORM YOU THAT
WE ABREE WITH YOUR SUGGESTIONS. WE ARE WAITING FOR YOUR MISSION
ON WEDNESDAY SEPTEMBER 22

BEST REGARDS
STELIAN MARIN

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INTERNATIONAL MONETARY FUND

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AUG 31 1982

August 30, 1982

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE *WBD*

SUBJECT: Romania - Briefing Paper for Review of Stand-by

I do not disagree with the cautious and circumspect line taken in the attached brief, but the top half of p. 11 worries me. Surely, a further rescheduling for 1982 cannot be a serious prospect, and yet it is quite possible - perhaps likely - that the required cash payments cannot be made.

I have a few damned questions on p. 7. It is out of question to negotiate on what the agreement for 1982 is or what the link is with the banking community in at stake.

WBD
Sept. 1, 82

From: Office of Managing Director September 1/82

To: Mr. Whittome

Subject: Romania - Briefing Paper for Review of Stand-by

I have a fundamental question on page 7. It is out of the question to negotiate the rescheduling agreements for 1982, on which the ink is not yet dry! Our authority vis-à-vis the banking community is at stake.

page 7 - that would be virtually impossible. Why didn't we tell the Paris Club and the banks that the 950 were out of question? Didn't we know these amounts?



Office Memorandum

1

To: The Managing Director
The Deputy Managing Director ✓

August 30, 1982

From: L.A. Whittome *LAW*

Subject: Romania--Briefing Paper for Stand-By Arrangement

WHD

see my comments

I attach the above draft brief. It has been cleared with Mr. Kenesa-Thanan (ETR), Mrs. Lachman (LEG), Mr. Cutler (TRE), and Mr. Artus (RES).

We face an unusually difficult and uncertain situation in Romania and must be extremely circumspect in our approach. The first paragraphs of Section V on the attached brief summarize the reasons for our misgivings. It is possible, given the paucity of recent information, that the position is better than is described in these paragraphs and the rest of the brief is indeed written on this assumption.

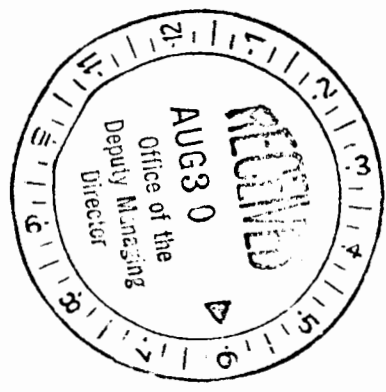
In order to help us judge the position, I think it important that the members of the mission before arrival in Bucharest seek broad contacts with the banks, export credit agencies, and governments of the Western countries mainly involved. If our initial pessimism seems justified, then we shall face difficult decisions. It seems to me not to be in the interests of Romania, its Western creditors, or the Fund to release drawings on the existing stand-by that proved, combined with other resources available to Romania, to be insufficient to cover the payments due in 1982. If 1982 can be weathered but 1983 demands a further set of reschedulings, we shall have to decide after the mission's return the basis on which we could support Romania, including any further purchases in 1982, and whether we should appropriately do so under the existing stand-by.

yes

As of now, we have some time to play with since it is unlikely that the agreement with the banks will operate before December at the earliest. However, if we have to deal with 1983 reschedulings then the sooner the process starts the better and we shall need to make up our minds as to how to act very soon after the mission's return (mid-October).

Attachment

cc: Mr. Carter



INTERNATIONAL MONETARY FUND

ROMANIA

Briefing Paper - Review of Stand-by Arrangement

Prepared by the European Department

Approved by L. A. Whittome and S. Kanesa-Thasan

August 30, 1982

I. Introduction

A staff team headed by Mr. Tyler (EUR) and including Mr. Donovan (ETR), Mr. Hempill (EUR), Ms. Salop (EUR), and, as secretary, Miss Adams (EUR) will visit Bucharest from September 22 to October 14, 1982 to review developments in the economy and performance under the stand-by arrangement. The mission will also discuss with the authorities the situation with respect to the reschedulings of outstanding payments arrears and debt repayments falling due in 1982.

On June 15, 1981 the Board approved a stand-by arrangement for SDR 1,102.5 million (300 per cent of quota), intended to be equally divided over three years. Before the second drawing could take place, the program was interrupted by the emergence of payments arrears which suspended further drawings and left SDR 227.5 million (62 per cent of quota) undrawn from the first year of the program. On June 21, 1982 the Board approved the program for the second year of the stand-by and authorized a token initial purchase of SDR 10 million. The phasing of the remaining SDR 585 million (159 per cent of quota) to be made available under the second year of the stand-by arrangement is to be determined at the time of the Board's review of the rescheduling arrangements

which is likely to take place in mid-November; at the November meeting,
the Board will also have the opportunity to review recent economic
developments and the changes in the program that have been necessitated
by revisions to the forecast capital inflow. As of August 15, 1982
Fund holdings of Romanian lei were SDR 867.5 million or 236 per cent
of quota (see Annex).

II. Background to the Discussion

The decision taken at the time of the Board's June 21, 1982
consultation and review of stand-by deferred purchases beyond the
initial SDR 10 million until the "Fund has decided that satisfactory
arrangements have been made for the rescheduling of outstanding payments
arrears and debt payments falling due in 1982." In addition, the
decision stated that there were to be no drawings after November 1,
1982 until after a consultation with the Fund had taken place in the
second half of 1982 to review developments in the economy and under-
standings had been reached, or while such understandings, having been
reached, were not being observed. Under the present timetable, it
should be possible, as was suggested by certain Executive Directors, to
combine the two reviews, since the earliest date appropriate for the
Board to consider the rescheduling arrangements falls late enough in
the year to allow for a meaningful review of economic developments in
1982.

the commercial banks in respect of their reschedulings of arrears and short- and medium-term credits due will total about US\$450 million. Proposed drawings from the Fund of US\$385 million (SDR 340 million) will cover only about half the amount associated with these two reschedulings. Furthermore, some additional US\$250 million will be required on downpayments to suppliers, the Moscow banks, and the Arab central banks, if these reschedulings are to be finalized before December 31, 1982 in accordance with the commitments given by the Romanians.

IV. Recent Economic Development

1. Balance of Payments

Developments in the past year have been dominated by the abrupt turnaround in Romania's capital account that began last summer. In 1981, the capital account in convertible currencies showed a deficit of US\$0.6 billion, in contrast to a programmed surplus of US\$1.7 billion. As a result, imports were cut back and the current account deficit in convertible currencies was reduced to US\$0.8 billion (1.3 per cent of GNP), in contrast to a programmed deficit of US\$1.8 billion (3.0 per cent of GNP). Even so, external payments arrears amounting to US\$1.1 billion had built up by the end of the year. In the first four months of 1982, arrears grew to an estimated US\$2.8 billion in connection with the cessation of debt repayments pending the completion of the rescheduling negotiations and by the virtual unavailability of new foreign credits. Over the same period, the current account in convertible currencies showed a surplus of US\$89 million--to be compared with the deficit of US\$450 million originally programmed for the year. In line with this

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3. Exchange and Price Reform

The doubling of the price of natural gas that was to have taken place in two steps--one on October 1, 1982 and the other on January 1, 1983--took effect on July 1, 1982. In combination with large price increases for other fuels and electricity that were effected at the same time, this increase led to a rise in the overall consumer price index of about 1 percentage point for which an unspecified amount of purchasing power compensation is being given to wage earners and pension holders. More recently, the authorities have announced retail price decreases for ready-made clothing, knitwear, and some industrial goods, that should offset about a tenth of the rise in the consumer price index. While the underlying change in relative consumer prices is in a direction that is consistent with the exchange and price reform, in that most products for which prices have been reduced are characterized by above average export exchange rates, it is not clear to what extent, if at all, these price changes have decreased real wages and helped to relieve--what must by now be--considerable excess demand pressure in markets for consumer goods.

V. Scope of the Discussions

The overriding task of the mission is to determine and on its return recommend whether or not the present stand-by arrangement is still viable. There are two possibilities that cause us concern. The first is that Romania may not be able to mobilize the cash needed to make the payments to which it is committed under the various rescheduling agreements governing 1982 debt and arrears. As stated above, we suspect that these payments will total some US\$950 million toward which, if the

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stand-by were continued, a drawing of no more than US\$385 million from the Fund could be available. At mid-year, official reserves were about US\$0.5 billion. If these rescheduling payments cannot be made, the Fund should not consider permitting further purchases under the stand-by arrangement. In that event, new rescheduling discussions would presumably be necessary for 1982 between Romania and the various creditors and only where those were in a suitably advanced and satisfactory stage (and covering 1983 debt as necessary) should we consider again becoming financially involved.

A second possibility is that Romania might manage to get through 1982 but not be in a position to make debt repayments in 1983, except after obtaining further debt rescheduling for that year. Gross capital outflows in 1983 are foreseen to be some US\$2 1/4 billion and there is also the need to increase the level of official reserves at least modestly. Thus the current account surplus and gross new borrowing in 1983 must together come to about US\$2.5 billion. It is inconceivable that this would be covered completely from the current account surplus and capital inflows must make a substantial contribution. If the latter are not forthcoming in sufficient amounts, rescheduling of 1983 debt will be required. If this second possibility seems likely, we shall have to consider whether to release Fund resources late this year and indeed whether the current stand-by would any longer be appropriate. This raises complex questions which would need to be addressed on the mission's return.

The above points are discussed further in the memorandum attached to this briefing paper. The rest of this paper is written on the assumption

*that would
be virtually
impossible.
Why did not
we tell the
200
in 1982
the 950 were
out of 1000?
Did it or know
these amounts?*

in the two preceding paragraphs is altogether too pessimistic. If this is the case, the mission will have two broad tasks. First, it will need to obtain information on which to base the mid-term review of the current year of the stand-by arrangement. In this context a Board paper will be prepared after the mission's return reviewing developments so far in 1982, describing any appropriate changes in the 1982 program, and proposing a phasing for the total amount available for purchase during the remainder of the second year of the stand-by arrangement. Second, the mission will begin discussions, which will be continued during the fall, on economic projections and policies for 1983.

A major element in the discussion of developments so far in 1982 will be the outcome in the balance of payments on convertible currencies. ~~The proposed~~ stand-by program assumed that in 1982 a current account deficit in convertible currencies of US\$450 million could be financed. Because the result of the rescheduling agreements with governments and banks will be less favorable than had been assumed and because additional foreign credits will not offset that deterioration, it is highly likely that the previously projected deficit will need to be eliminated; whether and how large a surplus may be required will depend on the magnitude of actual foreign credits, but the fact that 1982 will be three quarters over by the time the mission holds its discussions heavily circumscribes the possibility of this substantially affecting the 1982 outcome.

The mission will discuss fully with the authorities the latest estimates and forecasts of the capital and current capital accounts in convertible currencies in 1982. In light of these trends, the mission will assess what adjustments are required to the original targets for

will assess what adjustments are required to the original targets for the growth in output and domestic expenditure, to seek to ensure that the domestic projections are consistent with the revised external forecast. It is expected that the revised economic projections will be significantly different from those currently embodied in the 1982 stand-by program. In that event the mission will agree with the authorities ad referendum on the text of a letter to be sent to the Managing Director describing the amended program, including appropriate changes in policies and performance criteria.

During the first months of 1982 convertible exports barely increased, in contrast to the increase of 5 per cent assumed in the program for the whole of 1982. Careful attention will need to be given to the revised forecast for the full year since export performance, given the more-than-likely need to obtain at least balance on the current account in convertible currencies, will determine the amounts by which convertible imports and the level of domestic activity will need to be reduced from the levels assumed in the program. Already over the last 18 months the constraints imposed by external financial markets have forced the economy to operate with a much reduced throughput of convertible imports, which has adversely affected economic activity and contributed to this year's poor showing on exports. The mission must seek to judge to what extent these trends will need to be continued or indeed strengthened and to determine the near- and medium-term policy implications of the reductions in imports.

If the 1982 position is to be correctly assessed, it is essential to have in mind the requirements of 1983. To this end, detailed preliminary discussions will be conducted on projections and policies for

1983. This discussion will be concluded in subsequent meetings toward the end of this year. The mission will also endeavor to make balance of payments projections over the medium term as a guide in the formulation of appropriate adjustment programs for 1982 (revised) as well as for 1983. A basic assumption underlying the projections for 1983 has to be a further improvement in the current account in convertible currencies to a surplus sufficient in the mission's view--after taking account of reasonable and conservative projections for the capital account--to allow for an increase of about US\$150 million in gross official reserves.

Preliminary staff projections for 1983, assuming no rescheduling of 1983 debt payments, show that a surplus in the current account in convertible currencies of between US\$500 million and US\$1,500 million will be needed. Based on its detailed evaluation of the balance of payments outlook, the mission will agree in broad terms with the authorities on appropriate program targets for 1983. Domestic projections must be consistent with the above external ~~external~~ targets, and intensified restraint in domestic expenditure, below the levels earlier projected for 1983, is certainly required. In light of this, the mission will discuss supporting policy adjustments (including, inter alia, wage, price, and exchange rate policies and credit policy) that will be required in order to demonstrate that a meaningful and sustainable adjustment of real domestic incomes and expenditure is taking place. This should help the authorities in deciding on appropriate policy responses well ahead of the final discussions with the staff on the 1983 program later on in 1982.

In discussing financial policies, the mission will require a more active use of interest rate policy in the light of the need to constrain borrowing and encourage voluntary saving and to deter the dishoarding of existing savings deposits. Particularly in the present situation, all interest rates in Romania should be positive in real terms. In this connection, the mission will take the line that the structure of relative prices and the decision-making of enterprises and planners would be more efficient if production costs--and prices based thereon--included a more realistic charge for the use of capital.

The mission will discuss proposed policies for 1983 for the exchange rate. The mission will reiterate the need for a further simplification of the exchange rate system at the beginning of 1983 which is spelled out as a performance criterion for the second year of the stand-by. With respect to the method of determining the level of the exchange rate, the mission will inform the authorities of the strongly held view of both the Executive Board and the staff that a less rigid system is required. Citing the past year's appreciation of the U.S. dollar vis-à-vis the currencies of Romania's other major trading partners, the mission will suggest that a currency basket would seem more appropriate than the present peg to the dollar. It will also argue that the effective appreciation of the leu since the devaluation of January 1, 1981 and the need to have a competitive external sector indicate a need for an early and significant devaluation of the effective exchange rate. A devaluation of about 20 per cent vis-à-vis the U.S. dollar would restore the real effective exchange rate to the level it attained just after the exchange rate change of January 1, 1981. The mission will

need to judge whether a return to the position of early 1981 is adequate given the need to move the current account into substantial surplus.

The effects of any change in the exchange rate would have to be reflected in a change in relative prices of traded and nontraded goods and should not be subject to wage compensation.

In a more general area, the mission will discuss with the authorities the way in which the economy is adjusting to the economic reforms that have now been operating for more than one and a half years. In particular, it will discuss to what extent there has been an effective increase in the devolution of decision making to enterprises and how the latter are reacting to the reformed prices and exchange rates. If the official line is that such a devolution of decision making continues to be under way, the mission will then query how the adjustment to a sharply better than planned current account position has been achieved. The mission will also discuss the effects of the reformed prices and exchange rates on the structure of production and investment.

As mentioned earlier, when the rescheduling agreements become operative, substantial downpayments will be required. The mission will ascertain the size and incidence of these payments and will carefully assess whether the likely flows of foreign receipts and payments will have permitted sufficient resources to have been accumulated to meet these payments in the light of the existing level of reserves and available Fund resources. Only if the mission is satisfied that this downpayment can be met while still leaving an adequate level of reserves, and a broad agreement is reached on the targets for 1983 and the nature of the required supporting policies, will the mission inform

the authorities that management's intention is to recommend to the Executive Board that the initial purchase (after Board completion of the review) be SDR 340 million. This equals the SDR 217.5 million not purchased from the first year of the stand-by arrangement plus one third of the amount available for the second year. The proposed initial purchase in November of SDR 340 million (equal to 92.5 per cent of quota) would be exceptionally large by normal Fund practice. However, because the purchase in June was limited to a token amount of SDR 10 million, total purchases in the first half of the stand-by year ending June 1983 would equal 60 per cent of the total for the year, a ratio which would be consistent with normal phasing. Moreover, the original proposal presented to the Board in June 1982 provided for an even larger total purchase in the first half of the year.

The mission will also insist on being kept informed on the status of the reschedulings of suppliers' credits and payments due the Moscow banks and Arab central banks; if no agreements have been reached in respect of these payments, the mission will assume in its projections that these debts will be rescheduled under terms essentially comparable to those applying to the debts owed to Western governments and banks, as indeed is provided for in the understandings between Romania and its Western creditors.

Fund Relations with Romania

(August 15, 1982)

Date of membership:	December 15, 1972
Quota:	SDR 367.5 million
Status:	Article XIV
Fund holdings of currency:	SDR 867.5 million (236 per cent of quota), which includes SDR 338.8 million (92 per cent of quota) under compensatory financing and SDR 58.7 million (16 per cent of quota) under enlarged access
SDR position:	Current balance is SDR 0.1 million of the net cumulative allocation of SDR 76.0 million
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	US\$30.16 million
Gold distribution (four distributions):	162,589.303 fine ounces

Table 1: Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

Country	Date of Approval ^{2/}	Type of Arrangement	Amount of Arrangement	Current Program Year 1/ (Per cent of quota)					(Per cent of GDP)					
				Fund Credit Outstanding at Beginning Current Program Year ^{3/}	Proposed Purchases During Current Program Year	Overall Balance			Current Account Deficit ^{4/}			Overall Budget Deficit ^{4/}		
						Pre-vious Year	ori-ginal Tar-get	Cur-rent Tar-get	Pre-vious Year	ori-ginal Tar-get	Cur-rent Tar-get	Pre-vious Year	ori-ginal Tar-get	Cur-rent Tar-get
Romania	6/81	SB	300	139	162	-324	-72	-198	1.3	2.8	0.6	-1.2	...	-2.6
Comparator Countries														
India	11/81	EFF	291	52	105	-126	-118	-98	2.4	2.0	2.1	6.0	6.6	5.6
Pakistan	11/80	EFF	297	186	94	-98	-65	-106	5.0	5.2	5.4	5.3	3.8	5.0
Peru	6/82	EFF	264	107	57	-209	...	-35	8.1	...	6.0	8.2	...	4.2
Turkey	6/80*	SB	417	381	130	-16.5	-8.3	8	4.0	3.0	2.5	6.5	4.0	5.0
Yugoslavia	1/81	SB	400	190	133	-81	...	-123	1.2	...	0.8	0.1	...	-0.1

Sources: Board papers; and staff estimates.

^{1/} Current program year refers to the year for which the program is to be negotiated, or the program currently in operation. Original targets refer to targets established in original multiyear arrangement. At the beginning of an arrangement current target refers to original target. When targets have been specified under a program to be canceled and a new program is under consideration, original targets refer to the old program.

^{2/} Date of approval of current arrangement. If followed by (*), current annual program under negotiation.

^{3/} Fund credit outstanding, excluding CFF, cereal, oil, and buffer stock facilities, as a per cent of quota prior to beginning of current program year.

^{4/} Net of official transfers. Values may not coincide with those in staff papers, due to different definition used for intercountry comparison.

Table 1 (Concluded): Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

Country	Date of Approval <u>2/</u>	Type of Arrangement	Current Program Year 1/										Actual Debt Service Ratio <u>4/</u>	Actual Reserves/Imports <u>5/</u>
			(Per cent per year)						(Per cent of M2)					
			Real GDP Growth			Inflation			Domestic Credit Expansion <u>3/</u>					
			Pre-vious Year	Ori-ginal Tar-get	Cur-rent Tar-get	Pre-vious Year	Ori-ginal Tar-get	Cur-rent Tar-get	Pre-vious Year	Ori-ginal Tar-get	Cur-rent Tar-get	Cur-rent Tar-get		
Romania	6/81	SB	2.7	6.7	3.8	3.5	...	11.2	13.5	...	8.8	22	4	
<u>Comparator Countries</u>														
India	11/81	EFF	5	4.8	5	1.9	9.0	8.0	21.0	21.2	22.2	10	16	
Pakistan	11/80	EFF	6.1	5.8	6.2	10.0	10.0	10.0	17.3	20.3	7	
Peru	6/82	EFF	3.9	...	4.0	75.8	...	60.8	69.4	...	44.8	47	23	
Turkey	6/80*	SB	4.5	11.5	4.5	42.0	25.0	33.0	49.0	...	28.0	24	9	
Yugoslavia	1/81	SB	1.6	...	2.5	39.2	...	15.0	22.2	...	17.4	21	5	

Sources: Board papers; and staff estimates.

1/ Current program year refers to the year for which the program is to be negotiated or the program currently in operation. Original targets refer to targets established in original multiyear arrangement. At the beginning of an arrangement current target refers to original target. When targets have been specified under a program to be canceled and a new program is under consideration, original targets refer to the old program.

2/ Date of approval of current arrangement. If followed by (*), current annual program under negotiation.

3/ Domestic credit or NDA expansion as per cent of broad money outstanding at beginning of period, unless otherwise specified in the program.

4/ Data for most recently available year. Debt service (contractual amounts, net of rescheduling and including Fund obligations) as a percentage of exports of goods and services.

5/ Data for most recently available year. Gross official reserves in weeks of imports.

Table 2: Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

Country	Date of Approval <u>2/</u>	Type of Arrangement	Year Preceding Current Program Year 1/												(Per cent of M2)	
			(Per cent of quota)			(Per cent of GDP)						(Per cent per year)				
			Overall Balance		Current Account Deficit 3/			Overall Budget Deficit 3/			Real GDP Growth		Inflation			
			Tar- get	Ac- tual	Tar- get	Ac- tual	Devia- tion 4/	Tar- get	Ac- tual	Devia- tion 4/	Tar- get	Ac- tual	Tar- get	Ac- tual	Tar- get	Ac- tual
Romania	6/81	SB	-36	-324	3.0	1.3	-55.2	--	-1.2	...	6.5	2.7	2.5	3.5	19.6	13.5
Comparator Countries																
India	11/81	EFF	-98	-126	2.0	2.4	0.4	6.4	6.0	-0.4	4.8	5	11	1.9	21.8	21.0
Pakistan	11/80	EFF	-85	-98	5.3	5.0	-0.3	5.3	5.3	--	5.7	6.1	10.0	10.0	17.5	17.3
Turkey	6/80*	SB	-250	-16.5	4.5	4.0	-0.5	5.5	6.5	1.0	3.0	4.5	40.0	42.0	55.0	49.0
Yugoslavia	1/81	SB	...	-81	2.5	1.2	-1.3	0.1	0.1	--	3.2	1.6	20.0	39.2	22.7	22.5

Sources: Board papers; and staff estimates.

1/ Year preceding current program refers to previous year within the arrangement under operation, or year prior to program under negotiation, when applicable. Targets for previous years are only defined when available under an arrangement (including canceled programs) and refer to most recently revised magnitudes.

2/ Date of approval of arrangement in operation during current program year.

3/ Net of official transfers. Values may not coincide with those in staff papers, due to different definitions used for inter-country comparison.

4/ Deviation of actual from original target as a percentage of original GDP target.

5/ Domestic credit or NDA expansion as per cent of broad money outstanding at beginning of period, unless otherwise specified in the program.

Table 3. Romania: Use of Fund Resources: Standard Format for International Comparison Purposes 1/

Type of program: three-year stand-by	Performance:
Year of approval: 1981	Modification: No
Amount in percent of quota: 300	Waiver: No
Per cent of quota drawn in first year of program: 38	Performance criteria not met:
Per cent of quota to be drawn in second year of program: 162	September 31, 1981--Arrears constitute exchange restriction.
	December 31, 1981--Reserves fall below program floor.

	1980	1981		1982	
	Actual	Target <u>2/</u>	Actual	Original target <u>2/</u>	Revised target <u>3/</u>
Objectives:					
Real GDP growth	3.3	6.5	3.0	6.7	3.8
Rate of inflation in consumer prices <u>4/</u>	1.5	2.5	3.5	...	11.2
Current account of the balance of payments <u>5/</u>					
Amount (in millions of U.S. dollars)	-2,399	-1,825	-818	-1,425	-450
Amount (as percentage of GDP)	-4.2	-3.0	-1.3	-1.9	-0.6
Overall balance of payments <u>5/</u> (in millions of U.S. dollars)	-245	-154	-1,388	-308	-847
Policy variables:					
Change in domestic credit or NDA <u>6/</u>	24.7	19.6	13.5	...	8.8
Monetary expansion (money plus quasi-money)	19.0	16.3	15.0	...	9.7
Overall public sector/government <u>surplus</u>					
In billions of lei	2.8	0.0	8.6	...	11.4
As a percentage of GDP	0.2	0.0	1.2	...	2.6
Other indicators:					
Debt service ratio <u>7/</u>	18.4	21.7	22.2	...	21.6 <u>8/</u>
Ratio of reserves to imports (in weeks of imports) <u>9/</u>	3.2	4.4	4.1	4.82	4.98

1/ Information based on the data definitions utilized in the formulation of the program.

2/ Targets or projections included in request for stand-by paper, i.e., EBS/81/111 (6/1/81).

3/ Targets or projections included in review of stand-by paper, i.e., EBS/82/73 (4/29/82).

4/ Not a program target; end of period data.

5/ In convertible currencies.

6/ Percentage change in NDA of the banking system.

7/ Ratio of debt service (contractual amounts, net of rescheduling and including Fund obligations) to exports of goods and nonfactor services.

8/ Net of rescheduled amount.

9/ Gross official convertible reserves in weeks of convertible imports.

Table 4. Romania: Selected Economic and Financial Indicators, 1980-82

	1980	1981		1982
	Actual	Program	Estimate	Program
(Annual per cent changes, unless otherwise specified)				
National income and prices				
GNP at constant prices	3.3	6.5	2.7	3.0
GNP deflator	0.6	4.0	5.8	10.3
Consumer prices	1.5	2.5	3.5	11.2
External sector (on the basis of U.S. dollars)				
Exports, f.o.b.	21.0	16.6	12.2	10.8
Imports, f.o.b.	26.6	11.0	-3.3	8.9
Non-oil imports, f.o.b.	1.5	12.8	1.1	9.8
Export volume	13.0	10.6	4.2	4.8
Import volume	--	5.0	-5.8	5.5
Terms of trade (deterioration -)	-15.8	--	5.1	3.8
Nominal effective exchange rate (depreciation -)	11.3	-10.0	-7.9	--
Real effective exchange rate (depreciation -)	--	-6.5	-7.2	-1.0
Government budget				
Revenue and grants	-12.2	0.6	-6.3	5.1
Total expenditure	-12.1	1.0	-8.5	4.4
Money and credit				
Domestic credit	24.7	19.6	13.5	8.8
Enterprises	5.7	16.3	11.9	5.5
Money and quasi-money (M ₂)	19.0	16.3	20.8	9.7
Velocity (GDP relative to M ₂)	0.8	-0.9	-9.2	5.8
Interest rate (annual rate, one-year savings deposit)	5.0	5.0	5.0	5.0
(In per cent of GDP, unless otherwise specified)				
Overall public sector surplus	+0.4	0.0	+1.2	+2.6
Central Government savings	18.7	13.7	16.2	14.5
Central Government budget surplus	+0.2	0.0	+1.0	+2.6
Gross domestic investment	38.1	38.0	31.4	33.6
Gross domestic savings	36.8	35.6	38.7	41.7
Current account deficit	4.2	3.0	1.3	0.6
External debt (inclusive of use of Fund credit)	16.6	17.5	16.1	15.9
Debt service ratio	18.4	21.7	22.2	21.1 1/
Interest payments (in per cent of exports of goods and services)	11.4	11.6	13.9	15.0
(In millions of U.S. dollars, unless otherwise specified)				
Overall balance of payments	-198	-293	-1,366	727
In convertible currencies	-245	-154	-1,388	847
Current account of the balance of payments	-2,420	-1,945	-833	-567
In convertible currencies	-2,399	-1,825	-818	-450
Gross official reserves (months of imports)	0.73	0.85	0.94	1.15
External payments arrears	--	--	1,143	--

Source: IMF, European and Exchange and Trade Relations Departments.

1/ Net of rescheduled amounts.

Table 5. Romania: Quantitative Criteria for the 1981 and 1982 Programs

	<u>1980</u> Dec.	<u>1981</u> June	<u>1981</u> Sept.	<u>1981</u> Dec.	<u>1982</u> June	<u>1982</u> Sept.	<u>1982</u> Dec.
(In billions of lei)							
Net domestic assets of the banking system							
Ceiling	--	410	423	430	435	445	449
Actual	359 <u>1/</u>	375	394	402 <u>2/</u> 413 <u>2/</u>			
(In millions of U.S. dollars)							
Trade deficit in convertible currencies <u>3/</u>							
Ceiling	--	800	950	1,025	-100	-300	-550
Actual	1,534	437	375	-204			
Gross international reserves in convertible currencies							
Floor	--	550	625	725	450	--	675
Actual	489	586	627	550			
Outstanding short-term debt in convertible currencies							
Ceiling	--	2,075	--	1,725	1,000	--	1,000
Actual	2,124	2,056	--	961 <u>4/</u>			

Sources: Letters of intent to the Managing Director; and data supplied by the Romanian authorities.

1/ Adjusted to take account of the effect on assets denominated in foreign exchange of the change in the commercial exchange rate from lei 18 to lei 15 per U.S. dollar, which took place on January 1, 1981.

2/ 402 on the 1981 program basis; 413 on the 1982 program basis.

3/ A minus sign denotes a surplus.

4/ Including arrears of US\$318 million on short-term banking credits.

Table 6. Romania: Phasing

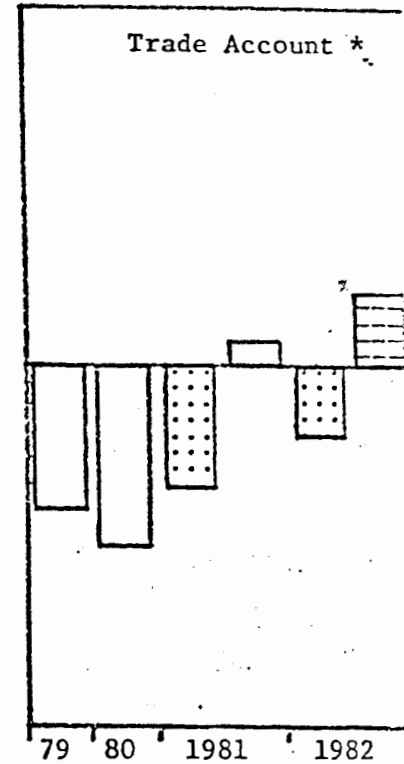
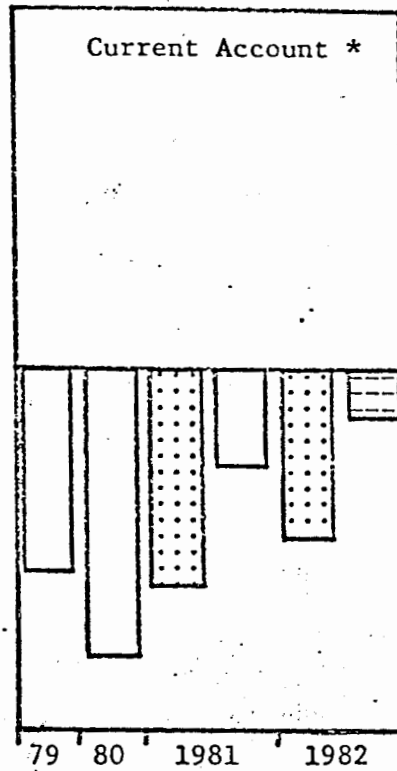
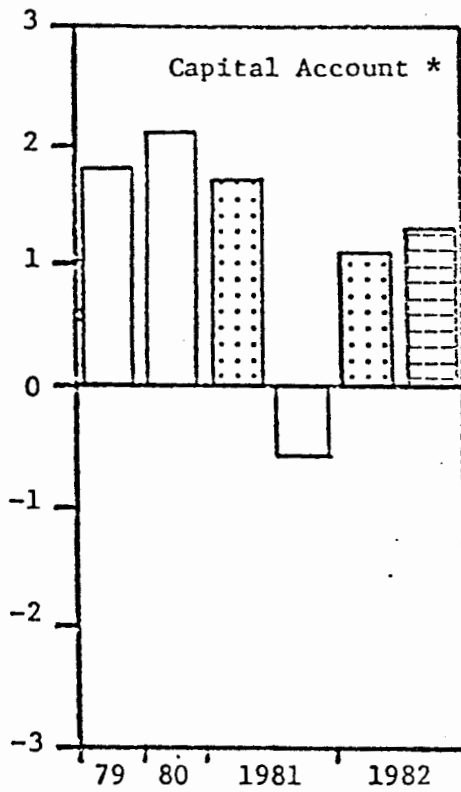
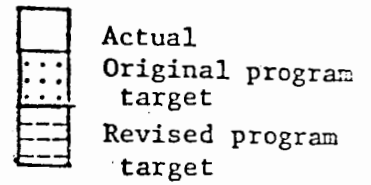
(In millions of SDRs; figures in parentheses are amounts in per cent of quota)

	First Year	Second Year	Third Year	Total	
1. Original phasing and drawings	June 1981- June 1982	June 1982 - June 1983	June 1983- June 1984	June 1981 - June 1984	
Amount available	367.5 (100.0)	367.5 (100.0)	367.5 (100.0)	1,102.5 (300.0)	
Amount drawn	140.0 (38.1)	10.0 (2.7)	-- (--)	150.0 (40.8)	
Amount drawn	227.5 (61.9)	357.5 (97.3)	367.5 (100.0)	952.5 (259.2)	
2. Proposed rephrasing	140.0 (38.1)	595.0 (161.9)	367.5 (100.0)	1,102.5 (259.2)	
	<u>June 1982</u>	<u>Nov. 1982</u>	<u>Feb. 1983</u>	<u>May 1983</u>	<u>Total</u>
3. Proposed drawings of SDR 595 million to be drawn until June 14, 1983	10.0 (2.7)	340.0 ^{1/} (92.5)	122.8 (33.3)	122.8 (33.3)	595.0 (161.9)

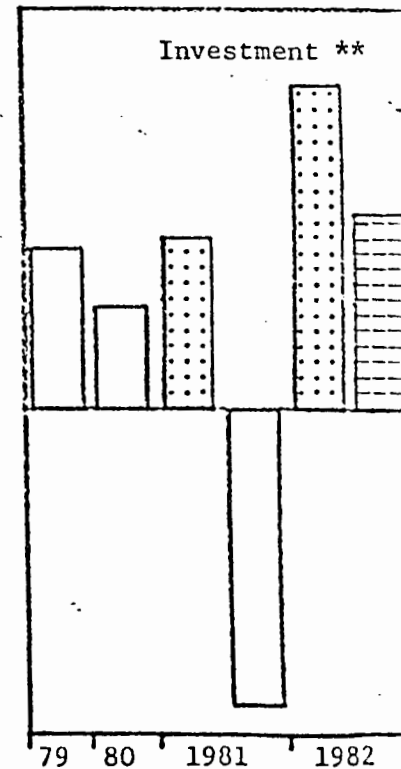
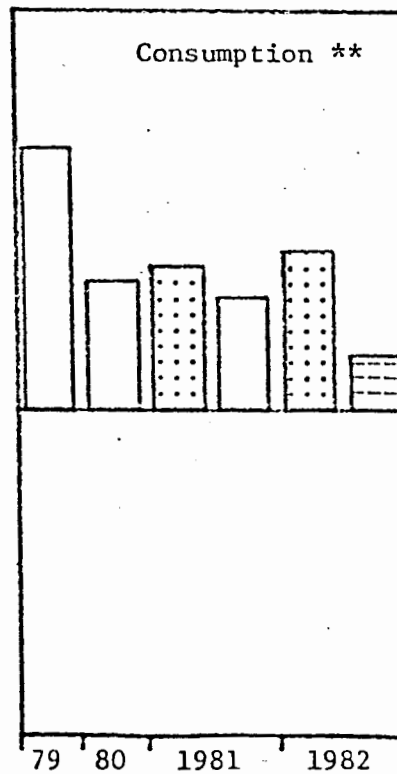
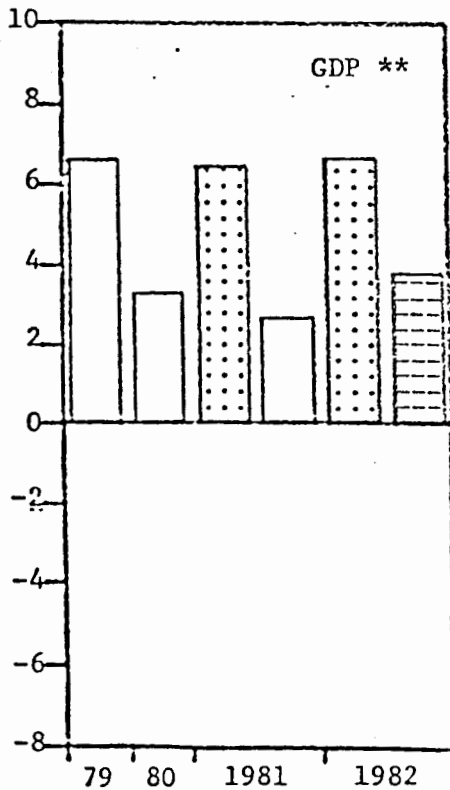
^{1/} I.e., one third of SDR 367.5 million of the second year of the program plus SDR 217.5 million remaining from the first year.

Chart 1. Romania: Program Targets

US\$b



Per cent



* Convertible currencies.

** Rates of growth.

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WASHINGTON, D. C. 20401

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MR. STELIAN MARIN
DIRECTOR, EXCHANGE AND FOREIGN RELATIONS DEPT.
MINISTRY OF FINANCE
BUCHAREST
ROMANIA

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WE CONSIDER IT WOULD BE DESIRABLE FOR MYSELF TO HAVE
INFORMAL DISCUSSIONS WITH SOME COMMERCIAL BANKS AND EXPORT
CREDIT INSURANCE INSTITUTIONS IN THE MAJOR COUNTRIES PRIOR
TO HAVING OUR DISCUSSIONS IN BUCHAREST. YOU WILL REMEMBER
THAT WE DID THIS TO HELPFUL EFFECT ON AN EARLIER OCCASION.
UNLESS I HEAR OTHERWISE I SHALL ASSUME THAT THIS CAUSES
NO PROBLEMS AT YOUR END.

MR. POLAK
MR. HOLE

N
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T

TO PERMIT THE ABOVE VISITS, MISSION WILL ARRIVE IN
BUCHAREST ON WEDNESDAY SEPTEMBER 22. I WOULD BE GRATEFUL
IF YOU COULD ARRANGE FOR ONE SUITE AND FOUR ROOMS AT
INTERCONTINENTAL FOR MYSELF, MS. SALOP, MR. DONOVAN,
MR. HEMPHILL AND MISS ADAMS. I WOULD APPRECIATE
CONFIRMATION THAT THIS ARRIVAL IS ACCEPTABLE.

BEST REGARDS
GEOFFREY TYLER

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SPECIAL INSTRUCTIONS TEXT MUST END HERE

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AUTHORIZED BY NAME (TYLER) GEOFFREY TYLER AUTHORIZED BY NAME (NAME) **

a-s.zim

**SPECIAL DELIVERY
CABLE**

21.8.82

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ORIG: MR. G. TYLER 9-20
CC: MR. POLAK
MR. HOLE

FROM ROMANIAN BANK FOR FOREIGN TRADE BUCHAREST
MR. GEOFFREY TYLER ASSISTANT DIRECTOR EUROPEAN DEPARTMENT

RE: YOUR CABLE ON AUGUST 17 1982
WE AGREE STAFF MISSION ARRIVAL IN BUCHAREST ON SEPTEMBER 20 1982
BEST REGARDS STELIAN MARIN DIRECTOR
EBANKR
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Global Communications

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WASHINGTON, D. C. 20431

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MR. STELIAN MARIN
DIRECTOR, EXCHANGE AND FOREIGN RELATIONS DEPARTMENT
MINISTRY OF FINANCE
BUCHAREST
ROMANIA

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START TEXT HERE

FOR MISSION IN SEPTEMBER WE WOULD LIKE TO HAVE THE

POLAK

FOLLOWING TABLES REVISED AND UPDATED:

HOLE

FROM STAFF REPORT EBS/82/73, APRIL 29, 1982 NUMBERS 9, 10,
11, 12, 13, 14, 15, 16, 17, 18, 19, AND 20.

FROM RECENT ECONOMIC DEVELOPMENTS SM/82/97, MAY 14, 1982
NUMBERS 4, 5, 6, 7, 8, 12, 21, 22, 23, 24, 25, 26, 29, 30,
31, 32, 34, 41, 48, 49, 50, 57, 58.

THE FOLLOWING ARE MAIN AREAS THAT DISCUSSIONS WOULD
COVER:

1. DEVELOPMENTS SO FAR IN 1982 IN DOMESTIC AND EXTERNAL SECTORS.
2. CURRENT STATE OF RESCHEDULING NEGOTIATIONS AND EXTERNAL CASH FLOW POSITION FOR REMAINDER OF 1982 IN LIGHT OF REQUIRED DOWNPAYMENTS OF 20 PER CENT OF RESCHEDULED DEBT.
3. ANY NECESSARY ADJUSTMENTS TO 1982 PROGRAM IF CURRENT ACCOUNT POSITION IS SIGNIFICANTLY DIFFERENT FROM ORIGINAL DEFICIT OF DOLLAR 450 MILLION IN CONVERTIBLE CURRENCIES.
4. PRELIMINARY DISCUSSIONS ON POLICIES AND PROJECTIONS

SPECIAL INSTRUCTIONS TEXT MUST END HERE

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EX 75175 INFO EUR DA 16 AUG. 1982

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ADDRESS (INT) NAME (INT)

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a.s.zw

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

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ROMANIA

PAGE 2

FOR 1983, INCLUDING EXCHANGE RATE POLICY, INTEREST RATE
POLICY, AND PRICE POLICY.

REGARDING TIME OF ARRIVAL OF MISSION, WE PROPOSED
ARRIVING SEPTEMBER 15 TO FACILITATE EARLY PREPARATION OF
BOARD PAPER AND PROPOSED DECISION ON PHASING OF PURCHASES
DURING SECOND YEAR OF STAND-BY IN LIGHT OF NECESSITY TO
HAVE PURCHASE FROM FUND AS SOON AS RESCHEDULING DOWN
PAYMENTS REQUIRED. HOWEVER, IF SEPTEMBER 15 IS TOO EARLY
WOULD ARRIVAL ONE WEEK LATER BE ACCEPTABLE?

MISSION WILL CONSIST OF MS. SALOP AND MESSRS. HEMPHILL
AND DONOVAN IN ADDITION TO MYSELF AND SECRETARY.

BEST REGARDS
GEOFFREY TYLER

SPECIAL INSTRUCTIONS TEXT MUST END HERE

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DRAFTED BY
AUTHORIZED BY
DATE FROM THE ORG.

**

a.s.zh

**SPECIAL DELIVERY
CABLE**

RECEIVED
I.M.F.

1982 AUG 16 AM 7: 53

508060

MR GEOFREY TYLER

CABLE
ROOM

ORIG: MR. G. TYLER
CC: MR. POLAK
MR. HOLE

ASSISTANT DIRECTOR
EUROPEAN DEPARTMENT

RE: YOUR CABLE ON AUGUST 12, 1981XXX 1982

WE AGREE , IN PRINCIPLE, STAFF MISSION
ARRIVAL IN BUCHAREST AFTER SEPTEMBER 15, 1982
BUT BECAUSE WE HAVE NOT YET RECEIVED THE
STATISTICAL MATERIALS IT WOULD BE DIFFICULT
FOR US TO PREPARE THEM IN A VERY SHORT TIME.

BEST REGARDS,

STELIAN MARIN DIRECTOR

11622C BANAG R

248331A IMF UR

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248331A IMF UR

Global Communications

Global Communications

Global Communications

Global Communications

Global



Office Memorandum

August 11, 1982

MEMORANDUM FOR FILES

Subject: Yugoslavia and Romania

I warned Mr. Polak today that in our view the Yugoslav situation was precarious and that the mission would take a very strong line. He said that he was himself discouraged.

I also warned him briefly of the large size of Romania's repayment commitment which would fall due in late 1982.

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

L.A. Whittome

cc: Mr. Tyler
Mr. Dakolias
EED

START ADDRESS IN THE BOX

MR. STELIAN MARIN

DIRECTOR, EXCHANGE AND FOREIGN RELATIONS DEPARTMENT

MINISTRY OF FINANCE

BUCHAREST

ROMANIA

MARK XX FOR CODE

() CODE

DISTRIBUTION

1. DURING MEETING WITH AMBASSADOR MALITA, MR. WHITTOME TENTATIVELY AGREED THAT STAFF MISSION WOULD ARRIVE IN BUCHAREST ON SEPTEMBER 15 FOR DISCUSSIONS REGARDING REVIEW OF STAND-BY ARRANGEMENT. I WOULD APPRECIATE YOUR ADVICE ON WHETHER THIS DATE ACCEPTABLE.

MR. POLAK
MR. HOLE

2. I HOPE TO BE ABLE TO SEND TO YOU SOON A LIST OF STATISTICAL MATERIAL MISSION WOULD REQUIRE AND THE MAIN SUBJECTS MISSION WOULD LIKE TO DISCUSS.

BEST REGARDS,
GEOFFREY TYLER
INTERFUND

SPECIAL INSTRUCTIONS

TEXT MUST END HERE

CABLE ADDRESS

GTYLER:ca

EXCL 75175 DEPT EUR DATE 8/10/82

G. TYLER

SUBMITTED BY NAME (TYPE)

**

4


PLEASE COPY SIGNATURE IN SPACE ALLOWED

SIGNATURE

INTERNATIONAL MONETARY FUND 11 1982

August 10, 1982

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE 

SUBJECT: Report on Romania's External Debt
Renegotiations

I consider this adequate.



The Managing Director
The Deputy Managing Director

August 10, 1982

L.A. Whittome

Report on Romania's External Debt Renegotiations

I attach a copy of the Report on Romania's External Debt Renegotiations for your approval. The paper has been cleared with Messrs. Nicoletopoulos (LEG) and Kanasa-Thanan (ETR).

Attachment

Mr. Carter


INFORMATION COPY

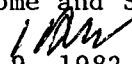
INTERNATIONAL MONETARY FUND

Report on Romania's External Debt Renegotiation

Prepared by the European Department

(In consultation with the Exchange and Trade Relations
Department and the Legal Department)

Approved by L.A. Whittome and S. Kanasa-Thanas 


August 9, 1982

Representatives of Romania and 15 creditor countries 1/ met in Paris under the framework of the "Paris Club" on July 8-9, 1982 to discuss Romania's request for a rescheduling of its external debt service obligations. Members of the Fund staff 2/ and observers from Australia, Denmark, the World Bank, the Organization for Economic Cooperation and Development, and the Commission of the European Communities also attended the meeting, which was chaired by Mr. Michel Camdessus, Director of the French Treasury.

The Romanian delegation outlined the serious economic and financial difficulties faced by its country and the strong determination of its Government to reduce economic and financial imbalances and to reach the targets of the program underlying the stand-by arrangement with the Fund. The Fund representatives, at the request of the Chairman, described the economic situation of Romania and the major elements of the adjustment program undertaken by Romania and supported by the second year of the stand-by arrangement with the Fund approved by the Executive Board on June 21, 1982 (EBS/82/73, 4/29/82; Cor. 1, 6/1/82; and Sup. 1, 6/14/82). The representatives of the governments of the participating creditor countries took note of the measures of adjustment set forth in the economic and financial program and stressed the importance they attach to the continuing and full implementation of this program, in particular the revitalization of the productive sector of the economy and the improvement of foreign exchange management.

In the Agreed Minute, which was signed on July 28, 1982, the representatives of the 15 creditor countries agreed to recommend to their governments or appropriate government agencies a reorganization of the debt service payments on their guaranteed or insured commercial credits and official loans to Romania with original maturities of more than one year and contracted prior to January 1, 1982. The reorganiza-

1/ Austria, Belgium, Canada, Finland, France, the Federal Republic of Germany, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

2/ The Fund staff's representatives were Messrs. Tyler (EUR), Brau (ETR), Amselle (Paris Office), and Ms. Salop (EUR). See EBS/82/160 (6/24/82).

tion applies to such principal and interest payments that are in arrears as well as those that will fall due by December 31, 1982. Eighty per cent of these amounts are to be rescheduled or refinanced and repaid in seven equal semiannual payments beginning on December 31, 1985, i.e., after the end of a grace period of approximately three and one half years. The remaining 20 per cent of principal and interest is to be paid as follows: for credits and interest falling due, as originally scheduled; for arrears, one month after the date of the signature of the relevant bilateral agreement and, in any case, before December 31, 1982. The rate and conditions of interest to be paid in respect of these financial arrangements is to be determined bilaterally between Romania and the government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate.

The above rescheduling provisions apply only to loans from those countries to whom the relevant debt service payments exceed SDR 1 million. The above rescheduling provisions will apply on condition that Romania continues to be able to make purchases under the arrangement with the Fund.

In order to secure comparable treatment of public and private external creditors on their debts, the Romanian delegation stated that its Government will seek to secure from external creditors, including banks and all CMEA financial institutions, rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors. Romania is to accord to each of the participating countries treatment no less favorable than that which it may accord to any other creditor for the consolidation of debts of a comparable term. The Government of the Socialist Republic of Romania undertook to negotiate promptly rescheduling or refinancing arrangements with all other creditor countries on debts of a comparable term and to keep the Chairman of the creditor group informed of the content of the bilateral agreements with all creditors mentioned. The Government of the Socialist Republic of Romania also undertook to pay all debt service due and not paid, and owed to or guaranteed by the governments of the participating creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible, and in any case no later than September 30, 1982.

In response to the request of the Romanian delegation, the participating creditor countries agreed in principle to a meeting to consider subsequently the matter of Romania's debt service payments falling due after December 31, 1982 provided (i) that Romania continues to have an arrangement with the Fund involving the use of Fund resources subject to upper credit tranche conditionality; and (ii) that Romania has reached with banks and other creditors effective rescheduling arrangements.

The representatives of the governments of each of the participating countries and of Romania agreed to recommend to their respective governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth in the Agreed Minute.



Office Memorandum

TO : The Managing Director

DATE: August 6, 1982

FROM : J. J. Polak *JJP*

SUBJECT: Appointment for Romanian Delegation
during Annual Meeting

On behalf of the Romanian authorities I like to request an opportunity for Minister Gigea to visit you in the course of the Toronto meeting.

cc: Mr. Whittome

cc: Lyne

*Can you find a
time before 1/2
they see the MD. If
possible HBJ should
handle
1/16/82 9/8*



Office Memorandum

Mr. Whittred

4

MEMORANDUM FOR FILES

Date: August 6, 1982

Subject: Romania -- Wharton Econometric Forecasting Associates'
Review of Romanian Economic Memorandum

Wharton has published a three-part review of the Romanian Economic Memorandum. In Part I, which provides background information and an overview, it states that the memorandum "represents a major improvement in the availability of key Romanian statistics to Western analysts." In terms of the availability of useful information, Romania is now said to rank above East Germany and Bulgaria, but below Poland, Hungary, and Czechoslovakia. Commenting on the elements of the exchange and price reform, Wharton states that "this strategy may well pay off by solving the external and internal balance problems the Romanian economy faces over the next few years." However, it regrets the apparent lack of major institutional and incentive reforms along Hungarian lines which it says are necessary for improved efficiency.

Part II deals with the balance of payments statistics and projections. Aside from pointing out the overall inconsistency of the current account forecast with the official growth forecasts, which is quantified in Part III, the discussion is a fairly straightforward but abbreviated review of the balance of payments, with legitimate questions raised here and there. The appendix to Part II is devoted to various discrepancies between the different sets of publicly available trade data. Here, however, it appears that Wharton has not done enough homework. For example, questions are raised about the "[conspicuous] absence of information regarding the exchange rates for imports of manufactures." But, that these have been unified at lei 15 = US\$1 is clearly spelled out on page 5 of the memorandum. Similarly, Wharton finds it "disturbing" that there is a discrepancy between exports and imports on a trade basis and exports and imports on a balance of payments basis. Yet this difference is standard for countries engaged in "lohn" transactions, which are included in customs statistics as imports of inputs and exports of finished goods but which balance of payments methodology treats as value-added-producing operations, the net gains from which are included in other services of the current account. These and other points have since been discussed with Mr. Vanous of the Wharton staff.

Part III of the report deals primarily with the energy statistics and forecasts, noting that likely developments in the energy balance would be consistent with GNP growth in the 2.8-3.8 per cent range. This is 2-3 percentage points below the unrevised official forecast of 5.8 per cent and not too far from the program forecast of 3.8 per cent, although I would now be inclined to see a forecast even in the

1-2 per cent range as optimistic. Part III also contains an inventory of minor problems with the energy data included in the memorandum. While these are no doubt troubling to the specialist trying to construct consistent time series, they are not critical for the level of policy review we are engaged in. Rather, the problems facing Romania's energy sector are apparent enough and are not concealed in the data.

Joanne Salop *JS*

cc: ✓ Mr. Whittome (o/r)
Mr. Tyler (o/r)
Mr. Hole



Office Memorandum

TO : Mr. Schmitt
Mr. Hole

FROM : Joanne Salop *JS*

SUBJECT : Romania - Draft Report on Romania's
External Debt Renegotiation

DATE: August 3, 1982

Your comments are requested on the attached draft, which will be circulated to ETR and Legal after your comments have been incorporated.

The background on this is that Mr. Brau (ETR) telephoned yesterday to advise me of its necessity. He told me that post-Paris Club reports typically summarize the Agreed Minute without staff comment. Following this practice, the attached draft is a fairly faithful rendering of the Romanian Agreed Minute.

Attachment

INTERNATIONAL MONETARY FUND

Report on Romania's External Debt Renegotiation

Prepared by the European Department

(In consultation with the Exchange and Trade Relations
Department and the Legal Department)

Approved by

August , 1982

Representatives of Romania and fifteen creditor countries 1/ met in Paris under the framework of the "Paris Club" on July 8-9, 1982 to discuss Romania's request for a rescheduling of its external debt service obligations. Members of the Fund staff 2/ and observers from Australia, Denmark, the World Bank, the Organization for Economic Cooperation and Development, and the Commission of the European Community also attended the meeting, which was chaired by Mr. Camdessus, President of the Paris Club.

The Romanian delegation outlined the serious economic and financial difficulties faced by its country and the strong determination of its government to reduce economic and financial imbalances and to reach the targets of the program underlying the stand-by arrangement with the Fund. The Fund representatives, at the request of the Chairman, described the economic situation of Romania and the major elements of the adjustment

1/ Austria, Belgium, Canada, France, the Federal Republic of Germany, Finland, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

2/ The Fund staff's representatives were Messrs. Tyler (EUR), Brau (ETR), Amselle (Paris office) and Ms. Salop (EUR).

program undertaken by Romania and supported by the stand-by arrangement with the Fund approved by the Executive Board on June 21, 1982 (EBS/82/73 and Supplement 1). The representatives of the governments of the participating creditor countries took note of the measures of adjustment set forth in the economic and financial program and stressed the importance they attach to the continuing and full implementation of this program, in particular the revitalization of the productive sector of the economy and the improvement of foreign exchange management.

In the Agreed Minute, which was not signed until July 28, 1982, the representatives of the fifteen creditor countries agreed to recommend to their governments or appropriate government agencies a consolidation of their guaranteed or insured commercial credits and official loans to Romania with original maturities of more than one year and contracted prior to January 1, 1982. The consolidation includes such principal and interest payments that are in arrears as well as those that will fall due by December 31, 1982. Eighty per cent of these amounts are to be consolidated and repaid in seven equal semi-annual payments beginning on December 31, 1985, i.e., after the end of a grace period of approximately three and one-half years. The remaining 20 per cent of principal and interest is to be paid as follows: for credits falling due, as originally scheduled; for arrears, one month after the date of the signature of the relevant bilateral agreement and, in any case, before December 31, 1982.

The rate and conditions of interest to be paid in respect of these financial arrangements is to be determined bilaterally between Romania and the government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate.

In order to secure comparable treatment of public and private external creditors on their debts, the Romanian delegation stated that its government will seek to secure from external creditors, including banks and all CMEA financial institutions, rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors. Romania is to accord to each of the participating countries treatment no less favorable than that which it may accord to any other creditor for the consolidation of debts of a comparable term. The Government of the Socialist Republic of Romania undertook to negotiate promptly rescheduling or refinancing arrangements with all other creditor countries on debts of a comparable term and to keep the Chairman of the creditor group informed of the content of the bilateral agreements with all creditors mentioned. The Government of the Socialist Republic of Romania also undertook to pay all debt service due and not paid, and owed to or guaranteed by the governments of the participating creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible, and in any case no later than September 30, 1982.

In response to the request of the Romanian delegation, the participating creditor countries agreed in principle to a meeting to consider subsequently the matter of Romania's debt service payments falling due after December 31, 1982 provided (i) that Romania continues to have an arrangement with the Fund involving the use of Fund resources subject to upper credit tranche conditionality; and (ii) that Romania has reached with banks and other creditors effective arrangements meeting the conditions described above.

The representatives of the governments of each of the participating countries and of Romania agreed to recommend to their respective governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth in the Agreed Minute.



Office Memorandum

July 28, 1982

MEMORANDUM FOR FILES

Subject: Romania - Visit of Ambassador Malitza

1. Mr. Whittome told the Ambassador, who was accompanied by Messrs. Ionescu and Dumitrascu, that in view of the near completion of the rescheduling talks, serious thought should be given to Romania's ability to make the various downpayments that would be required. He noted that Fund resources would cover only about one half of the downpayments on the official and bank reschedulings and the payments due on excluded credits. While he had no reason to doubt that the Romanians would have the necessary resources, he thought it wise to check so that in the event that this was not the case, appropriate measures could be taken sooner rather than later. Ambassador Malitza enthusiastically took note of Mr. Whittome's concern.

2. It was tentatively agreed that the mission to discuss the reschedulings and economic developments would arrive in Bucharest on September 15. The program targets for 1982 would have to be reviewed in light of the likely capital inflow as of that date. At present, it appeared that there would be a shortfall of about US\$200 million from the official rescheduling and a perhaps larger slippage associated with a smaller than projected inflow of new suppliers' credits. It was acknowledged that this process of reconciling the current account forecast with the expected capital inflow was closely related to the question of the adequacy of Romania's resources for making the downpayments.

Joanne Salop *JS*

cc: Mr. Whittome (o/r) ✓
Mr. Tyler (o/r)
Mr. Hole



Office Memorandum

July 28, 1982

file. EE
Romania
Hungary
Poland
Yugoslavia
E. Germany

MEMORANDUM FOR FILES

Subject: Eastern Europe

In a telephone call from Mr. Kjelleren to Mr. Whittome yesterday the main points touched on were as follows:

1. Romania

Kjelleren said that he expected the banks to respond to Romania's rescheduling request by August 15, and assuming few negative responses from the banks, he thought the operation could be wrapped up around the end of August/early September. The 20 per cent downpayment would then become due in early October. Asked whether he was satisfied that the Romanians could meet the downpayment, he said "no, not at all". He agreed that it was not very sensible to proceed with an operation which was not viable and would only trigger further arrears, but he wondered what alternative there was at present. Mr. Whittome suggested that the rate of downpayment be cut, perhaps to 15 per cent. Kjelleren thought that that would be hard to sell to the banks; there was little trust. He could certainly not propose it; the initiative would have to come from the Romanians. He agreed that it would be perfectly proper for the Fund to ask the Romanians whether the money was available to meet the various downpayments. He emphasized, however, that the 20 per cent feature had been crucial to the banks' willingness to reschedule and it would not be altered lightly. If the Romanians were to request a lower downpayment, he thought it would cause confusion and delay and would certainly add to the present mistrust.

2. Hungary

At present, \$260 million had been lined up by the banks, although Citibank was now wavering about participating in the loan. The loan agreement was not structured too tightly--deliberately so, to allow additional participation after the event. If all continued to go smoothly signing could possibly take place on August 6 or 13.

3. Poland

The banks' working task force would meet this week and visit Warsaw next week. The US banks had indicated their willingness to refinance 50 per cent of the paid interest. The whole approach, however, was predicated on their being a dialogue between Poland and its government creditors. The plan was that the rescheduling of bank debt should be set up but not signed

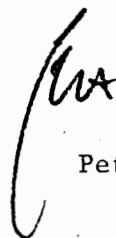
until sufficient progress had been made on rescheduling official debt.

4. Yugoslavia

The proposed loan for Yugoslavia looked very insecure. Tentative participations at present totalled only US\$160 million, and a number of banks had indicated that the total would need to reach US\$200 million for them to confirm participation.

4. East Germany

The East Germans were desperate for new credits. The banks were becoming increasingly worried and watching the situation with great care. A number of US banks--Manufacturers Hanover, Citibank, Bank of America--do have significant exposure in East Germany. Kjelleren was not sure that the US banking community was at all ready to reschedule. They looked for the West German banks to take the lead here.



Peter Hole

cc: Mr. Whittome ✓



Office Memorandum

July 27, 1982

✓

MEMORANDUM FOR FILES

Subject: Romania - Information Package for the Banks

Yesterday I told Mr. Ionescu that there were continuing complaints from bankers about not having received the Economic Memorandum, and that the bankers continued to believe that it had not yet been sent from Bucharest. This morning Mr. Ionescu confirmed that, until yesterday, the memorandum had not been sent--because of "delays in editing". The problem having been overcome, the Romanian Bank for Foreign Trade is now beginning to distribute the memorandum. Apparently the date set for the bankers' response is being pushed back from July 31 to August 15.

It is difficult to be unimpressed by the coincidence of timing that permitted the memorandum to be finalized just as the Paris Club agreement was being accepted by the United States. Since the Paris Club is a necessary condition for the bank rescheduling, probably the Romanians preferred to postpone putting the data on more or less public view until it was absolutely essential. It is also worth recalling that the "third telex"--which carried the actual proposal for the rescheduling to the individual banks and which implied that the Economic Memorandum was then being dispatched--was sent only in July after the Paris Club dates for July 7 and 8 had been made firm.

There is an additional factor possibly at work here, even aside from President Ceausescu's likely refusal to be hurried into granting approval for the release of a document virtually demanded by Romania's capitalist creditors. Our estimates 1/ suggest that total downpayments on all reschedulings would be US\$780 million, including US\$469 million to banks and US\$53 million to official creditors. These would more than exhaust gross Fund purchases in 1982, which are now estimated at US\$385 million, although the Romanians are probably working on the basis of US\$465 million. If they cannot raise--basically through suppliers' credits--the remaining amount of downpayments due as well as the estimated US\$559 million due on credits that are being excluded from the various reschedulings, they will be in arrears at the end of the year and break the program. As an alternative, the Romanians might think it preferable to have the reschedulings simply drag on into 1983, without further drawings from us in 1982. While there would still be arrears at end-1982, it might be thought that they would appear more benign because they would be associated with "rescheduling delays" and perhaps would be construed as beyond the Romanians' control.

Joanne Salop *JS*

✓
cc: Messrs. Whittome, Tyler (o/r), and Hole

1/ All figures are from Table 103 attached to my July 16, 1982 Memorandum for Files on Pre- and Post-Paris Numbers.



Office Memorandum

July 26, 1982

MEMORANDUM FOR FILES

Subject: Romania - U.S. Approval of the Paris Club

Mr. Ionescu has informed me that Mr. Meissner has informed him that, later this evening, the U.S. will cable instructions to its Embassy in France to sign the agreement of July 8 and 9 on Wednesday July 28.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Taylor (o/r)
Mr. Hole



Office Memorandum

July 23, 1982

4

MEMORANDUM FOR FILES

Subject: Romania - Congressional Approval of Paris Club

U.S. Treasury sources have indicated that no major problems are anticipated vis-a-vis Congressional acceptance of the Romanian rescheduling. Accordingly, it is expected that the provisional agreement will be initialed without further discussion and probably by someone other than Ambassador Meissner for the U.S. After the initialing, there is, apparently, a 30-day period during which the U.S. Congress can raise formal objections. It was this right that Meissner was trying to ensure would not be exercised, by securing the preliminary soundings from Congress.

Joanne Salop *JS*

cc: Mr. Whittome ✓
Mr. Tyler (o/r)
Mr. Hole

Mr. Tyler

July 16, 1982

MEMORANDUM FOR FILES

Subject: Romania--IFS

Mr. Ionescu has not been able to make contact with the right people in Bucharest in order to verify Mr. Swaminathan's national income statistics. He said that we should go ahead with publication of the existing numbers subject to subsequent revision.

J.K. Salop *JKS*

cc: ✓ Mr. Tyler (o/r)
Mr. Hole
Mr. Swaminathan

Ropi



Office Memorandum

Mr Whittome

z

MEMORANDUM FOR FILES

July 16, 1982

Subject: Romania--Phasing

Mr. Whittome and I discussed the likely phasing of the SDR 217.5 million overhang from the first year of the program and the SDR 367.5 million of the second year of the program. Since the program year ends in mid-June and since it seems likely that the next purchase may not take place until November, it appeared reasonable to allocate the SDR 367.5 million among three purchases--November, February and May. The SDR 217.5 million could also be purchased in November. Only under the most pressing conditions should we consider liberalizing the phasing to permit the purchase of one half of the SDR 367.5 million in 1982. Under the "one-third" rule, the November purchase would be SDR 340 million, equivalent to US\$374 million. Under the "one-half" rule, the remaining purchase(s) in 1982 would total SDR 401 million, or US\$441 million.

J.K. Salop *JKS*

cc: Mr. Whittome ✓
Mr. Tyler (o/r)
Mr. Hole

CONFIDENTIAL
I have talked to Finkel & warned him that a consequence would be a breach of the 150% sub in the 2nd yr of the program. I have also asked him to tell us if he is deeply concerned by the end of the month.
MS
19/7

INTERNATIONAL MONETARY FUND

August 30, 1982

To: Mr. Whitton

From: Joanne Salop

Subject: Romanian Financial Flows

The attached memorandum and tables remain relevant, although the caveat expressed then about suppliers' credits is probably more relevant now and should also apply to 1983, which was not a focus of the underlying exercise.

Attachments

cc. Valerie,
A copy for
Toronto



Office Memorandum

July 16, 1982

MEMORANDUM FOR FILES

Subject: Romania: Pre- and Post-Paris Numbers

1. The attached tables quantify Romania's cash flow situation for 1982 and provide a reconciliation of the cash flow picture with the forecast balance of payments. Tables 101 and 102 were prepared for Paris and, although revised somewhat there and subsequently in Washington, are essentially the basis on which the Fund program was formulated. Tables 103-105, on the other hand, were prepared on the basis of the Paris Club results, with the pessimistic variant in Table 105 an input into Tables 103-104.
2. Table 103 contains a revised cash flow projection for 1982, and Table 104 translates the cash flow analysis into a balance of payments framework. In Table 104, the critical differences between the revised 1982 forecast and the program's 1982 forecast, are the increase in the projected trade surplus to US\$917 million from US\$550 million and the related improvement in the current account to a deficit of US\$114 million from the earlier US\$450 million. While these changes have been necessitated by changes in the forecast availability of external financing, they do appear feasible--albeit difficult--and are not inconsistent with the economy's performance in the first four months of 1982. Basically, the US\$350 million shortfall in external financing is due to a loss of some US\$260 million of official rescheduling on capital account and some US\$90 million from the Fund, the latter by virtue of the appreciation of the dollar and a likely phasing that would disburse all of the US\$240 million overhang from the first year of the program in 1982 and one third of the resources of the second year of the program, i.e., another US\$135 million.
3. The soft area of the 1982 forecasts is with respect to suppliers' credits. The Romanians contend that the forecast US\$850 million in new suppliers' credits is conservative; that the short-term credits are for oil and other raw materials; and that the medium-term credits are in the context of cooperation agreements with BAC, Citroen, etc. I have queried Mr. Huber of Eximbank about the prudence of such an assumption in the present financial environment, and he replied that the receipt of credits of this kind did not seem totally unreasonable, given their political content. However, so far we have no knowledge of any actual inflows. With respect to the rescheduling of suppliers' credits, it may be that many suppliers will decline to reschedule and, if so, additional sources of financing will have to be secured--or further cuts in imports will have to be made--if Romania is to eliminate all arrears by December 31, 1982. Of course, the more widespread such payments are, the more difficulty they will cause to the banks' insistence on comparability.

4. The forecasts also assume that the commercial banks will reschedule short-term debt, even though official creditors have declined to do so. The argument that the official rescheduling is comparable with the private rescheduling despite this omission rests on: (1) the inclusion of interest on medium- and long-term debt in the official rescheduling; (2) the later starting date of official repayments--December 31, 1985 versus May 17, 1985 and (3) the 1 per cent restructuring fee and 1 3/4 per cent over libor to be received by private--but not official--creditors.

J.K. Salop *JKS*

Attachment

cc: Mr. Whittome ✓
Mr. Tyler (o/r)
Mr. Hole
Mr. Paljarvi (o/r)

Paris 7/8/82

Table 101. Romania: Gross Requirements for and Sources of Financing
in Convertible Currency, 1981 and 1982
Corresponding to Table 2, 9, and 17 of IMF, EBS/82/73

(In millions of U.S. dollars)

	1981	1982	Based on Tables 22 and 23 of Romanian Economic Memorandum
Requirements			
1. Current account deficit	813	450	450
2. Repayment of long- and medium-term debt as of December 31, 1981	1,106	2,273	2,365
Nonguaranteed bank credits	...	(1,014)	(1,223)
Government guaranteed	...	(636)	(553)
IBEC and IIB	...	(190)	(190)
Other	...	(433) ^{1/}	(394) ^{4/}
3. Repayment of short-term debt	2,125	759	759
Banking credits	...	(643)	(643)
Suppliers	...	(116)	(116)
4. Increase in reserves	77	125	125
5. Net credits extended	89	150	150
6. Repayment of arrears	--	1,143	1,143
Banking credits	--	(467)	(467)
Government guaranteed	--	(40)	(40)
Suppliers	--	(636)	(636)
7. Total	4,215	4,900	4,992

Sources

1. IBRD loans	297	349	349
2. IMF purchases (net)	290	421	402 ^{5/}
3. Medium- and long-term import-related credits	1,810	350	350
4. Short-term import-related credits	643	500	500
5. SDR allocation	32	--	--
6. Arrears	1,143	--	--
7. Residual financing requirement	--	3,280	3,391

Nonguaranteed bank credits	...	(1,014)	(1,223)
Government guaranteed	...	(636)	(553)
IBEC and IIB	...	(190)	(190)
Other	...	(433) ^{1/}	(394) ^{4/}
3. Repayment of short-term debt	2,125	759	759
Banking credits	...	(643)	(643)
Suppliers	...	(116)	(116)
4. Increase in reserves	77	125	125
5. Net credits extended	89	150	150
6. Repayment of arrears	--	1,143	1,143
Banking credits	--	(467)	(467)
Government guaranteed	--	(40)	(40)
Suppliers	--	(636)	(636)
7. Total	4,215	4,900	4,992
Sources			
1. IBRD loans	297	349	349
2. IMF purchases (net)	290	421	402 ^{5/}
3. Medium- and long-term import-related credits	1,810	350	350
4. Short-term import-related credits	643	500	500
5. SDR allocation	32	--	--
6. Arrears	1,143	--	--
7. Residual financing requirement	--	3,280	3,391
Commercial banks	--	(1,699)	(1,876)
Official	--	(541)	(473)
IBEC and IIB	--	(152)	(152)
Suppliers and credit	--	(613) ^{2/}	(613) ^{3/}
Other	--	(275) ^{3/}	(270) ^{6/}
3. Total	4,215	4,900	4,985

Sources: Romanian authorities; and IMF staff estimates.

^{1/} Comprises sum of US\$57 million to IBRD; US\$339 million to central banks in oil producing nations; and US\$37 million in other credits due.

^{2/} Comprises 80 per cent of the sum of US\$636 million in arrears as of December 31, 1981; US\$134 million in arrears incurred prior to March 1, 1982; and US\$116 million in short-term suppliers' credits; minus US\$120 million in exclusions for small credits, and essentials such as airport fees and bunkering.

^{3/} Comprises 80 per cent of US\$339 million due to oil exporters plus 80 per cent of US\$5 million in other payments.

^{4/} Comprises US\$57 million to IBRD; and US\$337 million to central banks in oil producing countries.

^{5/} Reflects the appreciation of the U.S. dollar vis-à-vis the SDR.

^{6/} Comprises 80 per cent of US\$337 million to the oil producers.

Table 102. Romania: Gross Requirements for and Sources of Financing in Convertible Currency, 1982-85. Based on Table 22 of Romanian Economic Memorandum

(In millions of U.S. dollars)

	1982	1983	1984	1985
Requirement				
1. Current account deficit	450	0	-200	-500
2a. Repayment of long- and medium-term debt as of December 31, 1981	2,365	1,356	782	920
Nonguaranteed debt to banks	(1,223)	(937)	(409)	(495)
Government guaranteed	(558)	(302)	(218)	(214)
IBEC and IIB	(190)	(33)	(38)	(53)
Other <u>1/</u>	(394)	(84)	(117)	(158)
2b. Repayment of post-1981 credits to cover the residual financing requirement <u>2/</u>	--	--	--	469
3. Repayment of short-term debt	759	500	800	800
Banking credits	(643)	--	--	--
Suppliers' credits	(116)	--	--	--
4. Increase in reserves	125	175	175	200
5. Net credits extended	150	180	200	200
6. Repayment of arrears	1,143	--	--	--
Banks	(467)	--	--	--
Governments	(40)	--	--	--
Suppliers	(636)	--	--	--
7. Total	4,992	2,211	1,757	2,089
Sources				
1. IBRD loans	349	267	305	335
2. IMF purchases (net) <u>3/</u>	402	366	132	-220
3. Medium- and long-term import-related credits	350	700	800	900
4. Short-term import-related credits	500	800	800	800
5. Other	--	--	--	--
6. Residual financing requirement	<u>3,391</u>	<u>78</u>	<u>0</u>	<u>273</u>
7. Total	4,992	2,211	2,043	2,088

	Banking credits	(643)	--	--	--
	Suppliers' credits	(116)	--	--	--
4.	Increase in reserves	125	175	175	200
5.	Net credits extended	150	180	200	200
6.	Repayment of arrears	1,143	--	--	--
	Banks	(467)	--	--	--
	Governments	(40)	--	--	--
	Suppliers	(636)	--	--	--
7.	Total	4,992	2,211	1,757	2,089
Sources					
1.	IBRD loans	349	267	305	335
2.	IMF purchases (net) <u>3/</u>	402	366	132	-220
3.	Medium- and long-term import-related credits	350	700	800	900
4.	Short-term import-related credits	500	800	800	800
5.	Other	--	--	--	--
6.	Residual financing requirement	<u>3,391</u>	<u>78</u>	<u>0</u>	<u>273</u>
7.	Total	4,992	2,211	2,043	2,088

Sources: Romanian authorities; and IMF Staff estimates.

1/ In 1982, comprises US\$57 million to IBRD and US\$337 million to central banks in oil producing nations. In subsequent years, consists of payments due to IBRD.

2/ Assumes 6 1/2 years with 3 years grace for all rescheduled amounts.

3/ Assumes SDR 411.5 million disbursed in 1982; SDR 367.5 million in 1983; and SDR 183.5 million in 1984. Based on US\$1.10 per SDR.

Table 103. Romania: Net Requirements for and Sources of
Financing in Convertible Currency, 1982

(In millions of U.S. dollars)

<u>Requirements</u>	
1. Downpayments	780
Commercial Banks	(469)
Official	(53)
Moscow banks	(38)
Arab Central banks	(67)
Suppliers	x(153)
2. Exclusions	559
Suppliers	(120)
Official	
Short term	(220)
Already paid long term <u>1/</u>	(111)
IBRD Repayments	(57)
IMF Repurchases	(51)
3. Restructuring fee	31
Banks	(23)
Suppliers	(8)
4. Interest payments (net) <u>2/</u>	1,200
5. Increase in reserves	125
6. Net credits extended	<u>150</u>
7. Total	2,845
<u>Sources</u>	
1. IBRD	359
2. IMF Purchases <u>3/</u>	385
3. Suppliers' credits	984
Arrears developing between 1/1/82 and 3/1/82	(134)
Medium and long term (new)	(350)
Short term (new)	(500)
4. Other (current account) services <u>4/</u>	200
5. Residual--Trade Account Surplus	<u>917</u>
6. Total	2,845

1/ If less of the long-term payments due have already been paid, this amount should be correspondingly reduced and the downpayment item raised by 20 per cent of the amount.

Banks	(23)
Suppliers	(8)
4. Interest payments (net) <u>2/</u>	1,200
5. Increase in reserves	125
6. Net credits extended	<u>150</u>
7. Total	2,845

Sources

1. IBRD	359
2. IMF Purchases <u>3/</u>	385
3. Suppliers' credits	984
Arrears developing between 1/1/82 and 3/1/82	(134)
Medium and long term (new)	(350)
Short term (new)	(500)
4. Other (current account) services <u>4/</u>	200
5. Residual--Trade Account Surplus	<u>917</u> *
6. Total	2,845

1/ If less of the long-term payments due have already been paid, this amount should be correspondingly reduced and the downpayment item raised by 20 per cent of the amount.

2/ Allows for 18 3/4 per cent on rescheduled bank credits and official rescheduling of US\$96 million in interest.

3/ Includes the SDR 217.5 million overhang from the first year of the program and one third of the SDR 367.5 million of the second year of the program. Also includes initial SDR 10 million. Exchange rate assumed is US\$1.10 per SDR.

4/ Comprises tourism, transportation and telecommunications, and other services of the current account.

Table 104. Romania: Summary Balance of Payments
in Convertible Currencies, 1980-82

(In millions of U.S. dollars)

	1980	1981	1982 Revised forecast	1982 Program forecast
Goods and services				
Exports	6,503	7,216	7,288	7,600
Imports	<u>8,037</u>	<u>7,012</u>	<u>6,371</u>	<u>7,050</u>
Trade balance	-1,534	204	917	550
Services				
Tourism	208	190	210	210
Transportation and tele- communications	-458	-346	-270	-270
Other services	171	181	260	260
Restructuring fee	--	--	-31	...
Interest	<u>-788</u>	<u>-1,047</u>	<u>-1,200</u> 1/	<u>-1,200</u> 2/
Total services	-865	-1,022	-1,031	-1,000
Current account balance	-2,399	-818	-114	-450
Capital				
Receipts	5,066	2,992	4,608 3/	4,624
Payments	<u>-2,912</u>	<u>-2,562</u>	<u>3,560</u> 4/	<u>3,327</u>
Total capital	<u>2,154</u>	<u>-570</u>	<u>1,048</u>	<u>1,297</u>
SDR allocation	33	32	--	--
Monetary movements	-212	-1,356	-934	-847
Change in reserves	160	-77	-125	-125
Use of Fund credit	52	290	334 5/	421 5/
Change in arrears	--	1,143	-1,143	-1,143

Sources: 1980, 1981, and 1982 program forecast based on Table 9, IMF, EBS/82/73. Revised forecast derived from Table 103.

1/ Forecast includes officially rescheduled interest of US\$96 million, and allows for 18 3/4 per cent on rescheduled bank credits.

2/ Forecast included officially rescheduled interest of US\$75 million, a restructuring fee of US\$20 million, and 16 3/4 per cent interest on rescheduled bank credits.

3/ Comprises US\$3,120 million from rescheduling; US\$359 million from IBRD; US\$984 million in suppliers' credits which includes suppliers' arrears of US\$134 million incurred in 1982 prior to March 1; and US\$145 million in repayments

Interest	-788	-1,047	-1,200 1/	-1,200 2/
Total services	-865	-1,022	-1,031	-1,000
Current account balance	-2,399	-818	-114	-450
Capital				
Receipts	5,066	2,992	4,608 3/	4,624
Payments	-2,912	-2,562	3,560 4/	3,327
Total capital	2,154	-570	1,048	1,297
SDR allocation	33	32	--	--
Monetary movements	-212	-1,356	-934	-847
Change in reserves	160	-77	-125	-125
Use of Fund credit	52	290	334 5/	421 5/
Change in arrears	--	1,143	-1,143	-1,143

Sources: 1980, 1981, and 1982 program forecast based on Table 9, IMF, EBS/82/73. Revised forecast derived from Table 103.

1/ Forecast includes officially rescheduled interest of US\$96 million, and allows for 18 3/4 per cent on rescheduled bank credits.

2/ Forecast included officially rescheduled interest of US\$75 million, a restructuring fee of US\$20 million, and 16 3/4 per cent interest on rescheduled bank credits.

3/ Comprises US\$3,120 million from rescheduling; US\$359 million from IBRD; US\$984 million in suppliers' credits which includes suppliers' arrears of US\$134 million incurred in 1982 prior to March 1; and US\$145 million in repayments of credits extended by Romania.

4/ Repayments of US\$4,408 million minus arrears of US\$1,143 million plus US\$295 million in credits extended by Romania.

5/ Part of the change--US\$20 million-- is due to the appreciation of the dollar; the larger part--US\$67 million--is due to the shifting of one sixth of the first year of the program's overhang--SDR 61 million--into 1983.

Table 105. Romania: Official Rescheduling Estimates

(In millions of U.S. dollars)

	IMF Program	Paris Club (Optimistic)	Paris Club (Pessimistic)
Long- and medium-term) payments due in 1982)	446	270 <u>1/</u>	182 <u>2/</u>
Short-term payments) due in 1982)		0	0
Payments due in 1981 and not yet paid <u>3/</u>	<u>32</u>	32	32
Interest	<u>75</u>	<u>112</u> <u>4/</u>	<u>96</u> <u>5/</u>
Total	553	414	310

1/ 80 per cent of the US\$220 million cited by Mr. Camdessus as short-term debt has been deducted from the US\$446 assumed under the program. Essentially assumes that no long-term payments due in 1982 have been paid.

2/ 80 per cent of the following: (1) US\$283 million due in the second half of 1982 minus a prorated US\$110 million in short-term debt; plus (2) new arrears of \$164 million in the first half of 1982 minus a prorated US\$110 million in short-term arrears.

3/ Assumes either that 1981 arrears are on medium- and long-term debt or that 1981 arrears have been paid and that arrears on 1982 payments due are \$204 million.

4/ Assumes that US\$140 million cited by Mr. Camdessus is interest on medium- and long-term debt.

5/ Assumes that US\$140 million cited by Mr. Camdessus is total interest, and that 14 per cent of interest is short-term (12 per cent of official debt is short-term).

Mr. Whittome
3

July 15, 1982

MEMORANDUM FOR FILES

Subject: Romania--Visit by Ambassador Mircea Malitza

A meeting took place between Mr. Whittome and Ambassador Malitza on July 14, 1982. The Ambassador, who was accompanied by Messrs. Ionescu and Dumitrascu, said that he had requested the meeting to thank Mr. Whittome for the IMF's assistance in the rescheduling arrangements, to seek Mr. Whittome's advice as to what the Romanians in general and he in particular might do in preparation for the second Paris Club meeting on July 28, and to ask Mr. Whittome about the timing of the full activation of Romania's right to make purchases under the stand-by arrangement.

Mr. Whittome suggested that the Romanians keep in contact with the U.S. Departments of State and Treasury, both as a way for the Romanians to stay informed about likely developments vis-à-vis Congress and to prevent the Americans from forgetting about the need for a decision in two weeks' time. With respect to the negotiations with the commercial banks, Mr. Whittome said that some New York bankers, while they had received the "third telex," had not received the information package and were of the opinion that it had not yet been sent from Bucharest. Mr. Whittome stressed the importance of the bankers' receiving this document in a timely fashion and advised the Ambassador to communicate with Bucharest on this matter.

Turning to relations with the Fund, Mr. Whittome noted that the exclusion of short-term debt from the official rescheduling implied a shortfall of external financing from what had been assumed under the program. Accordingly, it would be necessary to revise the 1982 program in the light of the revised forecast of the net capital inflow. Since all the energy price changes agreed for 1982 had already been made, it seemed desirable to handle the two reviews called for in the Board's decision--the one to determine if the rescheduling arrangements were "satisfactory," the other to review developments in the economy--with a single staff mission to Bucharest in September to be followed up by a consultation with the Executive Board when the reschedulings were considered firm. The resources released by the Board could then be used in partial payment of downpayments due on consolidated official and commercial credits; it was acknowledged that remaining Fund drawings in 1982 would be insufficient to finance the total downpayments due.

J.K. Salop *JKS*

cc: ✓ Mr. Whittome
Mr. Tyler (o/r)
Mr. Hole



Office Memorandum

July 14, 1982

MEMORANDUM FOR FILES

Subject: Romania

Mr. Kjelleren of Manufacturers Hanover phoned to say that the recent "purges" in Romania had affected several of those in the Foreign Trade Bank with whom the banks had been dealing. Presumably for this reason the "Economic Memorandum" which was to accompany the "third telex" or follow it immediately had not yet been sent. Efforts to contact Romania by phone was unsuccessful and telexes were not being answered. The timetable would now slip.

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

L.A. Whittome

cc: EED



Office Memorandum

dh Whittome

Σ

MEMORANDUM FOR FILES

July 13, 1982

Subject: Romania--Paris Club Numbers

1. It appears that the Paris Club agreement will result in a net outflow of resources from Romania to official creditors in 1982 of some US\$140-240 million more than assumed in the Fund program. The program assumed a rescheduling of 80 per cent of arrears, payments due, and some interest; whereas the proposed agreement covers interest, arrears, and "payments due and not yet paid" on medium- and long-term debt. As compared with the program's assumptions, therefore, the agreement excludes arrears, interest, and principle on short-term debt but includes somewhat more interest on medium- and long-term credits. In addition, the program assumed an 80 per cent rescheduling of all repayments due in 1982; to the extent that some payments have already been made, the percentage rescheduling of remaining payments due would have to have been raised to generate the same absolute rescheduled amount.

2. On the basis of the Romanians' most recent figures 1/ providing the break-down--between officially guaranteed and non-guaranteed--of arrears and payments due to banks, the program can be viewed as having been based on an 80 per cent rescheduling of US\$40 million in arrears, US\$94 million in interest, and US\$558 in principle; thus the program's assumed rescheduled amount would be US\$553 million.

3. There is considerable uncertainty about the corresponding amount to be rescheduled under the proposed agreement because we do not have the requisite break-down and timing of interest and payments due between short-term credits on the one hand and medium- and long-term credits on the other. For this reason, in the attached table, two variants of the Paris Club results are presented.

J.K. Salop *JKS*

Attachment

cc: Mr. Whittome ✓
Mr. Tyler (o/r)
Mr. Hole

1/ Romania: Economic Memorandum, June 1982, Table 22.

Romania: Official Rescheduling Estimates

(In millions of U.S. dollars)

	IMF Program	Paris Club (Optimistic)	Paris Club (Pessimistic)
Long- and medium-term) payments due in 1982)	446	270 <u>1/</u>	182 <u>2/</u>
Short-term payments) due in 1982)		0	0
Payments due in 1981 and not yet paid <u>3/</u>	32	32	32
Interest	<u>75</u>	<u>112</u> <u>4/</u>	<u>96</u> <u>5/</u>
Total	553	414	310

1/ 80 per cent of the US\$220 million cited by Mr. Camdessus as short-term debt has been deducted from the US\$446 assumed under the program.

2/ 80 per cent of the following: (1) US\$283 million due in the second half of 1982 minus a prorated US\$110 million in short-term debt; plus (2) new arrears of \$164 million in the first half of 1982 minus a prorated US\$110 million in short-term arrears

3/ Assumes either that 1981 arrears are on medium- and long-term debt or that 1981 arrears have been paid and that arrears on 1982 payments due are \$204 million.

4/ Assumes that US\$140 million cited by Mr. Camdessus is interest on medium- and long-term debt.

5/ Assumes that US\$140 million cited by Mr. Camdessus is total interest, and that 14 per cent of interest is short-term (12 per cent of official debt is short-term).

file 3

12/06 16.14 *
610567 EDENRM I

INTERFUND WASHINGTON DC JUN 12, 1982

MXKXAXXKXKXKXKX

MR L.A. WHITTOME
EDEN HOTEL
ROME, ITALY

MANAGING DIRECTOR HAS DECIDED TO PUT ROMANIA ON AGENDA
MONDAY, JUNE 21. PARIS CLUB EXPECTED TO BE SCHEDULED IN
WEEK OF JULY 5. TENTATIVELY PARIS CLUB PROPOSED FOR WEEK
BEGINNING JULY 5.
REGARDS
TYLER

*
610567 EDENRM I
248331 IMF UR.....=



Office Memorandum

TO : The Managing Director
The Deputy Managing Director

FROM : Geoffrey Tyler 57

SUBJECT : Romania--Paris Club

DATE: July 12, 1982

The Paris Club met on July 8-9, 1982 to discuss the rescheduling of government guaranteed debt. A list of those attending is attached. The Fund staff representatives were Mr. Brau (ETR), Ms. Salop (EUR), Mr. Amselle (Paris Office), and myself. The World Bank also attended as an observer and made an introductory statement.

The meeting opened with the knowledge that the U.S. delegation was not authorized to reach a final agreement and had instructions to request a second meeting at the end of July. The overt reason was the necessity to consult with Congress. Ambassador Meissner said that a decision had been made in principle at the highest level to support a rescheduling but that Congress could not be presented with a fait accompli. During the negotiation of the draft minute, which it was hoped could be signed at the second meeting, Mr. Meissner acted as if he had no worries about Congress requiring changes and one may wonder whether the delay requested by the U.S. was not more for appearance than anything else.

During the private sessions of the creditors, which we attended, the following consensus was reached on terms and subsequently the Romanian Minister of Finance, Mr. Gigea, stated that he could accept them;

(i) the rescheduling will cover arrears as of December 31, 1981 and repayments falling due in 1982, both to exclude short-term debt, plus corresponding interest payments;

(ii) the proportion rescheduled will be 80 per cent;

(iii) repayments will be over 6 1/2 years with 3 years grace, meaning that 7 semi-annual installments will be paid commencing December 31, 1985;

(iv) the payment of the 20 per cent not rescheduled will be made on the following basis--for arrears, the payment will be 30 days after the bilateral agreements are signed but no later than December 31, 1982 and for other payments on the normal maturity date;

(v) all participating creditor countries owed amounts in excess of SDR 1 million will reschedule on these terms;

(vi) the rates of interest will be decided bilaterally, but in the light of the "appropriate market rate;"

(vii) bilateral agreements are to be signed as soon as possible but not later than December 31, 1982;

(viii) Romania must endeavor to ensure comparability with all other creditors. (There was extensive private discussion about how to ensure that the CMEA banks would be included.) It was agreed that Mr. Gigea would write to the Chairman of the Paris Club informing him that de facto these banks, and the OPEC central banks, had agreed to accept appropriate repayment terms even though they would not sign formal agreements;

(ix) the rescheduling remains in force provided Romania remains able to make purchases under the Fund stand-by arrangement; and

(x) creditor countries agreed in principle to meet at Romania's request to consider debt falling due after December 31, 1982 provided, inter alia, that there is an upper tranche arrangement with the Fund.

The above terms were accepted without great difficulty by the creditors and have been incorporated in a draft minute (attached), which it is hoped will still stand after the U.S. discussions with Congress. The terms are by no means generous in the light of other Paris Club terms of recent vintage. The Romanians had asked for the rescheduling of all debt and arrears up to the end of the Fund stand-by arrangement in June 1984. They did not, however, actively pursue this request. Basically, the governments appeared concerned to reach terms equivalent to those that are being proposed to the banks, with the small modifications needed to maintain traditional Paris Club forms. There was some discussion about whether debt falling due in the first half of 1983 should be covered. I took the view in private discussions with the major creditors that it was not yet clear that this would be necessary and that in the circumstances it was better to have Romania aim for the maximum adjustment. They shared this view. As mentioned there is provision for meetings to discuss post-1982 debt if the Romanians ask for discussions.

There was a desire by Canada either to exclude interest payments in respect of their own debt or to find some formula such as different percentages for principal and interest. While perhaps motivated by Canada's relatively large interest claims, the meeting would not, however, accept either of these two procedures.

The second meeting was set for July 28, 1982 with the hope that this would involve little more than a formal signing of the minute, mainly by embassy representatives, rather than a full working session.

The outcome was broadly in line with what was assumed by participants and it should be acceptable as equal treatment by the commercial banks. A press communiqué was issued (attached) so that the latter should be assured that the official rescheduling is proceeding smoothly. My discussion with Crédit Lyonnais and Union Bank of Switzerland, both in the group of nine banks negotiating bank debt, suggests that the bank rescheduling should go as expected and perhaps be concluded around end-August or early September. The proposed government agreement is less favorable than we had

assumed in our program (by about US\$150 million in net terms), principally because of the exclusion of short-term debt. However, the original targets for the current account in convertible currencies contained in the stand-by program will almost certainly be improved on and the above "loss" of some US\$150 million can be counteracted. We should, therefore, be in a position to explain to the Executive Directors in the context of the required review that the rescheduling agreements are consistent with the improved program.

Attachments

cc: Mr. Whittome
Mr. Finch
Mr. Brau
Mr. Hole
Mr. Carter
Ms. Salop
Mr. Amselle

LISTE DES DELEGATIONS

REUNION DU CLUB DE PARIS SUR LA ROUMANIE

DES 8 ET 9 JUILLET 1982

Président : M. CAMDESSUS.
Directeur du Trésor
Ministère de l'Economie
et des Finances

<u>REPUBLIQUE FEDERALE D'ALLEMAGNE</u>	M. KUEHN	Ministère de l'Economie
	M. HENZE	Ministère des Affaires Etrangères
	M. VON KORFF	Ministère de l'Economie
	M. WITTICH	Ministère des Finances
	M. HOFFMANN	HERMES
	M. ZACHERL	KFW
<u>AUSTRALIE</u>	M. le docteur D.E. RUSSELL	Conseiller, chargé des affaires financières à l'Ambassade d'Australie
<u>AUTRICHE.</u>	Mme WEISSBACHER	Ministère des Finances
	Mme PREHOFER	OKB
<u>BELGIQUE</u>	M. BAUDAUX	Ministère des Finances
	M. HICK	DUCROIRE
<u>CANADA.</u>	M. COLEMAN	Ministère des Finances
	M. BAILEY	S.E.E.
	M. SOMERVILLE	Ministère des Affaires Extérieures .
	M. HODGSON	Ministère des Finances

.../...

<u>DANEMARK</u>	M. KNUDSEN	Export Crédit Conseil
	M. MORTENSEN	" " "
<u>ESPAGNE.</u>	M. BARRANCO	Consortium des compagnies d'as- surance
	Melle ABAD	Sous-directrice Ministère de l'Economie et des Finances
	M. CALABOZO	Ministère de l'Economie et du Commerce
	M. CANTO	C.E.S.C.E
	M. UGARTE	C.E.S.C.E.
	M. MANZANARES	Banque d'Espagne
	M. COLLAR	Ministère des Affaires Etrangères
<u>ETATS-UNIS.</u>	M. L'Ambassadeur MEISSNER	State Department
	M. CANNER	Treasury Department
	M. MONDSCHERIN	State Department
	M. HAMILTON	Export-Import Bank
<u>FRANCE</u>	M. AULAGNON	Direction du Trésor
	M. DE LAUZUN	Direction du Trésor
	M. BARRET	C.O.F.A.C.E
	M. TESTARD	D.R.E.E.
	M. PINEAU	Banque de France
	M. GIRARDIN	B.F.C.E.
	M. BAZY	Relations Extérieures

<u>FINLANDE</u>	M. TIMONEN	Director Export Guarantee Board
	M. JANTUNEN	Finnish Embassy
<u>ITALIE</u>	M. BATTISTINI	Ministère des Affaires Etrangères
	M. MASCI	Ministère du Trésor
	M. BONFIGLI	SACE
<u>JAPON.</u>	M. HATANAKA	Ministre Ambassade du Japon
	M. NAKAMURA	Ministry of Finance
	M. TAKEZAWA	Ministry of international trade Industry
	M. OSANAI	Ministry of Foreign Affairs
	M. KAWAKAMI	Ambassade du Japon
	M. TOKITA	Export Insurance Division (London)
	M. IWASAKI	Japanese Exim (Paris)
<u>NORVEGE.</u>	M. MOLAND	Ministry of Trade and Shipping
	M. KINGSTAD	GIEK
<u>PAYS-BAS.</u>	M. LINTJER	Ministère des Finances
	Mme POSTHUMA	N.C.M.
<u>ROYAUME-UNI</u>	M. CAREY	Trésor
	M. WORDSWORTH	Ministère des Affaires Etrangères
	M. SMITH	Banque d'Angleterre
	M. LLEWELYN	ECGD
	M. HURR	Ambassade

SUEDE

M. l'Ambassadeur VIRGIN

Ministère des Affaires
Etrangères

M. PALMSTIERNA

Ministère des Affaires
Etrangères et du
Commerce, Divisions
jointes.

M. LILJENCRANTZ

EKN

SUISSE

M. ROSSIER

Office Fédérale des
Affaires Economiques
Extérieures.

M. GREINER

Département de
l'Economie Publique
(Berne)

M. RICCARDE

Mme GSELL

Secrétaire d'Ambassade
de Suisse Paris

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M. BRAU

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M. AMSELLE

Senior Economist, Paris Office

B.I.R.D.

M. DUBEY

Chief Economist

M. HUME

Division Chief, Romania

M. TALLROTH

Country Economist

Mme SAREL

Debt specialist

O.C.D.E.

M. LABOUERIE

Chef de Section Endettement

C.E.E.

M. WRIGHT

Administrator, Export Credits
Division, Commission of EC

DELEGATION ROUMAINE

M. Petre GIGEA	Ministre des Finances
M. Nicolae EREMI	Président de la Banque Roumaine. du Commerce Extérieur
M. Dumitru ANINOIU	Ambassadeur de Roumanie en France
M. Ion STANCIU	Ministre adjoint du commerce extérieur et de la coopération économique exté- rieure
M. Gheorge NICOLESCO	Secrétaire d'Etat du Comité d'Etat de la Planification
M. Stelian MARIN	Directeur au Ministère des Finances
M. Loan Petre MADA	Chef du bureau des organisations inter- nationales au Ministère des Finances
M. Eugen TOPALA	Chef de secteur du Comité d'Etat de la planification
M. Dan PASCARIU	Economiste à la Banque Roumaine du Com- merce Extérieur
M. Liviu IONESCO	Conseiller de l'administrateur roumain au F.M.I.

PRESS RELEASE

Representatives of the Governments of 15 creditors countries (Austria, Belgium, Canada, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States of America) met in Paris on July 8, 1982, for a Paris Club meeting with a Romanian delegation headed by Mr. Petre GIGEA, Minister of Finance, to examine the economic situation of Romania in 1982 and had a first exchange of views on the rescheduling of the direct loans and the guaranteed debts. The Governments of Australia and Denmark, the International Monetary Fund, the World Bank, the Commission of the European Communities and the Organisation for Economic Cooperation and Development were represented as observers.

The progress made during the meeting allowed creditors to contemplate a new meeting to be held in the coming weeks in order to finalize the agreement.

It has been indicated that a similar procedure will be followed by Romania, for arrears and payments coming due in 1982, with all its other creditors, including commercial banks as far as non guaranteed credits are concerned.

DRAFT OF THE
AGREED MINUTE
ON THE CONSOLIDATION OF THE DEBT
OF THE SOCIALIST REPUBLIC OF ROMANIA

I. PREAMBLE.

1. The Representatives of the Governments of Austria, Belgium, Canada, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom, the United States of America, hereinafter referred to as "Participating Creditor Countries" met in Paris on July .. and .., 1982, with representatives of the Government of the Socialist Republic of Romania in order to examine the request for alleviation of that country's external debt service obligation. Observers of the Governments of Australia and Denmark, the International Monetary Fund, the International Bank for Reconstruction and Development, the Commission of the European Communities and the Organisation for Economic Cooperation and Development also attended the meeting.

2. The Delegation of Romania outlined the serious difficulties faced by their country and the strong determination of their Government to reduce the economic and financial imbalances and to reach the targets of the program underlying the stand-by arrangement with the International Monetary Fund.

3. The representatives of the International Monetary Fund described the economic situation of Romania and the major elements of the program of adjustment undertaken by the Government of Romania and supported by the stand-by arrangement with the International Monetary Fund approved by the Executive Board of the Fund on June 21, 1982. This arrangement, applying to the period ending June 20, 1983, involves specific commitments in both the economic and financial fields.

4. The representatives of the Governments of the participating creditor countries took note of the measures of adjustment set forth in the economic and financial program undertaken by the Government of Romania and stressed the importance they attach to the continuing and full implementation of this program, in particular the revitalization of the productive sector of the economy and the improvement of public finances and foreign exchange management.

II. RECOMMENDATIONS ON TERMS OF THE REORGANIZATION.

Mindful of the serious payments difficulties faced by the Socialist Republic of Romania, the representatives of the participating creditor countries agreed to recommend to their Governments or appropriate institutions that they provide, through rescheduling or refinancing, debt relief on the following terms :

1. Debts concerned.

The debt service (the "debts") to which this reorganization will apply is that resulting from :

- a) commercial credits guaranteed or insured by the Governments of the participating creditor countries or their appropriate institutions, having an original maturity of more than one year pursuant to a contract or other financial arrangement concluded before January 1, 1982.
- b) loans from Governments or appropriate institutions of the participating creditor countries, having an original maturity of more than one year pursuant to an agreement concluded before January 1, 1982.

2. Terms of the consolidation.

The debt relief will apply as follows :

a) - 80 % of the principal and interest payments originally due and not paid as of December 31, 1981, on credits and Government loans referred to in paragraph 1 above, and

- 80 % of the amounts in principal and interest due from January 1, 1982 up to December 31, 1982 inclusive, and not paid, on loans and credits mentioned in paragraph 1 above,

will be rescheduled or refinanced.

b) repayment by the Government of the Socialist Republic of Romania of the corresponding sums will be made in 7 equal and successive semi-annual payments, the first payment to be made on December 31, 1985 (end of the grace period) and the final payment to be made on December 31, 1988 (end of the repayment period).

c) The remaining 20 % of principal and interest will be paid according to the original payment schedule period. As regards the remaining 20 % of principal and interest due and unpaid, it will be paid one month after the date of the signature of the bilateral agreement and in any case before December 31, 1982.

3. Rate of interest.

The rate and the conditions of interest to be paid in respect of these financial arrangements will be determined bilaterally between the Government of the Socialist Republic of Romania and the Government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate.

III. GENERAL RECOMMENDATIONS

1. In order to secure comparable treatment of public and private external creditors on their debts, the Romanian Delegation stated that their Government will seek to secure from external creditors, including banks and all CEMA financial institutions, rescheduling or refinancing arrangements on terms comparable to those set forth in this agreed minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors.
2. The Government of the Socialist Republic of Romania will accord to each of the participating creditor countries a treatment no less favourable than that which it may accord to any other creditor for the consolidation of debts of a comparable term.
3. The Government of the Socialist Republic of Romania undertakes to negotiate promptly rescheduling or refinancing arrangements with all other creditor countries on debts of a comparable term.
4. The provisions set forth in this agreed minute do not apply to countries with respect to which debts falling due during the reorganization period are less than SDR 1 million. The payments owed to these countries should be made on the original due dates. Payments already due and not paid should be made not later than September 30, 1982.
5. The participating creditor countries, noting that any previous creditor country reservations on this issue would be respected, agree to make available, upon the request of another participating creditor country, a copy of its bilateral agreement with the Government of the Socialist Republic of Romania which implements this agreed-minute. The Government of the Socialist Republic of Romania acknowledges this arrangement.
6. Each of the participating creditor countries agrees to indicate to the Chairman of this creditor group the date of the signature of its bilateral agreement, the interest rates and the amounts of debts involved. The Government of the Socialist Republic of Romania acknowledges this arrangement.

7. The Government of the Socialist Republic of Romania will keep the Chairman of this creditor group informed of the content of its bilateral agreements with all creditors mentioned in paragraphs 1, 2 and 3 above. The President of the group will provide this information to participating countries upon request.

8. The government of the Socialist Republic of Romania undertakes to pay all debt service due and not paid, and owed to or guaranteed by the Governments of the participating creditor countries or their appropriate institutions, and not covered by this agreed-minute, as soon as possible, and in any case no later than September 30, 1982.

IV. IMPLEMENTATION

The detailed arrangements for the rescheduling or refinancing of the debts will be determined by bilateral agreements to be concluded by the Government of each participating creditor country with the Government of the Socialist Republic of Romania on the basis of the following principles :

1. The Government of each participating creditor country will :

- refinance debts by placing new funds at disposal of the Government of the Socialist Republic of Romania at the same time and for the above mentioned percentage of payments on the debts due under existing payment schedules during the reorganization period,

or

- reschedule the corresponding payments.

2. All other matters involving the rescheduling or the refinancing of the debts will be set forth in the bilateral agreements which the Government of the Socialist Republic of Romania and the Governments of the participating creditor countries will seek to conclude with the least delay and as far as possible before the end of December 31, 1982.

3. The provisions on the present agreement will apply under the condition that the Government of the Socialist Republic of Romania continues to be authorized to make purchases under the arrangement from the Fund. For this purpose, the Government of the Socialist Republic of Romania agrees that the Fund informs the Chairman of this creditor group regarding the status of Romania's with the Fund.

4. In response to the request of the representatives of the Government of the Socialist Republic of Romania, the participating creditor countries agreed in principle to a meeting to consider the matter of Romania's debt service payment falling due after December 31, 1982 provided :

- That Romania continues to have an arrangement with the International Monetary Fund involving use of the Fund's resources subject to upper tranche conditionality.

- And that Romania has reached with banks and other creditors effective arrangements meeting the conditions described in the section 3 paragraphs 1, 2 and 3 above.

5. The representatives of the Governments of each of the participating countries and of the Government of the Socialist Republic of Romania agreed to recommend to their respective Governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth herein.

Done in Paris, this th day of July
1982, in two versions, English and French
both texts equally authentic.

The Chairman of the
Paris Club

The Head of the Romanian
Delegation

Delegation of Austria

Delegation of Japan

Delegation of Belgium

Delegation of the Netherlands

Delegation of Canada

Delegation of Norway

Delegation of Finland

Delegation of Spain

Delegation of France

Delegation of Sweden

Delegation of the Federal
Republic of Germany

Delegation of Switzerland

Delegation of Italy

Delegation of the United Kingdom

Delegation of the United States
of America



Office Memorandum

CC: 65

I agree
11/13/7

TO : Mr. Whittome

FROM : Geoffrey Tyler 97

SUBJECT : Romania - Review of Rescheduling Agreements

DATE: July 9, 1982

We can presumably assume that both the official and commercial bank rescheduling agreements will be concluded by, say, early September. However, we can also presumably assume that initial repayments under these agreements will not be required until some later date. With respect to the bank rescheduling, we have understood that there will be a grace period of 30 days after the signing of the rescheduling agreement. With respect to governments, no payments will be required until the individual bilateral agreements are signed and there is a 30 day grace period for payment of arrears. Fund money will, for practical purposes, probably not be required until October. We do, therefore, have some latitude on when we put the review before the Executive Board.

The form of the review could fall between two extremes. One would be a brief formal paper saying that the rescheduling agreements were identical or close enough to what the staff had assumed when negotiating the program accepted by the Board on June 22, 1982, and recommending an appropriate phasing of the amount of SDR 585 million remaining for the second year of the arrangement. The other would be a more substantive (but not extensive) paper, which would analyze the projected outcome of the Romanian economy in 1982 in the light of developments in the first half of the year and the implications of the rescheduling agreements on the balance of payments. This kind of paper would require discussions with the Romanian authorities and in particular would have to include revised projections of the national accounts and the balance of payments in 1982, and a description of the policy adjustments that would be made to achieve the revised targets.

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In deciding what we should do, we shall need to remember that Mr. Polak, supported by his colleagues, wished to combine this first review with the one required prior to any purchases after November 1, 1982. Also, given that prices of natural gas and heavy diesel fuel oil have already been increased as specified

in the letter of intent, the character of the second review will be somewhat different from it would have been if the price of natural gas was not to be increased until October 1, 1982.

All this leads me to lean towards having a review of the ~~second~~ character, which would also comprise the second review and which would need substantive, but one hopes not too lengthy, discussions with the authorities. A full discussion of revised projections of the 1982 outcome would surely help Romania by making it clear to creditors that policies were stricter than originally intended, because development in the first three quarters had required further adjustment. With regards to the timing of the discussions and the review, factors to be considered include the timing of payments under reschedulings, the desirability of having knowledge of developments for a period as long as possible after the one on which the staff report was based and the timing of the Annual Meeting. If the reschedulings permitted, discussions immediately after the Annual Meeting would probably be the most useful. The Romanian delegation in Paris in fact indicated that a visit before the Annual Meeting would be difficult for them.

cc. Mr. Hole
Ms. Salop



Office Memorandum

JUL 9 1982

TO : The Managing Director

DATE: July 9, 1982

FROM : L.A. Whittome / *LA*

SUBJECT : Romania

es [The preliminary Paris Club meeting on Romania has been completed. A rescheduling is contemplated that would follow the lines of that arranged by the banks namely a rescheduling of 80 per cent of the principal for 6.5 years except that it would exclude short-term debt but would include interest other than that on short-term debt. A preliminary look suggests that on balance this gives a somewhat less favorable outcome than that assumed in the paper recently discussed by the Board. We shall look at this question more closely and if necessary go back to the Romanians to arrange a tightening of the program before the Board review that will release the accumulated drawing rights.

The U.S. representative could not agree because of a prior need to consult with Congress. However, it is plain that the agreement is in line with the Administration's own thinking and that the follow up meeting of the Paris Club now scheduled for July 28 is expected to be a formality and may be attended only by country representatives based in Paris.

in Dec... The previous difficulties over the treatment to be accorded to CMEA and OPEC financial institutions is to be solved by a Romanian declaration that they will accord equal treatment to these lenders. The bilateral arguments that will be negotiated after the July 28 meeting are, it is agreed, to be based on market rates of interest. It is also provided that the initial 20 per cent payment will become due 30 days after the signing of each bilateral agreement and in any case not later than the end of 1982.

cc: The Deputy Managing Director
Mr. Carter
EED

Bundles for Bucharest

Romania's Communist boss, Nicolae Ceausescu, has been serenading the IMF with Gypsy tunes of economic contriteness for several months now and it has finally paid off. The IMF has agreed, after extracting some conditions, to release another \$500 million out of the \$1.2 billion special assistance package the Romanians negotiated last year. The Romanian negotiations offer sound reasons for the U.S. Treasury—not always as attentive as it should be to such matters—to discourage further IMF adventures in Eastern Europe.

The Romanians had already taken down \$400 million of their credit, but the IMF shut off the line last year when it became apparent that the Romanians were well over their heads in debts to the West. Their total hard currency debt is estimated at some \$10 billion, with a very large chunk of it—variously estimated between one-third and 40%—due this year. They have been playing a bit of hard ball with Western creditors, trying to strike a deal with a small contact group of banks to cover all 300 or so lenders they owe. Firms that have extended them trade credit are threatened with having to wait six years for their money.

One of the problems lenders and the IMF have had with Romania is that Mr. Ceausescu is not terribly forthcoming with information, either about the country's debts or the state of its economy. But the Communist boss wanted the IMF credit badly enough to take some austerity measures.

One, largely inconsequential, was to sacrifice his prime minister, foreign trade minister and some lesser beings to the Western gods, replacing them with people who, most likely, won't be either more or less compe-

tent. Romanians were urged to eat less food—indeed, travelers reported an absence of breakfast eggs at Bucharest hotels; Mr. Ceausescu was shipping them abroad to raise hard currency. Street lights were turned off early to save fuel. The government has just raised heating oil prices 300%, or so it claims.

Romania thus has managed to eke out a small trade surplus. The IMF, we understand, hopes to hold Mr. Ceausescu to maintaining a minimum level of foreign exchange reserves as one of its conditions, since that is a reasonably reliable way to monitor the country's performance.

But for the longer term, Western finance ministers and the U.S. secretary of the treasury in particular, need to ask some tough questions. Does it really make much sense for taxpayers to support loans to a place like Romania just so Western banks will have a better chance of collecting their loans? Do the conditions the IMF has extracted from Romania really promise any permanent improvement in the Romanian economy?

The answer to both questions is no. Romania simply is not a very good risk. Even the Russian umbrella, to the extent it exists, doesn't tilt much to Romania; the Soviets make the Romanians buy Soviet oil with hard currency as a punishment for Romanian deviationism. The Romanian people are likely to become less, not more, productive now that economic and political repression have hardened further.

The IMF lends to tide countries over balance of payments problems. But at the rate Romania is going, its IMF accounts will never come back into line unless someone buys an awful lot of eggs.

Mr. Tyler



Office Memorandum

July 1, 1982

MEMORANDUM FOR FILES

Subject: Transmittal to the Gatt Secretariat of Fund Documents on Romania

Mr. Kay (SEC) inquired about whether the Romanian RED (SM/82/97, 5/14/82) and Staff Report (EBS/82/73, 4/29/82) were to be transmitted to Gatt. Mr. Whittome decided that the matter should be taken up with the Romanians next week in Paris. At that time, they should be asked to agree to our providing Gatt with the RED. Since the 1982 Staff Report is combined with the Review of Stand-By Arrangement, the European Department would not recommend its being included.

The background on this is that, up to now, the Romanian authorities have been unwilling to have even the RED sent. While for other countries who are members of both organizations there has been the occasional lapse--for example, Pakistan in 1982--Romania is unique in that its documents have never been sent.

J.K. Salop *J.K. Salop*

cc: Mr. Whittome
✓ Mr. Tyler
Mr. Hole
Mr. Kay

Ho file



Office Memorandum

Mr. Whittome
z

July 2, 1982

MEMORANDUM FOR FILES

Subject: Romania - Paris Club Miscellany

1. Apparently the United States--at the insistence of the Treasury--has proposed that the July 8-9 meeting be a technical, data gathering, "no-decision" meeting to be followed up later in the month by another meeting at which the actual agreement would be hammered out. My sources say that the French have not yet responded to this proposal and that the answer may not come until Tuesday of next week when Mr. Camdessus is expected in Washington.

2. It now seems highly unlikely that the United States will decline to reschedule short-term debt, as had been earlier feared. The Export-Import Bank, which had been promoting this view, has apparently yielded.

3. Mr. Liviu Ionescu is checking with the Romanians about their statement for the Paris Club and whether they will need assistance from the Fund staff prior to the meeting. Mr. Brau's suggestions on the kinds of things that might be included have been passed on to Mr. Ionescu who, in turn, is to pass them along to Mr. Marin in the Ministry of Finance.

JS
J. K. Salop

cc: Mr. Whittome
Mr. Hole
Mr. Brau



Office Memorandum

Mr. Tyler

TO: Mr. Whitfield

June 29, 1982

FROM: J. Salop *JS*

SUBJECT: Applicant for IMF Institute Course on Balance of Payments
Methodology in French, 1982-XIV (October 25-December 17, 1982)

Mr. Traian Ioan Ionescu-Lungu of the Ministry of Finance of Romania is a most suitable candidate for the above course. His character is beyond reproach and his position within the Ministry of Finance and his level of training suggest that both Romania and he would benefit from his being included. Over the past two years, I have had considerable dealings with Mr. Ionescu-Lungu and he has continually proved himself to be cooperative, intelligent, and a man of integrity. Particularly in view of his managerial role in dealing with Fund missions, greater knowledge of Fund practices and balance of payments methodology would facilitate the ongoing dialogue between Romania and the Fund staff.

Please do not hesitate to telephone me if I can provide further information about Mr. Ionescu-Lungu.

cc: Mr. Tyler

Ro file



Office Memorandum

W

TO : Mr. Rose

FROM : William E. Holder *WEH*

SUBJECT : Romania - Stand-By Arrangement - Review - Proposed
Draft Decision

DATE: June 29, 1982

I refer to the amendment to the proposed draft decision for Romania contained in Mr. Nicoletopoulos' memorandum to the Deputy Managing Director of June 24, 1982.

You asked about the effect of the amendment, and of paragraph 5 c(i), in particular. I wish to confirm that:

1. Subparagraph (i) reflects the perceived intention of the Executive Board to have the December 31, 1982 figure for gross convertible international reserves applied for the 1983 program. Thus, as now drafted, purchases in the first period of 1983 will be prima facie tied to that limit, together with the other understandings that may be reached.

2. Notwithstanding this explicit prescription, new understandings on the limit for gross convertible international reserves could be negotiated. Upon approval by the Executive Board as part of the 1983 program, the terms of that decision of the Executive Board, being later in time, would govern; an express waiver of the December 31, 1982 limit would not be necessary.

3. In the event that new understandings were reached for 1983 except for a limit for gross convertible international reserves, it is not entirely clear whether or not Romania would be entitled to insist on relying on the December 31, 1982 figure. In the draft of the decision suggested by Mr. Nicoletopoulos in his memorandum of June 24, subparagraph (ii) included the words "in addition to the limit referred to in (i) above", after the initial phrase "until suitable performance criteria". It is my understanding that the interpolated phrase ("in addition to ...") was deleted after Mr. Dale talked with Mr. Polak. That deletion weakened the deference paid by subparagraph (ii) to subparagraph (i). In the real context of negotiating a comprehensive program, the issue may be somewhat hypothetical. Nonetheless, at this stage subparagraphs (i) and (ii), taken together, permit some ambiguity of interpretation regarding Romania's right to insist on continued application of the December 1982 ceiling.

4. From (2) above, it follows that the limit for gross convertible international reserves to apply to periods after the first quarter of 1983 could also differ from that established for December 31, 1982, despite the apparent generality of subparagraph (i).



Office Memorandum

Mr. Tyler

2

Director
Assistant
Secretary

June 24, 1982

MEMORANDUM FOR FILES

Subject: Romania--Proposed Draft Decision

The purpose of this note is to record the following:

According to information passed by Mr. Holder to Mr. Brau, Mr. Nicoletopoulos has expressed the view that the formulation of paragraph 5c of the decision by Mr. Holder in his June 22 memorandum to Mr. Lang does not imply a different treatment of the reserves test from the other performance criteria with regard to waiver in case of nonobservance at the end of 1982. Approval of the 1983 program by the Board would constitute an implicit waiver of any nonobserved performance criteria.

Jukka Paljarvi
Economist

Stand-By Policies Division
Exchange and Trade Relations Department

cc: Mr. Palmer
Mr. Brau
Mr. Holder
Mr. Tyler (on return) ✓
Ms. Salop



Office Memorandum

TO: Mr. Rose
FROM: J. Salop *JS*
SUBJECT: Romania--Proposed Decision

June 24, 1982

Mr. Paljarvi telephoned to say that ETR accepts Mr. Holder's June 22, 1982 proposal on the understanding that the performance criterion on end-1982 reserves is to be treated no differently from the other end-1982 performance criteria.



Office Memorandum

LPH
To read open for last discussion on 6/24
Re performance criteria of the Executive Board
attached (attached)
and the other (attached)
and

TO : The Deputy Managing Director

DATE: June 24, 1982

FROM : George P. Nicoletopoulos *G.P.N.*

SUBJECT : Romania's Stand-by Arrangement--Review--Proposed Draft Decision

We would propose the following decision to give effect to the consensus reached in the Executive Board last Monday.

Delete paragraph 5 a.(iii), and renumber following subparagraphs. Replace paragraph 5 c. with the following:

"c. during the period after December 31, 1982,

(i) if the limit on gross convertible international reserves for December 31, 1982 referred to in paragraph 7 of the annexed letter of April 20, 1982 is not observed; or

(ii) until suitable performance criteria, ~~in addition to the limit referred to in (i) above,~~ have been established in consultation with the Fund in the light of paragraph 19 of the annexed letter of April 20, 1982, or, after such performance criteria have been established, while any of these criteria or the limit referred to in (i) above is not being observed; or

(iii) until the intended changes in exchange rates described in sentences 6, 7, and 8 of paragraph 13 of the annexed letter have been made."

OK WR JJP

cc: Mr. Finch
Mr. B. Rose

✓cc: Joana

I have withheld this with this one clause left out. Bill Kessler is writing an explanatory memorandum

cc Joana

J. Paljun



Office Memorandum

TO: Mr. Rose

June 23, 1982

FROM: J. Salop *JS*

SUBJECT: Romania--Proposed Draft Decision

Mr. Paljarvi (ETR) has pointed out that Mr. Holder's June 22, 1982 proposal (attached) singles out the performance criterion on reserves, such that if the end-1982 floor is not met a waiver will be needed in 1983. For the other performance criteria, of course, this is not the case.

An alternative that would accord reserves "equal treatment," and yet not focus undue attention on the fact that nonobservance of the performance criterion for December 31, 1982 prevents drawings only until January 1, 1983, would be to amend paragraph 5.a(iii) to read:

(iii) the end-year limit on gross convertible international reserves described in paragraph 7 of the annexed letter of April 20, 1982, or

Attachment s

Mr. Whittome



Office Memorandum

✓

June 22, 1982

MEMORANDUM FOR FILES

Subject: Romania - Information for the Executive Board

Mr. Rose indicated that it would be necessary to keep Executive Directors informed about the status of the banks' rescheduling. To this end, the appropriate format or forum--whether memorandum or informal meeting--would have to be decided upon. In either case, it seemed unlikely that any such briefing would be required until after the Board's recess.

J.K. Salop
J.K. Salop

cc: ✓ Mr. Whittome (o/r)
Mr. Rose
Mr. Hole



Office Memorandum

To: Mr. Joseph W. Lang, Jr.

June 22, 1982

From: William E. Holder WEH

Subject: Romania--Stand-By Arrangement - Review - Proposed Draft Decision

In light of the discussion of the Executive Board on June 21, 1982, the proposed draft decision (EBS/82/73, Supplement 1, June 14, 1982) needs to be amended.

The consensus of the Board, I believe, was to convert the limits for gross convertible international reserves into indicative limits, except for the December 31, 1982 figure.

This could be achieved by the following changes to the proposed draft decision:

Delete paragraph 5 a.(iii), and renumber following sub-paragraphs.

Amend paragraph 5 c. to read:

" c. during the period after December 31, 1982 under the arrangement

- (i) until suitable performance criteria have been established in consultation with the Fund in the light of paragraph 19 of the annexed letter of April 20, 1982, or after such performance criteria have been established, while they are not being observed; or
- (ii) if the limit on gross convertible international reserves for December 31, 1982 referred to in paragraph 7 of the annexed letter of April 20, 1982 is not observed; or
- (iii) until the intended changes in exchange rates described in sentences 6, 7, and 8 of paragraph 13 of the annexed letter have been made."

cc: Mr. Dale
Mr. Finch
Mr. Rose

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

ROSE, BRIAN E.

ROOM 9-120

□□

June 24, 1982

To: Senior Staff

From: The Secretary's Department

Subject: Executive Board Meetings 82/85 and 82/86, June 21, 1982, a.m. and p.m.*

Romania - 1982 Article IV Consultation and Review of Stand-By Arrangement

Staff Representatives: Tyler, Rose, Finch, Holder, Salop
Discussion: 6 hours, 10 minutes

EDs welcomed reactivation of the stand-by arrangement with Romania. Several speakers suggested that Romania should be permitted immediately to draw more than a token SDR 10 million in order to increase its credibility with commercial banks; some also questioned the need to impose fixed quarterly reserve targets as performance criteria, especially given the uncertainty about the precise timing and amount of external credit to be made available. Other EDs considered that setting such firm quarterly objectives would reassure private markets, as well as help ensure that the end of year target was achieved and that the program for 1983 would not be jeopardized. It was explained that agreement reached in the framework of the Paris Club negotiations was that the Fund should indicate the substance of the program for the second year, committing itself to make resources available in that year, but not going beyond an initial drawing of SDR 10 million until the outcome of the debt rescheduling exercise was known. It was felt that to change the proposed course of action would not increase confidence on the part of creditors.

After discussion, EDs agreed that June and September limits for gross convertible international reserves should be indicative, but not the figure for December 31, 1982. Decision approved, amended accordingly (EBS/82/73, Supplement 2).

Chairman's summing up being circulated, and decision concluding consultation under Article IV adopted.

* * * * *

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*Précis for limited distribution; not basis for official action.

Decisions taken since previous Board meeting to be recorded in minutes
of Meeting 82/85

Costa Rica - Technical Assistance (EBD/82/143)
Jamaica - Technical Assistance (EBD/82/142)
Trust Fund - Means of Repayment by Members on Their Indebtedness
Under Loan Agreements (TR/82/1)
Executive Board Travel (EBAP/82/210, EBAP/82/211)

* * * * *

Decision taken since previous Board meeting to be recorded in minutes of
Meeting 82/86

Relations with GATT - Consultation with CONTRACTING PARTIES -
Guidance and Fund Representation (EBD/82/118, Supplement 1)

June 18, 1982 - 82/98

Statement by Mr. Polak on Romania
Executive Board Meeting 82/85
June 21, 1982

To begin with, I would like to express the appreciation of the Romanian authorities and myself to the staff--not only for their excellent paper but also for the great amount of work and travel they have devoted to bringing the Romanian program, with all its complicating ramifications, back onto track--and equally to the Managing Director for his patient willingness to look for ways to break through the intractable set of interlocking vicious circles in which, at times, Romania's debt rescheduling problem presented itself.

The experience with the Romanian program, almost immediately after its adoption a year ago, has been proceeding on two divergent tracks. The Romanian economy, including the current account of the balance of payments, has performed in line with the targets set, or indeed better. At the same time, the foreign credit situation of the country has moved into disarray: the credits that had been planned to finance a--substantially reduced--1981 current account deficit proved not to be available, the resources needed to repay credits falling due could not be marshaled and by the autumn of 1981 Romania was mired in a grave problem of arrears.

The real economy

The stabilization program for 1981 had been based on a strong reduction in the growth of investment and some lowering of the rise in consumption. In the event, the retrenchment was much more severe than had been planned, mostly because the shortage of foreign exchanges forced further adjustment. Gross fixed investment for 1981, which had been budgeted to increase by 4.4 per cent, fell by over 7 per cent. Consumption still rose (by 2.9 per cent), but less than the planned 3.7 per cent.

A similar development can be noted in the first four months of 1982. Investment, again targeted to rise for the year (by 5 per cent over the 1981 level) actually fell by 3.5 per cent and consumption is, at most, only slightly above that in the corresponding period of last year.

The same unfavorable external circumstances that hold down domestic activity are causing an overperformance in the current account of the balance of payments. The three-year program with the Fund had foreseen a gradual decline in the current account deficit: from \$2.4 billion in 1980 to \$1.8 billion in 1981, \$1.4 billion in 1982 and \$1.0 billion (considered to be a long-run sustainable deficit) in 1983. But the expansion in foreign indebtedness necessary to realize a program of this nature soon proved to be wholly out of reach. This forced a further adjustment, by about \$1.0 billion, in the current account for 1981 and a similar cut in the target deficit for 1982 (to \$450 million). But in the absence of fresh credits even this modest deficit proved unattainable, and in the first four months of this year the current account was in slight surplus.

The measures of structural adjustment

The most important feature of the three-year stand-by arrangement between the Fund and Romania was the acceptance by Romania of a set of policies that would integrate its economy more closely in the world economy and would give a more important role to the price mechanism in the guidance of both the domestic economy and international transactions. This process was initiated by the exchange rate measures that had become effective on January 1, 1981 and has been further implemented since. Agricultural prices have been raised, and so have consumer prices, thereby greatly reducing consumer-related subsidies. After the 35 per cent increase increase of consumer prices for farm products on February 15, 1982, these subsidies now run at an annual rate of L. 2 billion, as against L. 11.5 billion in 1981. A further step has also been taken in the adjustment of energy prices, with additional adjustments promised to be made (in para. 14 of the letter of intent) for the price of heavy liquid fuel oil on July 1, 1982 and for that of natural gas on October 1, 1982 and again on January 1, 1983. In fact, as I have just learned from the Romanian authorities, a decree has been published recently under which all three price increases take effect on July 1, 1982. Finally, the process of simplification, leading toward ultimate unification, of the exchange rate is proceeding according to plan. It should be noted in this connection that the gradual abolition of the multiple exchange rate system for the lei is bringing to the surface certain other issues as regards Romania's exchange rate policy. The unification of exchange rates by means of the appreciation of certain rates is beginning to raise some questions regarding the competitiveness of certain exports; and there is also ground for questioning the advisability to the continued pegging of the lei on the U.S. dollar. Both of these issues are recognized by the authorities and they will be examined critically during the latter part of this year to consider possible changes for 1983.

The arrears

In spite of the progress made in the real economy and in spite of the measures taken to bring about much needed structural adjustment, international attention has been focused almost entirely on the problems of Romania's foreign debt. Although the debt situation was becoming serious last September, and the existence of arrears forced the suspension of drawings under the stand-by arrangement in November 1981, the first steps toward an orderly rescheduling were not taken until January of this year. Since then, many discussions have taken place with (Western) commercial banks, which have also involved questions related to suppliers' credits, governmental credits extended under export guarantee schemes (Romania does not have any other credits from foreign governments outstanding), credits from certain Arab banks and credits from the East Bloc. It is extremely difficult to describe the precise status of the negotiations on any of these categories of arrears at any moment of time. One reason for this is that the negotiations are interrelated as each group of creditors is anxious to ensure that no other group receives a more favorable treatment. In addition, all creditors look to the Fund for its traditional "seal of

approval" on the Romanian program. Accordingly, today's action by the Board on this program will be of crucial importance to help the various negotiating processes being brought to a satisfactory conclusion. At the same time, the fact that the main governmental creditors have agreed to meet in the format of the "Paris Club" early in July constitutes an important assurance to the Fund that Romania's arrears problem is on its way to being resolved.

Romania's need for a substantial drawing on the Fund's resources is, in a sense, in abeyance pending the conclusion of the discussions with the various creditors. Only at that time will Romania meet the foreign exchange bill for the current account deficit incurred during 1981 in accordance with the program agreed with the Fund for that year. In the circumstances, Romania is reluctantly prepared to accept the Managing Director's proposal that an amount of only SDR 10 million will be made available immediately upon the Board's decision. The phasing of the release of the remainder of Romania's drawings for the first two years of the arrangement (a total amount of SDR 595 million, consisting of SDR 227.5 million that could not be drawn in the first year and SDR 367.5 million originally scheduled to be drawn during the second year) will be agreed upon after "satisfactory arrangements have been made for the rescheduling of outstanding payments arrears and debt payments falling due in 1982" (para. 6 of the proposed decision on the stand-by arrangement).

It will be noted that the review to establish the existence of such arrangements is the first of three reviews envisaged in the decision. A second review will be held "in the second half of 1982 to review developments in the economy"; it will determine whether further drawings can be made after November 1, 1982. As noted above, the measures in the field of energy pricing that might be considered in that review have already been taken. Finally, a third review will be necessary to establish performance criteria for 1983, and the satisfactory completion of this review will have to precede any drawings to be made after December 31, 1982.

Given the fact that almost half of 1982 has been consumed in discussions underlying the decision now before the Board, the intensity of the review activity for the balance of this year (and perhaps the early months of 1983) may well prove excessive for all parties concerned. I would hope that everything can be done to conduct at least the first two of these reviews simultaneously and that, more generally, every effort will be made to facilitate a more regularly phased use of the Fund's resources by Romania over the remaining period of its stand-by arrangement than has proved feasible so far.

In conclusion I recommend to the Board the approval of the two decisions proposed in EBS/82/73, Supplement 1.

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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23 MR. STELIAN MARIN
 22 DIRECTOR
 21 MINISTRY OF FINANCE
 20 BUCHAREST
 19 ROMANIA

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5

DISTRIBUTION

18 FOLLOWING THE DISCUSSIONS THAT MR. SWAMINATHAN OF THE
 17 FUNDS BUREAU OF STATISTICS HAD IN BUCHAREST RECENTLY WITH
 16 YOUR OFFICIALS, AND CONSISTENT WITH OUR AGREEMENT MADE
 15 DURING THE STAND-BY NEGOTIATIONS, WE PROPOSED TO INCLUDE
 14 DATA ON EXPENDITURE COMPONENTS OF GROSS NATIONAL PRODUCT
 13 IN THE FORTHCOMING AUGUST ISSUE OF IFS.

POLAK
 N HOLE
 O SWAMINATHAN

12 I AM ATTACHING A DRAFT OF THE SECTION OF THE IFS
 11 PAGE FOR ROMANIA COVERING THE NATIONAL ACCOUNTS DATA. I
 10 UNDERSTAND THAT SEPARATE DATA ON EXPORTS AND IMPORTS ARE
 9 NOT PRESENTLY AVAILABLE, AND WE THEREFORE PROPOSE TO
 8 REPORT THE ITEM ^{"EXPORTS} ~~NET~~ (NET). I WOULD APPRECIATE IT
 7 IF YOU WOULD PROVIDE DATA FOR THIS TIME SERIES. THE
 6 FIGURES WE HAVE ON THIS ITEM INCLUDE A STATISTICAL
 5 DISCREPANCY AND NET FACTOR INCOME, AND WE WOULD LIKE TO
 4 ABSTRACT THESE FROM THE DATA ON ^{"NET} ~~NET~~ EXPORTS," BUT INCLUDE
 3 THEM IN THE TOTAL OF GNP.

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2 THE FIGURES ON PRIVATE CONSUMPTION AND GOVERNMENT
 1 CONSUMPTION HAVE BEEN COMPILED ON THE BASIS OF THE DATA

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D DRAFTED BY NAME (TYPE): **GTYLER** EXT.: **7-3755** DEPT.: **EUR** DATE: **JUNE 18, 1982**
 E AUTHORIZED BY NAME (TYPE): **G. TYLER** AUTHORIZED BY NAME (TYPE):
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SEC 48 10-21-81

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WASHINGTON, D. C. 20431

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18	<p style="text-align: center;"><i>APPORTIONMENT OF THE CONSUMPTION FUND</i></p> PROVIDED ON THE APPORTIONMENT <i>APPORTIONMENT OF THE CONSUMPTION FUND</i>		DISTRIBUTION
17	BETWEEN HOUSEHOLDS AND GOVERNMENT, TOGETHER WITH AN	N	
16	ESTIMATE OF 30 PER CENT OF NET VALUE ADDED IN NON-	O	
15	MATERIAL SERVICES AS GOVERNMENT CONSUMPTION. IF YOU	T	
14	WISH TO REVISE THIS LATTER ESTIMATE, PLEASE DO SO.		
13	FINALLY, WE WOULD LIKE THE PROVISIONAL DATA ENTERED		
12	FOR 1981 TO BE REVIEWED AND THE MISSING FIGURES FILLED	T	
11	IN. THE 1977 AND 1978 DATA FOR GNP AT CONSTANT PRICES	Y	
10	ARE ALSO MISSING. I WOULD BE GRATEFUL IF YOU COULD	P	
9	EXTEND ALL THE LINES BACK TO 1975.	E	
8	ON ANOTHER MATTER, I SHALL BE IN PARIS ON JULY 7		
7	PRIOR TO THE COMMENCEMENT OF THE PARIS CLUB. I THINK		
6	IT WOULD BE USEFUL IF I COULD MEET WITH YOUR DELEGATION		
5	SOMETIME ON THAT DAY. I WOULD BE GRATEFUL IF YOU COULD		
4	LET ME KNOW WHETHER OR NOT YOUR DELEGATION WILL BE ABLE	H	
3	TO HAVE SUCH A MEETING. I EXPECT TO BE STAYING AT THE	E	
2	HOTEL LOTTI, ARRIVING ON TUESDAY JULY 6.	R	
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	1977	1978	1979	1980	1981
18 ROMANIA - IFS PAGE					
17					
16 90N EXPORTS (NET)					
15 91F GOVERNMENT CONSUMPTION	45.2	48.1	54.7	55.2	
14 93E GROSS FIXED CAPITAL					
13 FORMATION	169.8	198.6	206.7	212.8	208.5
12 93I INCREASE IN STOCKS	32.9	26.1	30.1	22.5	7.4
11 96F PRIVATE CONSUMPTION	259.8	288.2	315.3	341.7	
10 99A GROSS NATIONAL PRODUCT	512.9	552.1	598.6	619.9	641.6
9 99E NATIONAL INCOME MARKET					
8 PRICES	467.6	501.3	543.2	559.8	576.4
7 99A.P. GROSS NATIONAL					
6 PRODUCT JAN. 1977 PRICES			590.7	610.2	626.7

5 COUNTRY PAGE NOTE
4 NATIONAL ACCOUNTS: DATA COMPILED ACCORDING TO THE
3 SYSTEM OF MATERIAL PRODUCT BALANCES AND CONVERTED TO
2 AGGREGATES OF THE UN SYSTEM OF NATIONAL ACCOUNTS. LINE

1 99A INCLUDES NET FACTOR INCOME AND A STATISTICAL
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WASHINGTON, D. C. 20431

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Office Memorandum

43

MEMORANDUM FOR THE FILES

June 17, 1982

Subject: Romania--Bank Rescheduling

Mr. Kjellerin rang me from London to say that Mr. Gigea is proposing that suppliers' credits be rescheduled on the following terms: 20 per cent in each of 1982 and 1983 and 30 per cent in each of 1984 and 1985. He asked me what my view was of this. The terms would compare with the schedule proposed for the banks of 20 per cent in 1982, the remainder rolled over for 6 1/2 years with 3 years grace.

For 1982 there would presumably be no difference. In 1983, US\$82 million additional payments would be required compared with those needed if the bank schedule was followed, in 1984 US\$226 million more, in 1985, US\$54 million more, and in 1986-88, US\$430 million less. I subsequently told Mr. Kjellerin that in my view, the larger financing requirements in 1983-85 should not in themselves pose an insurmountable problem although they obviously would necessitate finding balancing credits from other sources and/or a more rapid adjustment in the current account in convertible currencies.

97

Geoffrey Tyler

cc: Mr. Whittome
Mr. Hole



Office Memorandum

MEMORANDUM FOR THE FILES

June 17, 1982

6

Subject: Romania--Bank Rescheduling

Mr. Kjellerin rang me from London to report on the latest discussions between Romania and the banks. He said that with respect to suppliers' credits, the banks had said that they would accept the new proposal (to repay in full ending 1985) only if this preferential rescheduling were associated with new supplier credits. If this cannot be achieved, the only change in the position on suppliers' credits will be that the upper limit below which suppliers can be paid off immediately will be increased from US\$10,000 to US\$50,000 per credit, provided the total of suppliers' credits exempt from rescheduling does not exceed the earlier agreed US\$120 million.

On timing Mr. Kjellerin said that the "third" telex, conveying the proposal to all the banks would be sent to the latter very soon. He thought that it was possible that this could lead to a final agreement in 4-6 weeks. He admitted that some of the European banks thought such a short time was not possible.

47

Geoffrey Tyler

cc: Mr. Whittome
Mr. Hole



Office Memorandum

3

MEMORANDUM FOR THE FILES

Subject: Romania--IFS Page

June 17, 1982

Mr. Swaminathan spoke to me about his discussions in Bucharest regarding the provision of national accounts on an SNA basis for publication in IFS. Attached are copies of the data and comments on them. He would be willing to have a presentation that included GNP but not GDP, excluded net factor income and replaced separate export and import figures by net exports, which Romania says it can provide.

We agreed that we would jointly prepare a letter setting out our requirements, which I shall send to Bucharest, with a reminder of the commitment given to me to permit publication in IFS.

97

Geoffrey Tyler

cc: Mr. Whittome
Mr. Hole

Attachment

Romania - IFS Page

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
*90C	Exports			
91f	45.2	48.1	54.7	55.2
93e	169.8	198.6	206.7	212.8
93i	32.9	26.1	30.1	22.5
96f	259.8	288.2	315.3	341.7
*98c	Less Imports			
†99b	Gross Domestic Product			
†90e	Net Factor Income			
99a	512.9	552.1	598.6	619.9
99e	467.6	501.3	543.2	559.8
99a.p.	Gross National Product 1977 Prices		590.7	610.2

Country Page note

National Accounts: Data compiled according to the System of Material Product Balances and converted to aggregates of the UN System of National Accounts. Line 99a includes net factor income and a statistical discrepancy.

*To be replaced by 90n (Exports Net) if Exports and Imports cannot be reported separately.

†To be omitted, if data on net factor income is not available.

1. The separation into Private and Government Consumption was provided for expenditures on material goods and services. The separation of expenditure on non-material services included in consumption has been made on the basis of a 70 per cent to 30 per cent split suggested by them. These data should be reviewed by them.

2. They said that it would be difficult to report Exports and Imports separately and that net factor income was insignificant. At least the net exports figure is needed. As of now, we have a composite figure for exports plus net factor income plus statistical discrepancy. Could we have from them the data on Net Exports which we could report in place of Exports and Imports. Also we can drop GDP and net factor income and report only GNP which will include the statistical discrepancy besides net factor income.

3. Could they supply the 1981 data and give backdata for 1975 and 1976 at a later date, if it is not available now.

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INTERFUND PARIS, JUNE 16, 1982

INTERFUND
WASHINGTON DC

FOR MR. TYLER,
MR. BRAU

MR. TRICHET OF THE FRENCH TREASURY HAS INFORMED ME THAT THE PARIS CLUB MEETING ON ROMANIA IS SCHEDULED FOR JULY 5-6, 1982.

REGARDS
TAPLIN
INTERFUND PARIS

*These dates may well be wrong.
Get further information with AT*

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Global Telegram

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Office Memorandum

MEMORANDUM FOR THE FILES

June 16, 1982

2

Subject: Romania--Fuel Prices

Mr. Ionescu-Livui told me that Bucharest has informed him that the price of heavy diesel fuel oil will be increased on July 1, 1982 as agreed. In the agreed program, the price of natural gas was to be increased from lei 500 per thousand m³ to lei 750 per thousand m³ on October 1, 1982 and to lei 1,000 per thousand m³ on January 1, 1983. However, it has been decided to establish the latter price on July 1, 1982. This will mean that one element of the review which is to take place in the fall will not present any problem.

47

Geoffrey Tyler

cc: Mr. Whittome
Mr. Mookerjee
EED

Mr. O'Connor

June 16, 1982

Geoffrey Tyler

Romania--IFS

This is to confirm that the Romanian authorities explicitly agreed with me that the Romanian balance of payments could be published in IFS on a semi-annual basis, with a total and a convertible set of tables. It was also agreed that the national accounts could be published. There is a reference to this agreement in the letter of intent, dated April 20, 1982, which says

"18. We believe that it is desirable to increase the amount of information supplied to the Fund for inclusion in its various publications. In particular we intend to provide additional data on GNP and its expenditure components, foreign trade, and the balance of payments."

cc: Mr. Hole
Ms. Salop



Office Memorandum

4

MEMORANDUM FOR THE FILES

June 15, 1982

Subject: Romania--Stand-By Reviews

Mr. Polak spoke to me about the review changes in the Romanian stand-by. Three reviews are provided for:

- (i) a review to establish that the reschedulings are satisfactory;
- (ii) a review in the second half of the year to survey developments in the economy (including whether the prices of gas and heavy diesel fuel oil have been increased as proposed); and
- (iii) a review early in 1983 to examine the 1983 program and establish quantified performance criteria.

Mr. Polak was concerned that there could be a hiatus after November 1, 1982 during which purchases could be unavailable because the review (ii) had not yet taken place. I said that it was the present intention to visit Romania during September and that the review could probably take place early in November. Also, if resources were needed because the reschedulings had taken place satisfactorily it would no doubt be possible at review (i) to resolve any problem of the kind mentioned above.

Mr. Polak wondered whether reviews (i) and (ii) could be combined. I said that personally I thought we would see an advantage in so doing if the timing permitted, which conceivably could be the case. However, review (ii) would need to take place after October 1, which is the date for the introduction of the higher gas price, and in practice could not be arranged prior to November because of the time constraint of document preparation and circulation. If the reschedulings were completed earlier than November 1, review (i) would be required before that date. If the reschedulings were completed after November 1, then it would be possible to combine the two reviews.

47

Geoffrey Tyler

cc: Mr. Whittome
EED



Office Memorandum

June 14, 1982

4

MEMORANDUM FOR FILES

Subject: Romania - Banks' Rescheduling

Mr. Schwarzenberg (Union Bank of Switzerland) called me to find out the situation regarding the meetings on Romania of the Fund Board and the Paris Club. He said that the 9 banks are well advanced in their work. The credit contract is in a fourth version. The information package is far advanced and the third telex (from Romania to creditors explaining the requested restructuring) is basically prepared. As a result the banks are now waiting for the Fund and Governments to move. I told Mr. Schwarzenberg that our meeting is for June 21 and that the tentative date for the Paris Club is in the week beginning July 5.

Regarding the bank agreement, it seems that the treatment of suppliers credits will exclude up to \$70 million of debt that must be repaid (e.g. for airport fees and bunkering) and credits of up to \$500,000. All other supplier credits will be included. Regarding the likely timetable for the Bank signing, Mr. Schwarzenberg said that the third telex could go out very quickly after the Paris Club. After that it would take about four months to go through all the procedures that the banks need to follow prior to the eventual coming into force of the agreement.

47

cc: Mr. L. A. Whittome
EED



Office Memorandum

MEMORANDUM FOR THE FILES

Subject: Romania--Paris Club Meeting

June 14, 1982

Mr. Dale told me that Mr. Erb had reformed him that the U.S. had placed no conditions on the timing of the Paris Club meeting, namely that the invitations could be sent out only after the Fund Board meeting had taken place. (This is contrary to the information in my memorandum of June 11, 1982 on my conversation with Mr. Brau.)

I agreed with Mr. Dale that I would speak to Miss le Lorier to make sure that she and her colleagues in Paris know the Board meeting will be on June 21, 1982. *

97
Geoffrey Tyler

cc: Mr. Whittome
Mr. Brau
EED

* Miss le Lorier has informed Paris. She will let me know when a date is set. I have also asked Mr. Guetta to keep us informed. * 2/14

97 6/14



Office Memorandum

LAW
cc: [unclear]

TO : The Deputy Managing Director

DATE: June 11, 1982

Σ

FROM : Geoffrey Tyler 47

SUBJECT : Romania--Board Decision

Mr. Holder has looked at the redraft of paragraph 6 of the proposed decision on the review of the stand-by arrangement. This is the paragraph you proposed changing in order to make it quite clear that only SDR 10 million could be purchased prior to the review of the final rescheduling arrangements. I attach a redraft of the paragraph, which Mr. Holder and I recommend to you as meeting your desire.

Attachment

cc: Mr. Whittome ✓
Mr. Holder
Mr. Carter

Draft--6/11/82
WHolder/GTyler/af

Romania - Stand-By Arrangement - Review -
Amendment to Proposed Draft Decision

6. Purchases during the second year of the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 595 million, provided that purchases for that year shall not exceed the equivalent of SDR 10 million until the Fund has decided that satisfactory arrangements have been made for the rescheduling of outstanding payments arrears and debt payments falling due in 1982. Thus, purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 735 million until June 14, 1983, nor the equivalent of SDR 150 million until the Fund decides that satisfactory rescheduling arrangements have been made. At the time of that decision, the Fund will establish the phasing for the remainder of the second year of the arrangement.

OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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22 EDEN HOTEL
21 VIA LUDOVISI
20 ROME
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18 MANAGING DIRECTOR HAS DECIDED TO PUT ROMANIA ON AGENDA
17 MONDAY, JUNE 21. PARIS CLUB EXPECTED TO BE SCHEDULED IN
16 WEEK OF JULY 5. TENTATIVELY PARIS CLUB PROPOSED FOR WEEK
15 BEGINNING JULY 5.
14 REGARDS
13 TYLER

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ATT. H ELEN JUNG, INTERFUND

IF YOU LEAVE ROMANIAN DATE AT MONDAY 14TH THEN PLEASE ENSURE
YOU EXPLAIN FACT AND REASON NOT ONLY TO ERB BUT ALSO LASKE,
DE MAULDE, ANSON AND POLAK.

REGARDS ALAN

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Office Memorandum

NOTE FOR THE FILES

Subject: Romania

June 11, 1982

The Swiss Embassy rang asking whether the Board meeting on Romania would take place on Monday, June 14, 1982. I indicated that it had been postponed for reasons that were basically technical but that the delay would not be great.

Geoffrey Tyler

cc: Mr. Whittome
EED



Office Memorandum

WEL

TO : The Deputy Managing Director

DATE: June 11, 1982

FROM : Geoffrey Tyler *GT*

SUBJECT : Romania--Board Decision

Mr. Holder has looked at the redraft of paragraph 6 of the proposed decision on the review of the stand-by arrangement. This is the paragraph you proposed changing in order to make it quite clear that only SDR 10 million could be purchased prior to the review of the final rescheduling arrangements. I attach a redraft of the paragraph, which Mr. Holder and I recommend to you as meeting your desire.

Attachment

cc: Mr. Whittome
Mr. Holder
Mr. Carter

Draft--6/11/82
WHolder/GTyler/af

OK
WHL

Romania - Stand-By Arrangement - Review -
Amendment to Proposed Draft Decision

6. Purchases during the second year of the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 595 million, provided that purchases for that year shall not exceed the equivalent of SDR 10 million until the Fund has decided that satisfactory arrangements have been made for the rescheduling of outstanding payments arrears and debt payments falling due in 1982. Thus, purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 735 million until June 14, 1983, nor the equivalent of SDR 150 million until the Fund decides that satisfactory rescheduling arrangements have been made. At the time of that decision, the Fund will establish the phasing for the remainder of the second year of the arrangement.



Office Memorandum

4

MEMORANDUM FOR THE FILES

Subject: Romania--Paris Club

June 11, 1982

Mr. Brau rang me from Paris following a conversation he had had with Mr. Trichet. The latter had said very firmly that the Paris Club invitations would be sent to creditor governments only after the Fund Board meeting had taken place. This is the French interpretation of the conditions that the U.S. has asked for in this particular case. Mr. Brau had pointed out to Mr. Trichet that it had frequently been the case that the only requirement was the timing of the Fund Board meeting prior to that of the Paris Club. Mr. Trichet apparently was insistent that for Romania, the special condition must operate.

Mr. Trichet said that there must be two weeks between the issuing of the invitations and the Paris Club meeting. He also said that the week of July 5-9 had been blocked out for the Romanian meeting. Working two weeks backward this would mean that the Fund Board meeting would have to take place no later than June 21 if the Paris Club were to begin on July 5 and no later than June 24 if the Paris Club were to begin on July 8.

I pointed out to Mr. Brau that a strict interpretation of Mr. Dale's statement would mean that there could never be a Paris Club meeting since he had said that the Fund Board meeting would be scheduled after the date of the Paris Club was known. We agreed that it would probably be possible to find some formula under which the Paris Club meeting could informally be set for a certain date. For our part we could undertake to ensure that our meeting was at least two weeks before the informally agreed date of the Paris Club.

97

Geoffrey Tyler

cc: The Deputy Managing Director
 Mr. Whittome
 Mrs. Junz
 EED



Office Memorandum

MEMORANDUM FOR THE FILES

Subject: Romania

June 11, 1982

At the Board on June 11, 1982 Mr. Dale announced that the Board meeting of June 14 would be postponed. He indicated that a Paris Club meeting would be scheduled in July and referred to possible dates of July 5-8. He said that the precise date of the Board meeting, which would involve a postponement measured in days rather than weeks, would be set when the date of the Paris Club was known and when it was clear that a satisfactory outcome could be expected. Mr. Dale also said that a supplement to the staff report would be issued before the Board meeting. In clarification on the timing, he confirmed that the Board meeting would of necessity be prior to the Paris Club. (In practice the Board date is likely to be between June 18 and June 25.)

Treasurer's Department has been told that a purchase could be requested for the end of June. Mr. Boese informed me that the latest date for the Board meeting that would permit such a purchase is June 23. This would leave the minimum time required to obtain the necessary borrowed resources. I have relayed this information to Mr. Polak.

The Executive Directors representing G5 countries have been told by Mr. Dale of the way in which we propose to handle the decision on the review of the stand-by arrangement, including the proposal to limit the initial purchase to SDR 10 million and to set phasing of additional purchases at a review after the final form of rescheduling agreements is known. This safeguard apparently was thought useful. On their own governments' positions, the Executive Directors were cautious but personally they thought a rescheduling would be agreed.

57

Geoffrey Tyler

cc: Mr. Whittome
Mrs. Junz
EED



Office Memorandum

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MEMORANDUM FOR THE FILES

Subject: Romania--Board Meeting

June 11, 1982

The Managing Director has told me that he is satisfied that the U.S. will participate in the Paris Club. Therefore, and after discussion with Mr. Polak, he has decided to place Romania on the agenda of Monday, June 21, 1982. I have informed Mr. Bhagwat. The Managing Director said that the supplementary paper could be distributed with the altered decision. I have left a message with Mr. Dale saying that we shall delay distribution of the supplementary paper until we have confirmation that the new wording of paragraph 6 of the stand-by decision is acceptable to him.

97

Geoffrey Tyler

cc: Mr. Whittome
Mrs. Junz
Mr. Carter
EED

The Deputy Managing Director

June 10, 1982

Geoffrey Tyler

Romania

I attach for your consideration a draft memorandum to the Managing Director. You might note that I have included a suggestion for the circulation of the supplementary paper, which includes the draft decisions and which is with the Managing Director.

Secretary's Department have confirmed that there is no difficulty in removing Romania from the agenda of June 14 and that it would be possible to schedule it subsequent to June 18. They agree that it would be helpful to distribute the decisions in advance of setting the Board date.

Attachment

cc: Mr. Whittome
EED

DRAFT
6/10/82

To: The Managing Director
From: The Deputy Managing Director
Subject: Romania

Since you commented upon Mr. Tyler's memorandum of June 9, 1982, Mr. Polak has spoken to me [urging an early Board meeting and] requesting a meeting with you on Friday. In addition, Mr. Erb has informed Mr. Tyler that early July has been proposed for the Paris Club meeting, although it is not clear whether this has involved proposing a specific date to other governments. His authorities have not yet decided whether they will agree to the proposed meeting and date. Personally, Mr. Erb thinks the decision will be favorable and known within a week.

In these circumstances and in the light of your comments on Mr. Tyler's memorandum, I would suggest that we remove Romania from the agenda of June 14, 1982. You could announce this in the Board on Friday, indicating that a date would be set when the timing of rescheduling discussions between Romania and its official creditors are clearer. Assuming the U.S. accepts the Paris Club in early July, we could have our discussions after knowing of this acceptance but before the Paris meeting. The Board agenda is crowded but it would be possible to schedule Romania between June 21 and July 2.

I believe it could be useful to issue at this stage the supplementary paper which includes the proposed decisions. Executive Directors would then be aware of the stand-by decision and the safeguards it includes and have time to consult with their authorities. This would give us more flexibility and speed when it comes to putting Romania back on the agenda.

cc: Mr. Whittome
Mr. Tyler
Mr. Carter



Office Memorandum

4

MEMORANDUM FOR THE FILES

Subject: Romania--U.S. Position

June 10, 1982

Mr. Erb rang me to ask whether a decision had been made on the timing of the Romanian mission. I told him that a firm decision had not yet been made.

Mr. Erb said that July 5, 1982 had been proposed for the Paris Club meeting. (On the basis of advice from Mr. Camdesus, we had thought that July 8-9 was the earliest possible date. Mr. Erb will check his information.) His authorities have not yet decided whether to accept the invitation but Mr. Erb expects that a decision will be made within a week. His own judgment is that it will be favorable.

Mr. Erb wondered whether an early Board meeting might be possible on the basis of some contingent decision, applicable only after reschedulings were in place. (The current proposal is effectively a contingent decision because of the form of the phasing and review.) However, he would clearly feel more comfortable with a postponement of the June 14 meeting with the hope that a precise date could be set after the U.S. decision on the Paris Club has been made.

37

Geoffrey Tyler

cc: Mr. Whittome
EED



Office Memorandum

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MEMORANDUM FOR THE FILES

June 10, 1982

Subject: Romania 17

Mr. Mathuran rang to warn me that Treasurer's Department will be sending a telex to Bucharest informing them that charges for the second year of the stand-by arrangement totaling US\$2,269,234.27 must be paid. The fact that the stand-by arrangement is currently inoperative does not affect the charge. If the arrangement were canceled the charge would be refunded. Given that the authorities might well feel upset at being asked to pay charges on a stand-by arrangement under which they currently cannot draw, I informed Mr. Ionescu in case he were asked any questions.

Geoffrey Tyler

cc: EED



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

June 10, 1982

MEMORANDUM

To: The Managing Director

From: William B. Dale *WBD*

Subject: Romania

Since you commented upon Mr. Tyler's memorandum of June 9, 1982, Mr. Polak has spoken to me urging an early Board meeting (though not June 14 and not even necessarily on June 18--his plea is simply for a specified date in the relatively near future). He also requested a meeting with you on Friday. In addition, Mr. Erb has informed me and Mr. Tyler that early July has been put forward by Camdessus for the Paris Club meeting, although it appears that this presently involves bilateral consultation, and not yet a firm proposal for a specific date to other governments. His authorities have not yet decided whether they will agree to the proposed meeting and date. Personally, Mr. Erb thinks the decision will be favorable and known within a week. He is quite confident that he will be able to support the Fund program.

In these circumstances and in the light of your comments on Mr. Tyler's memorandum, I would suggest that we remove Romania from the agenda of June 14, 1982. You could announce this in the Board on Friday, indicating that a date would be set when the timing of rescheduling discussions between Romania and its official creditors are clearer. Assuming the U.S. accepts the Paris Club in early July, we could have our discussions after learning of this acceptance but before the Paris meeting. The Board agenda is crowded but it would be possible to schedule Romania between June 21 and July 2.

I believe it could be useful to issue at this stage the supplementary paper which includes the proposed decisions. Executive Directors would then be aware of the stand-by decision and the safeguards it includes and have time to consult with their authorities. This would give us more flexibility and speed when it comes to putting Romania back on the agenda.

cc: Mr. Whittome
Mr. Tyler
Mr. Carter

From : Office of Managing Director June 9, 1982

To : Mr. Dale, Mr. Whittome, and Mr. Tyler

Subject: Romania

Will there be a Paris Club date on the 18th?

The logic of the action taken up to now is to postpone the next meeting for a sufficient delay to give the Paris Club people a chance to fix a date. I am not sure that 4 days would suffice.

Mr. Whittome has convinced me during the conversation I had with Mr. Polak that the major problem we had with Romania was the building up of arrears. How can we plan a resumption of our assistance if we have no indication of a likely positive attitude of the creditors on this central issue?

From : Office of Managing Director June 9, 1982

To : Mr. Dale, Mr. Tyler

Subject: Romania

1. Is Mr. Erb aware of the fact that you intend proposing to the Board on the 18th an immediate release of 10 million SDRs ?

2. There is a form of "pressure" in the method suggested. Before you fix up a date, things have to be very clear with the major EDs. *G-5 EDs to be contacted to be specifically re their SDRs*

3. The argument you make on the creditors not having "an indication of the Fund position" is not convincing. We have circulated a report indicating that the program is OK and that we are ready to lend as soon as the question is solved.

So you are "not seeking to give an indication" to the creditors ! You are seeking to present them a "fait accompli" in order to pressure them.

4. Should we do that ? Is it our role ? Is it even productive ? I doubt it. I feel the matter is more political than technical.

Page 1. 3rd paragraph: they already know that with the report itself.

4th paragraph: they do have a clear indication with our Report

From : Office of Managing Director June 9, 1982

To : Mr. Dale, Mr. Tyler

Subject: Romania

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So you are "not seeking to give an indication" to the creditors ! You are seeking to present them a "fait accompli" in order to pressure them.

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Page 1. 3rd paragraph: they already know that with the report itself.

4th paragraph: they do have a clear indication with our Report



Office Memorandum

TO : The Managing Director

FROM : Geoffrey Tyler 47

SUBJECT : Romania

DATE: June 9, 1982

Handwritten notes:
 [The Date
 No Tyler
 JUN 9 1982
 1) Is Mr Erb aware of the fact that you intend proposing to the Board on the 18th an immediate release of 12 million SDRs?
 2) This is a form of pressure in the market suggested. Before you fix up a memo, things have to be very clear with the be upon E.D.

In Mr. Whittome's absence, I am replying to your comments on his memorandum of June 7, 1982.

Mr. Whittome has spoken to Mr. Camdessus regarding the date of a Paris Club meeting. The latter has indicated it could not now be before July 8-9, 1982. Presumably no invitations have been issued pending clarification on whether or not the U.S. will participate and confirmation that the date for our Board meeting has been set. Mr. Whittome spoke with Mr. Erb before departing. Mr. Erb had no objection to scheduling our Board meeting on June 14 or June 18, 1982. He did not know what the U.S. position would be regarding the Fund stand-by or the Paris Club, since those involved in deciding it had not yet returned from Europe. Mr. Erb has reread our Board paper and feels more comfortable with it than on the first reading. (At his request, I had a meeting with him and U.S. Administration officials on Monday last to discuss some aspects of our paper.)

Handwritten notes:
 3) The argument you make on the way you have indicated an indication of the Fund position is not convincing. We have a program which is OK and that we are ready to lend on the program.

As we saw the logic of our proposed action, the Board discussion and acceptance of the decision would not effectively resume Fund assistance. Apart from the immediate availability of a token SDR 10 million (out of a total of SDR 595 million to be available until June 1983) no Fund resources would be available until an actual and positive position had been taken by creditors. By going to the Board, we would be telling creditors that there is a program which is satisfactory provided that reschedulings are finalized. We hope that this would encourage creditors, both official and private, to continue or begin rescheduling discussions, leading to a solution of the arrears problem.

Handwritten notes:
 they also know that we are not really

Of course, it is possible (although we have no reason to assume so) that governments might decide not to reschedule or that the eventual form of the reschedulings of the governments and/or banks might be different enough from what we have assumed to require significant changes in the program compared with its present form. If this did happen we should have to start anew with the whole process of negotiating a program. However, we believe that at this stage we should break the vicious circle whereby the creditors will not act in the absence of an indication of the Fund position while we need to make an assumption that there will be a solution to the arrears problem via reschedulings. The course and timetable recommended in Mr. Whittome's memorandum is designed to do this without making Fund resources available until the program is demonstrably on a sound base. Given that Mr. Erb accepts a Board meeting date for next week, I believe Mr. Whittome would continue to favor June 18.

Handwritten notes:
 So you are not sticking to the indication of the program? You are suggesting that you are presenting a fair and reasonable program? Should we do this? Is it our role? I don't think I feel the political pressure

Handwritten notes:
 they do have a clear indication with our return

cc: The Deputy Managing Director (on return)
 Mrs. Junz
 Mr. Carter
 EED

Handwritten signature and date:
 June 9 82

The Managing Director

June 9, 1982

Geoffrey Tyler

Romania

In Mr. Whittome's absence, I am replying to your comments on his memorandum of June 7, 1982.

Mr. Whittome has spoken to Mr. Camdessus regarding the date of a Paris Club meeting. The latter has indicated it could not now be before July 8-9, 1982. Presumably no invitations have been issued pending clarification on whether or not the U.S. will participate and confirmation that the date for our Board meeting has been set. Mr. Whittome spoke with Mr. Erb before departing. Mr. Erb had no objection to scheduling our Board meeting on June 14 or June 18, 1982. He did not know what the U.S. position would be regarding the Fund stand-by or the Paris Club, since those involved in deciding it had not yet returned from Europe. Mr. Erb has reread our Board paper and feels more comfortable with it than on the first reading. (At his request, I had a meeting with him and U.S. Administration officials on Monday last to discuss some aspects of our paper.)

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cc: The Deputy Managing Director (on return)
Mrs. Junz
Mr. Carter
EED

From Office of Managing Director June 9, 1982

To : Mr. Dale ←

Subject: Romania--Supplement to Staff Report

I cannot approve this supplement before I have the answers to my questions on Mr. Tyler's memo of June 9th.

*OK to be circulated
with our memo
6/10/82*

From : Office of Managing Director June 16/82

To : Mr. Dale

Subject: Romania - Supplement to Staff Report

O.k. - Can be circulated with Mr. Dale's amendment. Now that we have the assurance that a date is going to be fixed.

I cannot approve this supplement before I have the answers to my questions on Mr. Tyler's memo of June 9th.

June 9/82

The Managing Director



Office Memorandum

JUN 9 1982

TO : The Managing Director

FROM : Helen B. Junz *HBJ*

SUBJECT : Romania--Supplement to Staff Report

DATE: June 9, 1982

7 Mr. Junz
I cannot approve
this supplement letter
I have the answers
to my questions
on Mr. Tyler
memo of
June 9.

In Mr. Whittome's memorandum of June 7, 1982, he indicated that we would be sending you a supplement to the staff report, which would include the draft decision, supplementing factual information on the recent developments in the economy and some revised budget tables. The supplement also spells out provisions in the draft decision on the review of the stand-by arrangement regarding phasing of purchases and the timing and purposes of proposed future reviews.

Assuming the Board meeting is set for Friday, June 18, 1982, which is acceptable to Messrs. Erb and Polak, we would aim at circulating the supplement no later than Friday, June 11, 1982.

On approval the draft paper should be returned to the European Department, please.

Attachment

cc: The Deputy Managing Director (on return)
 Mr. Tyler
 Mr. Carter

7



Office Memorandum

TO : The Managing Director

FROM : Helen B. Junz *HBJ*

SUBJECT : Romania--Supplement to Staff Report

DATE: June 9, 1982

In Mr. Whittome's memorandum of June 7, 1982, he indicated that we would be sending you a supplement to the staff report, which would include the draft decision, supplementing factual information on the recent developments in the economy and some revised budget tables. The supplement also spells out provisions in the draft decision on the review of the stand-by arrangement regarding phasing of purchases and the timing and purposes of proposed future reviews.

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Attachment

cc: The Deputy Managing Director (on return)
Mr. Tyler
Mr. Carter

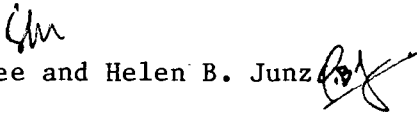
Draft GT 6/9/82

INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for the 1982 Article IV Consultation and
Review under Stand-By Arrangement - Supplementary Information

Prepared by the European Department and
the Exchange and Trade Relations Department
(In consultation with the Legal and Treasurer's Departments)

Approved by Subimal Mookerjee and Helen B. Junz 

June .., 1982

This supplement contains a brief description of developments in the first four months of 1982, and the proposed decisions on the consultation and review under the stand-by arrangement and the 1982 Article IV consultation. It also contains updated tables on the budget (Tables 1 to 3).

I. Recent Economic Developments

Developments in the first four months of 1982 have been dominated by the existence of payments arrears and the virtual unavailability of foreign credits. As a result, the economy has had to operate with the current account in convertible currencies in balance. In the context of debt rescheduling negotiations, repayments of capital have basically ceased until the negotiations are completed and some interest payments have not been made because it is hoped that these will be rescheduled. As a result, arrears have risen sharply since the beginning of the year, exacerbated by the fact that repayments of credits in 1982 are heavily concentrated in the first quarter of the year.

Production in the first part of 1982 has been at rates below those planned for the whole year and in the quarter net industrial production

was only 1.8 per cent higher than in the corresponding months of 1981. While it is too early to make a confident prediction about the harvest, until May the weather had been relatively good and the authorities are optimistic about the favorable effects of the large rise in producer prices for vegetable products that took effect in December 1981. On the expenditure side, the volume of investment in the first four months was 3.5 per cent below the corresponding level of 1981 compared with the target of an increase of 5 per cent for the whole year. The authorities have indicated that reductions in imports have not so far caused bottlenecks in production. Domestic financial developments have been in line with the program described in the main paper. The revised budget tables differ only slightly from the earlier estimates (Tables 18-20, of EBS/82/73, 4/29/82). Since the earlier discussions with the authorities, higher charges have been introduced for postal and related services and prices of building materials sold to the public have been increased. These measures should increase budget revenue (and absorb personal incomes) by a minimum of lei 2 billion, or 0.7 per cent of total revenue.

In the balance of payments, the first four months showed a surplus on current account in convertible currencies of US\$89 million. Both convertible and nonconvertible exports were at about the same levels as a year earlier. Convertible imports in the first four months were 28 per cent lower in value than a year earlier and nonconvertible imports about 11 per cent lower. The authorities believe that in the remainder of 1982 exports should increase and they are hopeful of reaching the program target for convertible exports (US\$7.6 billion), especially if the harvest is good. On the import side, whole year totals should be less than

programmed and the current account deficit in convertible currencies may be less than the US\$450 million projected earlier and included in the program.

As mentioned above, most repayments of capital have ceased pending the completion of rescheduling negotiations. Equally, there have been few new credits received. As a result, payments arrears have risen sharply from US\$1,143 million on December 31, 1981 to an estimated US\$2,853 million at the end of April 1982. The large increase reflects the fact that maturities in the current year are heavily concentrated in the first half, especially the months January to March. The April 1982 total for arrears includes US\$127 million in respect of interest payments. As would be expected in the light of their low level and the rescheduling negotiations, holdings of gross convertible international reserves have shown little change, rising by US\$16 million between end-December 1981 and end-April 1982, when they totaled US\$566 million.

II. The Proposed Decision on Consultation and Review Under the Stand-By Arrangement

The draft decision below incorporates the quantified performance criteria for 1982 and provisions for reviews. It should be noted that under the terms of the decision only SDR 10 million can be purchased immediately, bringing purchases under the arrangement to SDR 150 million. Further purchases are precluded until "after the Fund has decided that satisfactory arrangements have been made for the rescheduling of outstanding payments arrears and payments falling due in 1982." At the time of the review examining these arrangements, the phasing of the remaining SDR 585 million available during the second year of the program will be established.

A second consultation must take place before any purchase can be made subsequent to November 1, 1982. This will permit a review of progress with the program during 1982 and also of the implementation of the increases in prices of heavy diesel fuel oil and natural gas, which the authorities intend to make on July 1 and October 1, 1982, respectively.

Finally, no purchases can be made after December 31, 1982 until there has been a consultation to review the 1983 program and establish the performance criteria for that year.

The following draft decisions are proposed for adoption by the Executive Board:

Stand-by arrangement--consultation and review

1. Romania has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement with Romania (EBS/81/111, Sup. 1, 6/17/81) and paragraph 16 of the letter attached thereto in order to reach understandings regarding the circumstances in which further purchases can be made.

2. The letter from the Minister of Finance dated April 20, 1982, setting forth the objectives and policies which the Government of Romania will pursue during 1982, shall be annexed to the stand-by arrangement for Romania, and the letter of May 26, 1981 shall be read as supplemented and modified by the letter of April 20, 1982.

3. Paragraph 4(c)(ii) of the stand-by arrangement (EBS/81/111, Sup. 1, 6/17/81) shall be amended to read: "introduces or modifies multiple currency practices, except for the modifications made consistently with paragraph 13 of the annexed letter of April 20, 1982, or".

4. In the light of the letter of April 20, 1982, the Fund waives, for the purpose of purchases available until December 31, 1982, the understanding in paragraph 4(c)(i) of the stand-by arrangement and paragraph 15 of the letter of May 26, 1981 concerning the introduction of a restriction on payments and transfers for current international transactions in the form of external payments arrears.

5. Accordingly, Romania will not make any purchase under this stand-by arrangement that would increase the Fund's holdings of Romania's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of Romania's currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota:

a. during any period before January 1, 1983 in which the data at the end of the preceding period indicate that

(i) the limits on the trade balance in convertible currencies described in paragraph 5 of the annexed letter of April 20, 1982, or

(ii) the limits on short-term convertible foreign debt described in paragraph 7 of the annexed letter of April 20, 1982, or

(iii) the limits on gross convertible international reserves described in paragraph 7 of the annexed letter of April 20, 1982, or

(iv) the limits on outstanding external payments arrears described in paragraph 6 of the annexed letter of April 20, 1982, or

(v) the limits on net domestic assets of the banking system described in paragraph 11 of the annexed letter of April 20, 1982 are not observed, or

b. during any period after November 1, 1982 until the review referred to in paragraph 19 of the annexed letter of April 20, 1982 has been carried out, and understandings have been reached, or while such understandings, having been reached, are not being observed, or

c. during the period after December 31, 1982 under the arrangement until suitable performance criteria have been established in consultation with the Fund in the light of paragraph 19 of the annexed letter of April 20, 1982, or after such performance criteria have been established, while they are not being observed, or until the intended changes in exchange rates described in sentences 6, 7, and 8 of paragraph 13 of the annexed letter have been made.

6. Purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 735 million until June 14, 1983, provided that purchases shall not exceed the equivalent of SDR 150 million until the Fund has decided that satisfactory arrangements have been made for the rescheduling of outstanding payments arrears and debt

payments falling due in 1982. At that time the Fund will establish the phasing for the remainder of the second year of the arrangement.

1982 Article IV consultation

1. The Fund takes this decision relating to Romania's exchange measures subject to Article VIII, sections 2 and 3, and in concluding the 1982 Article XIV consultation with Romania in the light of the 1982 Article IV consultation with Romania, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the exchange system of Romania involves comprehensive restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/82/97 (5/14/82). The Fund also notes that the external payments arrears which were incurred in 1981 constitute a new exchange restriction since the last Article IV consultation. In the light of the intention of the Romanian authorities to eliminate all external payments arrears by the end of 1982, the Fund in the meantime grants approval of the retention of this exchange restriction until December 31, 1982. The Fund welcomes the intention of Romania to unify the multiple exchange rate system and the measures so far taken in accordance with that intention to simplify the exchange rate system by substantially reducing the number of multiple exchange rates used in foreign trade transactions. Accordingly, the Fund grants approval of the adaptations of Romania's multiple currency practices as set forth in EBS/82/73

(4/29/82) until December 31, 1983 or the completion of the next Article IV consultation, whichever is earlier. The Fund also welcomes the termination since the last Article IV consultation of two bilateral payments agreements with Fund members and hopes that Romania will make further progress to reduce reliance on such agreements with Fund members.

Table 1. Romania: Revenue and Expenditure of the State Budget

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
	Outturn	Outturn	Outturn 1/	Planned	Outturn	Outturn	Outturn 1/	Planned 2/
	In millions of lei; at current prices				Percentage change			
	339,309	298,004	280,342	290,944	12.8	-12.2	-5.9	3.8
	35,674	39,420	34,933	57,331	3.7	10.5	-11.4	64.1
	65,248	69,019	59,101	63,383	3.0	5.8	-14.4	7.3
	80,149	82,977	81,929	65,679	20.7	3.5	-1.3	-19.8
Revenues from socialist units ^{4/}	75,030	21,427	20,809	16,117	51.8	-71.4	-2.9	-22.5
- cooperatives	1,041	1,065	942	1,385	0.7	2.3	-11.5	47.0
- National Fund	31,606	34,115	36,701	41,100	7.3	7.9	7.6	12.0
- the population	2,750	2,956	3,216	3,869	5.4	7.5	8.8	20.3
	29,987	32,324	34,740	38,345	6.2	7.8	7.5	10.4
	17,824	14,701	7,971	3,735	-31.3	-17.5	-45.8	-53.1
	337,627	296,787	271,823	290,944	12.8	-12.1	-8.4	7.0
- national economy	241,155	185,080	162,137	147,154	17.5	-23.3	-12.4	-9.2
- cultural activities	65,557	70,977	74,354	84,735	4.8	8.3	4.8	14.0
- and art	(18,565)	(18,872)	(19,638)	(21,390)	(7.4)	(1.6)	(4.1)	(8.9)
- education, and sports	(13,762)	(14,597)	(15,779)	(17,022)	(8.2)	(6.1)	(8.1)	(7.9)
- finance and pensions	(23,833)	(26,728)	(28,068)	(31,525)	(-0.6)	(12.1)	(5.0)	(12.3)
- taxes	(9,397)	(10,780)	(10,869)	(14,798)	(9.1)	(14.7)	(0.8)	(36.1)
	11,835	10,394	10,503	11,401	1.0	-12.2	1.0	8.5
- justice	3,360	3,440	3,657	3,909	4.6	2.4	6.3	6.9
	--	--	--	31,782	--	--	--	--
	15,720	26,896	21,172	11,963	-4.8	71.1	-21.3	-43.5
	1,682	1,217	8,519	--	10.6	--	--	--

Republicii Socialiste Romania; Law on Adoption of the State Budget for 1980; and data supplied by the

May 19, 1982.

Outturn of the previous year.

1978 profits tax outturn.

and customs duty. The latter amounted to lei 1.8 billion in 1979, lei 1.9 billion in 1980, and lei 1.0 billion in 1981.

Table 1. Romania: Revenue and Expenditure

	1979 Outturn	1982 Outturn
	In millions of lei	
A. Revenue, total	339,309	298,309
Turnover tax	35,674	39,309
Tax on net production	65,248	69,309
Payments from profits	80,149	82,309
Other taxes and revenues from socialist units ^{4/}	75,030	21,309
Taxes on agricultural cooperatives	1,041	1,309
Tax on total Remuneration Fund	31,606	34,309
Taxes and duties on the population	2,750	2,309
Social insurance fees	29,987	32,309
Other	17,824	14,309
B. Expenditure, total	337,627	296,309
Financing of the national economy	241,155	185,309
Social welfare and cultural activities	65,557	70,309
Education, culture, and art	(18,565)	(18,309)
Health, physical education, and sports	(13,762)	(14,309)
State social insurance and pensions	(23,833)	(26,309)
Children's allowances	(9,397)	(10,309)
National defense	11,835	10,309
Administration and justice	3,360	3,309
Reserve funds	--	--
Other	15,720	26,309
C. Surplus (A - B)	1,682	1,309

Sources: Anuarul Statistic al Republicii Socialiste Romania; Law on Adoption of the 1978 Budget by the Romanian authorities.

^{1/} Provisional, as of May 19, 1982.

^{2/} Compared with the outturn of the previous year.

^{3/} Compared with the 1978 profits tax outturn.

^{4/} Includes landtax and customs duty. The latter amounted to lei 1.8 billion.

Table 2. Romania: Financing of the National Economy

	1979	1980	1981	1982	1980	1981	1982
	Outturn	Outturn	Outturn 1/	Planned	Outturn	Outturn	Planned 2/
	In millions of lei; at current prices				Percentage change		
Financing of fixed investment	112,909	105,194	92,260	101,084	-6.8	-12.3	9.6
Financing of working capital	1,724	1,860	16,083	811	7.9	765.0	-95.0
Science and geological prospecting	4,281	4,867	5,602	6,474	13.7	15.1	15.6
Agriculture	4,573	4,674	4,371	4,757	2.2	-6.5	8.8
Roads and bridges	2,872	2,882	3,219	3,284	0.3	11.7	2.0
Municipal services	1,853	1,872	2,064	2,098	1.0	10.2	1.6
Other expenditure 3/	112,943	63,731	38,538	28,646	-43.6	-39.5	-25.7
Of which:							
Subsidies for crude oil and other raw material imports	...	50,369	--	--	...	--	--
Subsidies to enterprises	...	7,463	1,245	--	...	-83.3	--
Subsidies to consumer goods	...	178	1,522	1,960	...	755.0	28.8
Enterprise funds for social activities and compensation for price increase	...	502	320	168	...	-36.3	-47.5
Allocation for the Conjunctural Fund	...	--	19,070	16,000	...	--	-16.1
Price differences for raw materials	...	2,691	12,144	4,064	...	351.3	-66.5
Other economic expenditures	...	2,528	4,237	6,454	...	67.6	52.3
Total expenditure for financing of the national economy	241,155	185,080	162,137	147,154	23.3	-12.4	-9.2
Memorandum item (in per cent of total state budgetary expenditure):							
Expenditure for financing of the national economy	71.4	62.4	59.6	50.6	--	--	-15.1

Source: Data supplied by the Romanian authorities.

1/ Provisional as of May 19, 1982.

2/ Compared with the previous year's outturn.

3/ A breakdown of this item for years prior to 1980 is not available.

Table 3. Romania: Budget Subsidies

(In millions of lei; in current prices)

	1980	1981 <u>1/</u>	1982 <u>2/</u>
Total subsidies to enterprises	<u>60,701</u>	<u>33,981</u>	<u>22,024</u>
Producer related	<u>60,523</u>	<u>22,459</u>	<u>16,889</u>
For crude oil and other raw material inputs	50,369	--	--
To enterprises	7,463	1,245	--
Conjunctural Fund	--	19,070 <u>3/</u>	16,000
Price differences for raw materials <u>4/</u>	2,691	2,144	889
Consumer related	<u>178</u>	<u>11,522</u>	<u>5,135</u>
Price differences for consumer goods <u>5/</u>	178	1,522	1,960
Price differences for raw materials <u>6/</u>	--	10,000	3,175

Sources: Data supplied by the Romanian authorities; and IMF staff estimates.

1/ Provisional, as of May 19, 1982.

2/ Planned, as of May 19, 1982.

3/ Lei 19,738 million of the allocation for the Conjunctural Fund was to the Romanian Bank for Foreign Trade for foreign exchange operations.

4/ These subsidies are for purchases of iron ore, iron concentrates, copper, lead, zinc, and coke, and for land reclamation and irrigation projects.

5/ The products for which there are consumer subsidies are: coal, drugs, detergents, soaps, firewood, paper products, urban transport, municipal services, building materials, fabrics, and children's footwear.

6/ These are for agricultural products, the producer prices for which were raised at the end of 1980 and 1981. Consumer prices were not raised until February 15, 1982.



Office Memorandum

TO : Mr. Connors

DATE: June 9, 1982

FROM : Geoffrey Tyler 97

SUBJECT : Romania

I apologise for not having sent these tables yesterday. For the whole day I was in a series of meetings at the World Bank.

The table has been prepared on the basis that all arrears as of December 31, 1981 and all capital payments falling due in 1982 will be rescheduled. The terms of the rescheduling are assumed to be as follows: 80 per cent of all the above amounts to be repaid over six and a half years with three years grace; new medium- and long-term suppliers' credits in 1982 of US\$330 million and short-term suppliers' credits of US\$500 million in 1982; gross receipts of World Bank loans US\$325 million in 1982 and gross purchases from the Fund of US\$475 million in 1982. Projections for 1983-85 show residual financing requirements. You should not read into this anything with respect to any need for reschedulings in these years. The residual is the arithmetical result of the assumptions with respect to the forecast deficit in the current account of the balance of payments, the amount of suppliers' credits that might be available, and forecast receipts from the Fund and World Bank, combined with known debt repayments falling due.

Please do not hesitate to call me, Ms. Salop, or Mr. Paljarvi if you have any questions.

Attachment

cc: Ms. Salop
Mr. Paljarvi

Table 1. Romania: Gross Financing Requirements in
Convertible Currency, 1982-85

(In millions of U.S. dollars)

	1982	1983	1984	1985	1981
Current account deficit	450	--	-200	-500	818
Repayment of long- and medium-term debt as of December 31, 1981	2,423	1,511	1,170	1,752	1,222
Nonguaranteed debt to banks	1,014	910	391	496	
Government guaranteed	636	302	219	213	
Suppliers' credits <u>1/</u>	116	70	210	525	
Other <u>2/</u>	657	229	350	518	
Repayment of short-term debt	643	500	800	800	2,125
Repayment of post-1981 credits to cover the residual financing requirements	--	--	--	944	--
Commercial banks	--	--	--	485	
Governments	--	--	--	155	
Others	--	--	--	304	
Increase in reserves	125	175	175	200	77
Credits extended	150	180	200	200	89
Repayment of arrears	1,143	--	--	--	(--)
Banks	467	--	--	--	
Governments	40	--	--	--	
Suppliers	636	--	--	--	
Total	4,934	2,366	2,145	3,396	4,331

Source: Romanian authorities.

1/ Includes amounts of suppliers' credits already rescheduled over 1982-83, plus installments due in new suppliers' credits on the basis of an average of five years' maturity with one year grace.

2/ Comprises repayments to IMF and World Bank plus repayments to Moscow banks.

Table 2. Romania: Sources of Convertible Currency
Financing, 1982-87

(In millions of U.S. dollars)

	1982	1983	1984	1985	1981
World Bank loans	325	275	275	275	378
IMF purchases (gross)	475	415	220	--	406
Medium- and long-term import- related credits	330	700	800	900	1,729
Short-term import-related credits	500	800	800	800	643
Other	--	--	--	--	1,175 ^{1/}
Residual financing requirements	3,304	176	50	1,421	--
Commercial banks	1,699))		
Governments	541	176)	50)	1,421	
Moscow banks	152)))		
Suppliers' credits	912)))		
Total	4,934	2,366	2,145	3,396	4,331

Source: Romanian authorities.

^{1/} \$1,143 million accumulation of arrears and \$32 million SDR allocation.

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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18 NO DECISION MADE ON DATE OF BOARD MEETING. IT WOULD
 17 BE HELPFUL IF YOU WERE ABLE TO ASCERTAIN WHETHER SETTING
 16 OF BOARD MEETING SAY ON JUNE 18 WOULD PERMIT ESTABLISHMENT
 15 OF DATE FOR PARIS MEETING.
 14 BEST REGARDS
 13 GEOFFREY TYLER

INITIAL
IF
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SPECIAL INSTRUCTIONS TEXT MUST END HERE

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BED.

LAW

June 8, 1982

Mr. Marc E. Leland
Assistant Secretary
(International Affairs)
Department of Treasury

Dear Mr. Leland,

During an earlier conversation with your deputy, Mr. Robert Cornell, I was told that a major concern of the United States regarding the rescheduling of Romania's external debts is the need for assurances that all of Romania's creditors would reschedule Romania's debts at the same time. I was told by my Government to inform you that all of Romania's creditors will receive equal treatment in the rescheduling process in conformity with the understanding with Governments, western banks and with the I.M.F. In the meantime, I wish to inform you that the Romanian side will continue to cooperate in providing complete and current information on its economic and financial situation, in particular on its trade and credit flows with all countries.

I confirm hereby what I have verbally told Mr. R. Cornell during the above mentioned conversation. I should want to add that the delay I am writing to you was created by my absence of one week from Washington.

Looking forward to meet you personally, I remain

Sincerely yours,


Mircea Malitza,

Ambassador

cc J.J. POLLACK
Executive Director I.M.F.



Office Memorandum

June 8, 1982

MEMORANDUM FOR FILES

Subject: Romania

The Romanian Ambassador who returned from Bucharest yesterday telephoned me to know what the situation was. I warned him that we were probably going to recommend that the Board discussion be postponed from June 14 to June 18 and that we would also recommend that the initial drawing be confined to SDR 10 million. Finally I also warned that we could not give him any assurance that the Board would agree with our proposals. The Ambassador said he understood the position though he seemed to show considerable anxiety. I said that if he needed to get in touch with us in the next few days it would be advisable if he could contact Mr. Tyler direct.

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

L.A. Whittome

cc: Mr. Tyler
EED



Office Memorandum

June 7, 1982

MEMORANDUM FOR FILES

Subject: Romania

Both Mr. Tyler and I have spoken separately to Mr. Polak about the timing of the Romanian discussion. Mr. Polak now accepts that first of all our priority is to discover whether or not the Paris Club meeting on June 17-18 still stands. I this morning asked Miss Le Lorient to enquire of Paris and today at lunch I spoke to Mr. de Maulde and asked him to ensure that the matter was treated as one of urgency.

If we are told that the June 17-18 still stands and that the U.S. will participate then we must issue the draft decision not later than Wednesday to be in the hands of Executive Directors' by Wednesday evening. If June 17-18 still stands as the nominal date but the U.S. has not yet made up its mind then I believe we must recommend to the Managing Director that the Board meeting be postponed from June 14 to June 18 (Mr. Tyler is checking with the Secretary's Department that this is feasible). In this case we should have given the Americans a few more days to make up their minds as to what the Versailles words actually mean and we should have got round our own internal difficulty about the shortage of time between the issue of the draft decision and the actual Board meeting.

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

L.A. Whittome

cc: Mr. Tyler
EED

From : Office of Managing Director June 9, 1982

To : Mr. Whittome

Subject: Romania - Draft Statement for the Staff
Representative at Paris Club Meeting

Yes. Have they been progressing with the
Russian tanks and the supplies ?

Page 3. True but should we say that to a
creditor club ?

cc : GT
EBS



Office Memorandum

JUN 7 1982

TO : The Managing Director

DATE: June 7, 1982

FROM : L.A. Whittome and Subimal Mookerjee

SM

SUBJECT : Romania--Draft Statement for the Staff Representative at Paris Club Meeting

ye
Have they been
negotiating with
the Romanian banks
and the
suppliers?
June 8. R

For your approval, I attach a draft statement of the staff representative at the Paris Club meeting which will take place shortly after the Board discussion on the Romanian stand-by arrangement. An exact date has not yet been set but it would be helpful to have your approval now so that we can service the Paris Club meeting at short notice.

Attachment

cc: The Deputy Managing Director (on return)
Mr. Carter

Draft - 6/7/82

Statement of the Fund Representative at Meeting
of the Paris Club
Paris, June 17-18, 1982

Background

In 1979 and 1980, the Romanian balance of payments deteriorated sharply, culminating in a deficit on current account in convertible currencies of US\$2.4 billion. (Over the same period, transactions in nonconvertible currencies were virtually balanced.) The deterioration was due to the faster growth in aggregate domestic expenditure than in GNP over the 1976-80 period and to the sharp deterioration in the terms of trade in 1979-80, particularly for crude oil and refined products. During 1980, policies were made more restrictive and the external result in the second half of the year was much improved compared with the first half. In 1981, Romania introduced a wide-ranging program combining both demand management and supply-side measures designed to reduce the deficit and to bring about changes in the structure of the economy that would induce a lasting improvement in external transactions in convertible currencies.

The program

The demand management policies, operating mainly through changes in the level and structure of planned expenditure, sought to reduce the current account deficit in convertible currencies to US\$1.8 billion in 1981 and about US\$1.0 billion in 1984. At the time, the capital inflow necessary to support such deficits seemed achievable and the debt service projections manageable. On the structural side, the policies were based on the belief that efficient working of the planning system--in terms of

both decision making and plan implementation--required a more rational set of exchange rates and domestic prices, and that the structure of investment should be changed to favor agriculture, domestic energy production, and the external sector. In June 1981, the Fund agreed to support these policies through a three-year stand-by arrangement in an amount of SDR 1,102.5 million (300 per cent of quota). The 1981 part of the program provided for a substantial change in the structure of individual producer prices and an increase in their average level by about 13 per cent combined with a major simplification of the multiple exchange rate system. Further exchange rate changes were to be made in 1982-84--with the commercial exchange rate to be fully unified by mid-1984. Over the same period, prices were to be continued to be adjusted, including consumer prices beginning in 1982.

The outcome in 1981 saw major departures from program targets. While on the structural side, the price and exchange rate changes were introduced as planned and left in place, unforeseen external developments necessitated large downward revisions in the targeted current account deficit and other macroeconomic aggregates. Specifically, the availability of foreign capital proved much less than had been expected and instead of a forecast net inflow in convertible currencies of US\$1.7 billion, there was a net outflow of almost US\$0.6 billion. The authorities reacted to the deteriorating capital account by reducing imports through sharply reduced aggregate domestic expenditure, which declined by 3 per cent, with special emphasis on fixed investment, which fell by more than 7 per cent. The result was a reduction in the current account deficit in convertible

currencies to US\$0.8 billion. This could not, however, permit the net withdrawal of capital of the US\$0.6 billion. Payments arrears quickly emerged despite some use of foreign exchange holdings and some sales of gold. By October 1981, arrears had reached US\$1.6 billion, but intensified domestic restraint reduced their level to US\$1.1 billion at the end of the year.

The unforeseen abrupt turnaround in the capital account was initiated by a sharp reduction in confidence in the Romanian economy by bankers and suppliers, leading to a withdrawal of deposits and a drying up of lines of credit. To a considerable extent, the change was due to the emergence of the intractable nature of the Polish debt situation and the shattering of the "umbrella" theory on East European debt. The situation was aggravated by adverse press comment partly based on incorrect data and a lack of knowledge of economic policies and their impact. The fact that a relatively large portion of Romanian debt was short-term meant that creditors had the possibility of withdrawing capital rapidly once their confidence in the creditworthiness of Romania was reduced. Once begun, withdrawal of credit accelerated, since there was little information available to banking circles of what was happening in the economy and what was available was often out of date and reflected the poor performance in the first half of 1980. In addition, poor communication between Romania and its creditors understandably made the latter believe the worst, a process that was accelerated because the authorities initially adopted expedients to try to gain time.

*True
but should we
say that to
the creditors
club?*

Belatedly, the authorities began in January 1982, to negotiate a rescheduling with commercial banks, the largest group of creditors. At the same time they discussed with the Fund staff a program for 1982 that it was hoped would, inter alia, convince the Fund that purchases under the stand-by arrangement, which had been interrupted by the emergence of the payments arrears, could be resumed. Effectively, there were three major elements necessary for a program that might satisfy the Fund to permit a renewal of purchases. First, the structural policies would need to be continued as planned. Second, immediate implementation of demand management policies would be needed to reduce the current account deficit much more quickly than originally planned, in line with the revised forecasts of the capital accounts. Finally, rescheduling agreements would have to be put in place that would lead to the elimination of arrears over a reasonable period of time.

It was possible to satisfy the first two conditions relatively expeditiously and by end-March 1982, an economic program had been agreed with the staff, on the assumption that arrears and capital repayments in 1982 would be rescheduled. It provided for a reduction in the current account deficit in convertible currencies to US\$450 million in 1982, with the aim of achieving at least balance in 1983. The exchange rate reform was continued and the number of multiple exchange rates was reduced from 28 in 1981 to 14 in 1982, to be reduced to 5 in 1983. The spread between the most appreciated and most depreciated rates, which was lei 17 per U.S. dollar in 1981, was reduced to lei 10 per U.S. dollar for 1982 and will be cut to no more than lei 4.5 per U.S. dollar in 1983. In 1984 the commercial exchange rate is to be unified.

Producer prices in both industry and agriculture were increased further so that compared with 1980 they are now respectively about 18 per cent and 30 per cent higher. Price increases were particularly high with respect to petroleum products and further increases are planned in the second half of the year, with the result that prices of most products will be at or above world levels, with the major exception of natural gas, and to a lesser extent heavy liquid fuel oil. The price of natural gas was, however, more than doubled at the beginning of 1982 and its price will be raised on October 1, 1982 and June 1, 1983 to double its present price. Consumer prices were raised by 3.5 per cent in 1981 and by a further 11 per cent in 1982. In particular, food prices were raised sharply this year, by about 35 per cent.

Financial policies have been designed to permit a very modest growth of real domestic expenditures, and credit expansion will be slower than in 1981. A budget surplus higher than the lei 8.6 billion obtained in 1981 seems likely. The improved pricing system permitted a substantial reduction in budget subsidies in 1981 and this should be repeated in 1982.

As in 1981, investment will concentrate on completing existing projects with only about 5 per cent of the total going to new projects. Inevitably, this will tend to slow down the pace of structural changes since existing projects were decided upon before the structural program was begun. However, available data suggest that within this constraint progress is being made.

In the Fund view, the above policies warrant support and on this basis, the Executive Board has approved resumption of purchases. There

is, however, an important proviso. Only an additional SDR 10 million has been made available immediately. Further purchases beyond SDR 150 million (SDR 140 million was made in June 1981) cannot be made until the Fund is satisfied that arrangements have been made for the rescheduling of outstanding payments arrears and payments falling due in 1982 to commercial banks and official creditors. With respect to the commercial banks, the negotiations appear to be proceeding satisfactorily.

There are effectively three reviews scheduled for the second year of the stand-by arrangement. The first is to look at the reschedulings and in the context of that review, phasing will be established for further purchases. The second will be in the final quarter of 1982 and will examine economic progress during 1982. No purchases can be made subsequent to November 1, 1982 until the review has been concluded. Finally, no purchases can be made in 1983 until there has been a review of the 1983 economic program and the establishment of quantified performance criteria for that year. These reviews should permit a continuous dialogue between Romania and the Fund on economic policies and their impact.

Developments so far in 1982 reflect to a considerable extent the drying up of almost all new credits. This, in combination with the cessation of repayments of loans, has meant that the economy has had to operate on the basis of at least a balance on current account in convertible currencies. In the first four months there was a surplus of some US\$100 million, after deducting arrears of interest payments. The reduction of imports below original plan levels has led to a much slower growth in production and expenditure.

In conclusion, Romania is making strenuous efforts to improve its economy in both the short- and medium-term and in so doing it recognizes that it must accept reductions in the rate of growth. Equally, it recognizes that the balance of payments must improve rapidly and it is planning to become a net repayer of foreign credits by 1984. In the meantime, the proposals discussed with commercial banks and suppliers provide for net repayment of 20 per cent of outstanding debt in 1982 and do not require much new lending by the creditors. We believe the 1982 economic program is appropriate and there are a full range of safeguards to ensure that purchases from the Fund cannot be made unless performance is adequate. So far in 1982, with few exceptions creditors have not received repayment. A successful conclusion of rescheduling agreements would permit an orderly resumption of debt service to the benefit of both Romania and its creditors.

From : Office of Managing Director June 9, 1982

To : Mr. Dale, Mr. Whittome, and Mr. Tyler

Subject: Romania

Will there be a Paris Club date on the 18th?

The logic of the action taken up to now is to postpone the next meeting for a sufficient delay to give the Paris Club people a chance to fix a date. I am not sure that 4 days would suffice.

Mr. Whittome has convinced me during the conversation I had with Mr. Polak that the major problem we had with Romania was the building up of arrears. How can we plan a resumption of our assistance if we have no indication of a likely positive attitude of the creditors on this central issue?



Office Memorandum

DATE: June 7, 1982

TO : The Managing Director

FROM : L.A. Whittome *LAW*

SUBJECT : Romania

We hope to know the U.S. attitude on the proposed Paris Club for Romania shortly but we are not certain exactly when. It seems possible that we shall not know the U.S. decision this week and a decision may not be made for the time being. In any event, it would now be difficult to have the Board meeting on June 14, 1982 as tentatively scheduled. In addition, the Paris Club meeting has not yet been scheduled and Mr. Camdessus has told me that the earliest possible date would be July 8-9, 1982. Thus there is no reason any longer to insist on June 14.

I do not think, however, that we should postpone the Article IV consultation or the examination of the stand-by program to an indefinite date. In the circumstances, I would suggest that we issue a supplement to the staff report together with the proposed decision and reschedule the Board discussion for June 18, 1982. Whatever the U.S. position, we would be giving the United States the courtesy of a second delay and at the same time appear to be treating Romania reasonably promptly. (The date suggested would also fit in with Mr. Polak's travel requirements.) The supplement would give a brief description of developments in the first months of 1982 and spell out the safeguards inherent in the various reviews scheduled for the second half of the year and 1983. Given the problems of the rescheduling, I would also suggest that the immediate purchase following the Board discussion be cut from the SDR 76 million that we had thought of earlier to a token SDR 10 million. This would mean that virtually no resources would be available until rescheduling agreements were decided and the Board had reviewed them, at which time it would decide on subsequent phasing. The existing agreement provides that a second review should take place in the final quarter and must be completed before any purchases can be made after November 1, 1982. In addition, no purchases can be made after December 31, 1982 until after a review establishing the 1983 program.

I believe we can quite properly tell Mr. Erb that we shall have delayed the Board meeting twice, that it is more than two years since the last Article IV consultation, and that it is impossible for us without a convincing reason which can be argued in public to refuse to consider the request of Romania for use of Fund resources. At the same time we should emphasize that it is, of course, completely up to the Board to decide whether or not to accede to the request. We could also stress that no significant Fund resources would be used until creditors, including governments, had agreed on the reschedulings and that the program provides for a succession of reviews.

We have discussed the Board timetable with Secretary's Department and June 18 is acceptable. They suggest that if the date is agreeable to you, it might be convenient to announce the change on Wednesday, June 9, 1982, when the schedule of Board meetings is to be discussed.

If you agree we shall forward the draft supplement to you very shortly.

cc: The Deputy Managing Director (on return)
Mr. Finch
Mr. Carter
Mr. Tyler
EED

The Managing Director

June 7, 1982

L.A. Whittome

Romania

We hope to know the U.S. attitude on the proposed Paris Club for Romania shortly but we are not certain exactly when. It seems possible that we shall not know the U.S. decision this week and a decision may not be made for the time being. In any event, it would now be difficult to have the Board meeting on June 14, 1982 as tentatively scheduled. In addition, the Paris Club meeting has not yet been scheduled and Mr. Camdessus has told me that the earliest possible date would be July 8-9, 1982. Thus there is no reason any longer to insist on June 14.

I do not think, however, that we should postpone the Article IV consultation or the examination of the stand-by program to an indefinite date. In the circumstances, I would suggest that we issue a supplement to the staff report together with the proposed decision and reschedule the Board discussion for June 18, 1982. Whatever the U.S. position, we would be giving the United States the courtesy of a second delay and at the same time appear to be treating Romania reasonably promptly. (The date suggested would also fit in with Mr. Polak's travel requirements.) The supplement would give a brief description of developments in the first months of 1982 and spell out the safeguards inherent in the various reviews scheduled for the second half of the year and 1983. Given the problems of the rescheduling, I would also suggest that the immediate purchase following the Board discussion be cut from the SDR 76 million that we had thought of earlier to a token SDR 10 million. This would mean that virtually no resources would be available until rescheduling agreements were decided and the Board had reviewed them, at which time it would decide on subsequent phasing. The existing agreement provides that a second review should take place in the final quarter and must be completed before any purchases can be made after November 1, 1982. In addition, no purchases can be made after December 31, 1982 until after a review establishing the 1983 program.

I believe we can quite properly tell Mr. Erb that we shall have delayed the Board meeting twice, that it is more than two years since the last Article IV consultation, and that it is impossible for us without a convincing reason which can be argued in public to refuse to consider the request of Romania for use of Fund resources. At the same time we should emphasize that it is, of course, completely up to the Board to decide whether or not to accede to the request. We could also stress that no significant Fund resources would be used until creditors, including governments, had agreed on the reschedulings and that the program provides for a succession of reviews.

We have discussed the Board timetable with Secretary's Department and June 18 is acceptable. They suggest that if the date is agreeable to you, it might be convenient to announce the change on Wednesday, June 9, 1982, when the schedule of Board meetings is to be discussed.

If you agree we shall forward the draft supplement to you very shortly.

cc: The Deputy Managing Director (on return)
Mr. Finch
Mr. Carter
Mr. Tyler
EED

JUN 4 1982



Office Memorandum

CONFIDENTIAL

TO : The Managing Director

DATE: June 4, 1982

FROM : L.A. Whittome *law* ←

SUBJECT : Romania

Taylor, Manufacturers Trust, told me yesterday that shortly before the Romanian arrears had become conspicuous the Romanian manager of the Franco-Romanian bank in Paris had borrowed the equivalent of \$300 million on the Paris market and unbeknown to the French shareholding banks had remitted the proceeds to Bucharest! This I assume explains the strong effort by the French banks to obtain separate treatment for the Franco-Romanian bank. However, they were not successful in this attempt.

cc: Mr. Carter

CONFIDENTIAL

CONFIDENTIAL

June 4, 1982

MEMORANDUM FOR FILES

Subject: Meeting with Mr. Schulmann of the Ministry of Finance, May 26, 1982

Those attending the meeting included Mr. Krosche, Mr. Schulmann's assistant, Mr. Laske, Mr. Pieske, Mr. Rose, and myself. Mr. Rose noted that the Board discussion on Romania which was to have taken place some two weeks earlier had been postponed until mid-June. This apparently was the result of the reluctance of the United States to take a position. The delay in the Board discussion would of course cause problems in the discussions between the Romanian authorities and the commercial banks which were also scheduled for mid-June. He wondered whether or not the German authorities might be able to take an initiative and convince the U.S. authorities to cease delaying the Board discussion.

Mr. Schulmann was well aware of the problem. He did not think it was a problem that in fact lay within the competence of the U.S. Treasury to resolve. He was very doubtful about the foreign expertise of the U.S. authorities. However, he did note that the United Kingdom, the French, and the Germans had jointly taken up this matter with the U.S. authorities. It was also noted that in the Finance Minister's agenda for the Summit meeting a page on the Romanian situation was included and at that meeting the EC authorities would continue to press the United States to come to some decision.

Mr. Rose asked whether Mr. Schulmann was generally happy with the approach that the Fund was pursuing with respect to Poland. Mr. Schulmann had not been aware that Mr. Whittome was in fact planning a visit to Poland in June (he later indicated to Mr. Rose through Mr. Laske that the German authorities would raise no objection). However, in general, he thought that the Fund approach was appropriate, that is to say, maintaining technical contacts. He stressed that the U.S. attitude toward Eastern Europe was disquieting; he described this attitude as monolithic, that is, not differentiating between countries. He thought that substantial differentiation was warranted but he felt very uncertain as to how the U.S. attitude toward Eastern Europe would develop. In this respect, he was quite pessimistic.

Duncan Ripley
Duncan Ripley



Office Memorandum

June 3, 1982

MEMORANDUM FOR FILES

Subject: Romania

Taylor, Manufacturers Trust, told me today that shortly before the Romanian arrears had become conspicuous the Romanian manager of the Franco-Romanian bank in Paris had borrowed the equivalent of \$300 million on the Paris market and unbeknown to the French shareholding banks had remitted the proceeds to Bucharest!

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

L.A. Whittome

cc: Mr. Tyler
EED



Office Memorandum

TO : Mr. Whit *one*

FROM : Geoffrey Tyler *57*

SUBJECT : Romania--Paris Club

DATE: June 1, 1982

I attach a copy of a note by Mr. Brau, which he wishes to discuss before the Paris meeting.

I sympathize with Mr. Brau's view, especially as the new provision could start the difficulty of vicious circles that we have known so well already with Romania. Against that, it could be awkward to use Romania as the instance for reversing what the Paris Club may think of as an "established" precedent, the more so since attitudes toward Romania are scarcely over-generous at the moment. Perhaps we could discuss the possibility of making it clear that we do not wish to see the precedent established but say that in this particular case we shall not dispute the use of the safeguard. Of course, this leaves it open for the Club to require its use in all other cases where there are worries about the debtor's program.

A further relevant factor is that at a recent Paris Club meeting on Sudan, the group, on American initiative, effectively asked for a maximum of Fund connection with rescheduling agreements. The Managing Director supported the idea of greater Fund involvement.

Attachment

cc: EED

cc: GT

- 1. I don't think we can or should resort to moves towards 'greater' Fd involvement*
- 2. In particular we should absolutely avoid any real impression as regards Romania where as we know we are criticised for not having a close enough grip on policies*
- 3. I myself would guess that the change is largely psychological in intent.*

1/16



Office Memorandum

Mr. Fyler

TO : Mr. Finch

FROM : Eduard Brau *B*

SUBJECT : Paris Club - Agreed Minutes

DATE: May 28, 1982

May I call your attention to a new feature in the Agreed Minute on the rescheduling of Sudan's debt in the Paris Club. The feature is of concern because, by custom, the format of the Agreed Minute of a previous rescheduling meeting serves as the prototype for a subsequent meeting.

The Sudan Minute of March 18, 1982 contains the following clause: "The provisions of the present agreement will apply under the condition that the Democratic Republic of Sudan continues to be authorized to make purchases under the arrangement from the Fund." This clause is distinct from, and in addition to, two other clauses in many minutes: one which notes that the country has entered into an arrangement with the Fund prior to the current rescheduling meeting; and a second one which makes a further rescheduling conditional upon a further upper tranche arrangement with the Fund. The new clause appeared for the first time, somewhat inadvertently I am told, in the Agreed Minute for Senegal (October 1981). Subsequently, at the rescheduling meeting on Uganda (November 1981) and Liberia (December 1981) Mr. Reichmann raised questions in the creditors' meeting about this clause and creditors agreed not to incorporate it in the Uganda and Liberia Minute. The clause reappeared again, on Mr. Camdessus' insistence, in the Sudan Minute; Mr. Nowzad told me that Mr. Camdessus' intent was to be helpful to the Fund in adding a further inducement for Sudan to adhere to the adjustment policies.

I have questions about the purpose and usefulness of this clause in general, and more particularly in the context of a rescheduling of Romania's debt. The operational questions include: Since the Agreed Minute is not a legal document but a policy undertaking for the general content of bilateral agreements, which constitute legal documents, what is the relationship between this clause and the bilateral agreements? Would the inability of a country to purchase under an arrangement with the Fund invalidate signed bilateral agreements? Would an inability to purchase for reasons of "technical" violations of performance criteria enable creditor governments to refuse to enter into bilateral agreements, if that were in the creditors' interest? Would governments, in fact, have an interest to invoke this clause if the alternative were not to be repaid at all?

More generally, the outcome of the rescheduling undertaking is made totally dependent on the observance of an arrangement with the Fund. This involves the Fund very deeply, even though not on the Fund's

initiative, in giving hoped for additional leverage to creditors. Since the operational meaning of this clause, being recent, has not been tested and since there are good reasons to believe that it may be largely an instrument of psychological pressure, there is a question of whether the Fund is not too closely identified with the eventual outcome of a debt rescheduling. Moreover, there are clear elements of vicious circle possibilities in this clause. If creditor governments chose not to enter into bilateral agreements, invoking this clause, and thereby caused debt payments arrears to arise, undertakings in Fund programs would virtually automatically be broken even in circumstances where the inability of the country to make purchases from the Fund might have been temporary.

I would appreciate some discussion of this matter before a possible rescheduling meeting on Romania.

cc: Mr. Palmer
Mr. Mookerjee
Mr. Tyler



Office Memorandum

TO : Mr. Whipple *Whipple*

FROM : Geoffrey Tyler *GT*

SUBJECT : Romania--Paris Club

DATE: June 1, 1982

I attach a copy of a note by Mr. Brau, which he wishes to discuss before the Paris meeting.

I sympathize with Mr. Brau's view, especially as the new provision could start the difficulty of vicious circles that we have known so well already with Romania. Against that, it could be awkward to use Romania as the instance for reversing what the Paris Club may think of as an established precedent, the moreso since attitudes toward Romania are scarcely over-generous at the moment. Perhaps we could discuss the possibility of making it clear that we do not wish to see the precedent established but say that in this particular case we shall not dispute the use of the safeguard. Of course, this leaves it open for the Club to require its use in all other cases where there are worries about the debtor's program.

A further relevant factor is that at a recent Paris Club meeting on Sudan, the group, on American initiative, effectively asked for a maximum of Fund connection with rescheduling agreements. The Managing Director supported the idea of greater Fund involvement.

Attachment

cc: EED

cc: GT

1. I don't think we can or should resist moves towards greater Fed involvement.
2. In particular we should absolutely avoid any real impression as regards Romania where as we know we are criticised for not having a close enough grip on policies.
3. I myself would guess that the change is largely psychological in intent.

1/16

cc to EED

LAW

I have conveyed your views to Mr. Brau. He wants to talk to Mr. Finch but he thought that on the tactics with Romania, ETR would probably defer to our view.

57613



Office Memorandum

TO : Mr. Whittome ✓
FROM : Geoffrey Tyler 57
SUBJECT : Romania--Litigation on Reinsurance

DATE: May 28, 1982

You asked whether we know anything on the above matter. The answer to that is no.

Apart from the fact that the photocopy of the documentation in my possession is not very legible, I am no expert in either reinsurance or international law related to it. The Superintendent of Reinsurance of the State of New York appears to be saying that we should involve ourselves in the case in some fashion and perhaps deny Romania access to Fund resources. My initial reaction is that we could take action only if there were an exchange restriction involved. From the documentation I find it difficult to know who owes money to whom, although as the Romanians appear to be trying to prevent arbitration outside Romania, one may guess that the Romanians are at risk.

Be this as it may, the question seems to be whether or not we should do anything and if so what. Presumably the answer to the first would come from Legal Department. If the answer is positive, presumably LEG will also have ideas on how we should act.

I have spoken to Mr. Holder, who will look at the papers and be back to me next week. |

cc: EED



Office Memorandum

42

Subject: Romania

May 28, 1982

Mr. Albright of Em-Im Bank rang me to ask what the situation was regarding the stand-by arrangement with Romania. I gave him the history and the current position, explaining that at the moment we were help up until we knew that there would be a Paris Club meeting and that the result could be expected to be satisfactory. Mr. Albright confirmed, of course, that as yet no decision had been made inside the U.S. Administration. He said that personally he thought it possible that the U.S. might be able to say that they would attend a Paris meeting but not be able to say that they could guarantee any or a particular result.

I asked Mr. Albright what the situation would be with respect to U.S. guarantees on existing lines of credit if there were a successful rescheduling following the Paris meeting. He said that a resumption of lending to Romania would not depend only on the reactivation of the stand-by arrangement and a successful rescheduling. Ex-Im would want to be assured that all of the necessary funds would be available to complete the energy projects in question and to be able to make an adequate analysis of their own.

57

Geoffrey Tyler

cc: Mr. Whittome
Mr. Schmitt
EED



Office Memorandum

Subject: Romania

May 28, 1982

Mr. Boese rang me regarding the position with respect to future purchases by Romania. I explained to him that there was a high degree of uncertainty both with respect to the date of the Board meeting and the stage at which we would be convinced that the rescheduling had been successfully achieved. In the circumstances, Mr. Boese has decided to take a conservative approach and work on the basis that SDR 76 million will be required at the end of June and that a further SDR 151.5 million may be required in July, followed by a further purchase in mid-August. In the discussion, I emphasized that all of the above timetable was in doubt and that if there were a very long delay it was possible that the whole subject of the amounts and timing of the use of Fund resources could be looked at anew.

97

Geoffrey Tyler

cc: Mr. Whittome
Mr. Schmitt
EED

INTERNATIONAL MONETARY FUND

TO : Mr. Whitton

FROM: Tom Connor (USED's office)

Leland and Buckley are
not due back until later
today. It is unlikely that
we will have more information
about Romania until early next week.

please draw
to G.F. 57 528



Office Memorandum

May 27, 1982

MEMORANDUM FOR FILES

Subject: Romania

At his request Mr. Polak called on the Managing Director this afternoon; I was also present.

Polak began by saying that he had been reluctantly convinced that the postponement of the Board meeting which had been set for May 28 was necessary but he wanted to stress that he thought it would be against the interests of both Romania and the Fund for there to be any further postponement. He said that he feared that there would be no agreement at the Versailles meeting and this would cause a further postponement of the Paris Club and thus in turn a further postponement of the Board meeting. He strongly pressed the Managing Director to call an immediate meeting of the Executive Directors of the countries that will be represented in Versailles and to tell them that he thought that the Fund could not agree to a further postponement of the Romanian decision. Polak said that in this way appropriate pressure would be brought to bear on the Americans in particular.

I intervened to say that I found myself not agreeing with the advice that had been put forward. In particular I did not think it would be embarrassing for the Fund to have to postpone the Romanian discussion a second time. This was not the case of a naked use of political power in a country such as Guatemala or El Salvador, rather the difficulty had arisen because of payments arrears and if we could not responsibly see that these were well on the way to being settled then it seemed to me that the Fund management could not be accused of submitting to political pressure if it waited. Secondly I said that I thought that the idea of seeking to bring further pressure on governments via the Executive Directors at this stage of the game might well backfire. Not only had the matter been discussed with senior members of several of the countries concerned but that it would also look as though we were trying to push the Heads of State into a decision and this could be resented. Thirdly I said that I thought the Managing Director could have no answer to anyone who argued that there would be no awkwardness in a further postponement. In practice Romania would get little Fund money and now had little need of new Fund money. Secondly because of the balance of payments constraint the performance of Romania's external account was now better than that which had been programmed so that precious little could be made of the argument that it would be useful for the Fund to endorse Romania's program for 1982.

After some discussion the Managing Director took the line that he thought it would be unwise to raise the question with Executive Directors at this stage and that though he was unhappy at the prospect of further postponement he thought this might have to be accepted any way for a further short period.

I also raised the possibility that the American position might be eased if the proposed initial disbursement of SDR 76 million was reduced to a purely token amount say SDR 5 million or SDR 10 million. The Managing Director liked this idea and Mr. Polak did not object to it.



L.A. Whittome

cc: Mr. Tyler
EED



Office Memorandum

May 27, 1982

MEMORANDUM FOR FILES

Subject: Romania

There was considerable coming and going in Helsinki over the date for the Paris Club meeting. The French initially (de Maulde included) were unaware that the staff paper had been issued. Camdessus then said that the Americans had told him that they had yet to read and reflect on the paper but had not refused the idea of an early Paris Club meeting accordingly he was suggesting June 1 and June 2. I said this suited us and the Romanians also agreed. There was then a slip-up (deliberate on the U.S. part?) between Camdessus who told me that he had spoken to Regan and Sprinkel and the rest of the U.S. delegation who declared complete ignorance. As a result by the end of the meeting it had been impossible to confirm the June 1 date and instead the U.S. asked for a delay until around June 20 to June 25. The Romanians were apparently told this by the U.S. and they told me that they accepted though they had long faces. They had the impression (perhaps wishful thinking?) that the U.S. had informally told them that there would be no difficulties.

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

L.A. Whittome

cc: Mr. Tyler
EED



Office Memorandum

32

Subject: Romania

May 27, 1982

The Romanian Ambassador, Mr. Militza, and Mr. Ionescu-Liviu, Advisor in Mr. Polak's office, visited Mr. Whittome on May 27, 1982. The Ambassador is about to make a visit to Bucharest.

He first asked about the timing of the Board meeting. Mr. Whittome explained why it is difficult to have a Board meeting until it is known that the reschedulings will go through and that the delay in the Paris Club meeting necessitated a postponement of the Board meeting. The hope was that the Board date of June 14, 1982 could be kept. However, he pointed out that full agreement on the proposed dates of June 17-18, 1982 for Paris was not yet assured and might not be so until after the Versailles meeting.

The Ambassador enquired about our understanding of the present status of the negotiations with banks. He was told that the problem of deciding on what suppliers' credits could be repaid was still under discussion within the bank group, where there were apparently some differences of opinion. The next step was for the banks to tell the Romanians what they had concluded.

The Ambassador brought up the subject of the information that the banks were requiring. He was told that it basically included most of the data supplied to the Fund plus additional information of a micro character. Mr. Whittome suggested that within reasonable limits the banks should be given what they asked for.

Mr. Whittome raised as a possibility a situation in which it might be desirable to reduce the first purchase after the stand-by was resumed to a nominal figure rather than SDR 76 million, since this would reduce suspicions that the purchase would be used to repay preferentially some debtors. (He made it clear that at the moment this possibility was not an intention.) The Ambassador agreed that Fund money was required to help finance the payments falling due when the reschedulings came into operation and did not seem perturbed at the possible scenario. He agreed that it was important to assure creditor governments that creditors such as the Moscow and Arab banks were not treated preferentially.

On the question of the U.S. attitude and its policies on lending to the U.S.S.R. (and Eastern European countries), Mr. Militza said that his personal view after discussions with the Administration was that this would not be a major factor in determining the ultimate decision in the Romanian case. He emphasized that he had met with much sympathy for Romania's position from several in the U.S. Administration.

The Ambassador finally raised the possibility of giving publicity to the Romanian policies, after Mr. Whittome had pointed to the problems that arose when optimistic official projections of growth in the Romanian economy gave rise to scepticism abroad. Mr. Militza wondered whether an article based on the Fund paper could be published. Mr. Whittome thought ~~that~~ this could be done at a later stage and perhaps after its publication the Ambassador might give a press conference at which he could frankly answer questions.

67

Geoffrey Tyler

cc: EED

5

MAY 25 1982

INTERNATIONAL MONETARY FUND

May 25, 1982

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE *WBD*


SUBJECT: Romania - (back-to-office report)

The performance, as such, seems to be on track, or better, in important respects. The debt rescheduling seems still to have a certain distance to cover, but hopefully will shortly be kept to be on hand. The size of arrears is disturbing.

yes
re: 2
92
May 27.82

From : Office of Managing Director May 28, 1982

To : Mr. Dale

Subject: Romania-- (back-to-office report) 

Page 2 - There will have to be a clear
understanding on this point.
(In the form of a Romanian
statement).



Office Memorandum

The Deputy Managing Director

WBO

To: The Managing Director
The Deputy Managing Director

From: Geoffrey Tyler 47

Subject: Romania

May 25, 1982

I was in Bucharest from May 17-20, 1982, principally to obtain information on latest developments in the economy and the rescheduling negotiations. In addition to talks with officials, I had discussions with the Minister of Finance, Mr. Gigea, and the President of the Foreign Trade Bank, Mr. Eremia.

In the first four months of 1982, the external adjustment was more rapid than envisaged in the program agreed for this year. The latter projects a current account deficit of US\$450 million in convertible currencies. For the first four months, which are seasonally weak, there was a current account surplus of US\$ 216 million, although this was helped by the nonpayment of some US\$100 million of interest payments that the Romanians hope will be rescheduled. For the year as a whole, there is a reasonable hope for a small surplus on current account in convertible currencies. Performance has been assisted by lower prices for some imports but the principal reason has been a reduced level of domestic expenditure, which has lowered imports below the program target. In the first four months of 1982, convertible imports were 28 per cent less than a year earlier. In contrast, nonconvertible imports for the first three months were only about 11 per cent less than a year earlier. Exports in the first four months were less than one per cent higher than a year earlier, with no significant difference in trend between convertible and nonconvertible exports. This rate contrasts with a projected growth for the whole year of 5 per cent for convertible exports. The authorities believe, however, that in the remainder of the year exports should do better especially as the indications so far are for a good agricultural year.

As mentioned, lower import demand has resulted from a slower than planned growth of expenditure and production. In the first four months, net industrial production was only 1.8 per cent higher than a year earlier, compared with a forecast growth of about 5 per cent for the whole year. The pattern of expenditure has been adjusted to slow down investment, which is import intensive, resulting in a decline of 3.5 per cent in the above period, compared with the whole year forecast of an increase of 5 per cent.

Monetary and fiscal developments in the first quarter were in line with the program.

There will have to be a clear understanding of the form of a Romanian agreement

The rescheduling of commercial bank debt has two remaining tasks. First, Romania is waiting for the group of 9 banks to propose what suppliers' credits should be excluded from rescheduling. Second, the agreement of the other creditor banks must be obtained. The Romanians expect the agreement to be finalized before the end of June. With respect to the Moscow banks and the Arab central banks, the Romanian Bank for Foreign Trade probably will not obtain a formal rescheduling but it has told these creditors it must treat them equally with the commercial banks and it expects to obtain a de facto acceptance of this position. Pending rescheduling agreements, the RBFT has been basically withholding most payments of capital to all creditors and some interest payments, although the majority of interest payments and some capital repayments have been made. As a result, arrears have increased and at end-April were estimated at US\$2,853 million (see attached table). International convertible reserves (gross) rose by US\$16 million to US\$566 million between end-December 1981 and end-April 1982.

The Minister of Finance is concerned about the delay in the setting of the date for the Paris Club meeting and at the possible postponement of our Board meeting from May 28. I made it clear to him that we could not go ahead until we knew of the timing and expected success of the Paris meeting, and that our Board meeting would in all probability have to be postponed until June, as you announced yesterday to the Board.

Regarding additional information for IFS, it was agreed that semi-annual balance of payments data can appear in the July 1982 issue, for both the total balance of payments and that in convertible currency. I also arranged for a visit by Mr. Swaminathan to have technical discussions on the publication in IFS of national accounts on an SNA basis.

Attachment

cc: Mr. Whittome (on return)
Mr. Finch
Mr. Mohammed
Mr. Schmitt
Mr. Hole
Mr. Carter

Romania: Outstanding Payments Arrears
(In millions of U.S. dollars; end of month)

	December 1981	March 1982	April 1982
On credit repayments due to:			
Foreign banks	488.2	1,405.0	1,557.0
Of which:			
Government guaranteed	21.0	68.0	74.0
Foreign suppliers	18.5	103.0	130.0
Of which:			
Government guaranteed	18.5	103.0	130.0
On interest payments	--	87.0	127.0
On payments for imports of goods and services	636.0	841.0	880.0
Banking institutions from socialist countries	--	159.0	159.0
Total	1,142.0	2,595.0	2,853.0

Source: Data supplied by the Romanian authorities.

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

23 **MR. STELIAN MARIN**
 22 **DIRECTOR, FOREIGN EXCHANGE DEPARTMENT**
 21 **MINISTRY OF FINANCE**
 20 **BUCHAREST**

19 **ROMANIA**

18 **FIRST, WITH RESPECT TO HIS VISIT, MR. SWAMINATHAN**
 17 **WILL BE TELEXING YOU SEPARATELY. HE WILL BE ARRIVING AS**
 16 **WE AGREED.**

15 **SECOND, COULD YOU PLEASE TELEX THE FOLLOWING DATA:**
 14 **(1) NONCONVERTIBLE TRADE ACCOUNT, EXPORTS AND IMPORTS,**
 13 **BALANCE OF PAYMENTS BASIS, FOR FIRST QUARTER OF 1981,**
 12 **REPEAT 1981;**

11 **(2) VALUE OF OIL IMPORTS AND REFINED EXPORTS IN FIRST**
 10 **QUARTER OF 1982.**

9 **BEST REGARDS**
 8 **GEOFFREY TYLER**
 7 **INTERFUND**

MARK XX FOR SERVICE
 () TELEX
XX
 () FULL RATE
 () CODE

DISTRIBUTION
MR. POLAK
MR. SWAMINATHAN

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SPECIAL INSTRUCTIONS _____ TEXT MUST END HERE _____
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DRAFTED BY: **GT:af** EXT. **7-2967** DEPARTMENT: **EUR** DATE: **25 MAY, 1982**

NAME (TYPE): **GEOFFREY TYLER** NAME (TYPE): _____
 FOR CABLE ROOM USE ONLY TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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INTERNATIONAL MONETARY FUND

C. E. D.

Mr. Bhagwat

The attached statement
would be added to the an-
nouncement to the Board of
the postponement of the Romanian
Board meeting.

Hans Schmidt

5/24

Draft
5/24/82

Romania

Executive Directors are aware that no decisions were issued with EBS/82/73. This was because the form of the decision on the review of the stand-by arrangement will depend upon the status of rescheduling agreements between Romania and the commercial banks and governments. Draft decisions will be issued as soon as the position is clear.

- Mr. Dannemann

May 24, 1982

Geoffrey Tyler

Romania

During my visit to Bucharest last week, I confirmed that we could publish the balance of payments data in IPS as discussed earlier, beginning if possible with the forthcoming July issue. As I have explained to Mr. Swaminathan by telephone, I arranged he could arrive in Bucharest on Monday, June 7 to discuss matters connected with the presentation of national accounts data on an SNA basis.

cc: Mr. Swaminathan
Mr. Hole
Ms. Salop



Office Memorandum

TO : Mr. Schmitt

DATE: July 23, 1982

FROM : Joanne Salop *JS*

SUBJECT : Romania - Pre- and Post-Paris Numbers

I am sending you the attached as a follow-up to our conversation of July 22, 1982.

Attachment

Explanatory Notes to Table 103

Requirements

1. Downpayments

In all cases entries are 20 per cent of assumed amounts to be rescheduled.

- a. US\$469 million is 20 per cent of US\$2,345 million which, in turn, is the sum of banking credits (short-, medium-, and long-term) due in 1982 plus banking arrears from end-1981.
- b. US\$53 million is 20 per cent of US\$268 million, which is the amount pessimistically estimated in Table 105 to be subject to official rescheduling. Thus, 80 per cent of US\$268 is US\$214 million, i.e., the rescheduled amount, which is the sum of US\$182 million and US\$32 million shown in Table 105.
- c. US\$38 million is 20 per cent of US\$190 million due to the Moscow banks in 1982.
- d. US\$67 million is 20 per cent of US\$337 million due to the Arab central banks in 1982.
- e. US\$153 million is 20 per cent of US\$766 million, which is the sum of US\$636 million, US\$134 million, US\$116 million, minus US\$120 million. In turn, US\$636 million is suppliers' arrears from 1982; US\$134 million is suppliers' arrears incurred between January 1 and March 1, 1982; US\$116 million is suppliers' credits due in 1982; US\$120 million is the total of suppliers' exclusions that the banks have said they would tolerate.

2. Exclusions

These are the amounts that are to be paid in full.

- a. US\$120 million for small credits and necessities such as airport fees.
- b. US\$220 million is estimated officially guaranteed short-term debt, none of which is to be rescheduled.
- c. US\$111 million is estimated medium- and long-term payments due in 1982 that have already been paid, hence are not subject to rescheduling.
- d. US\$57 million is due to IBRD.
- e. US\$51 million is due to IMF.

3. Restructuring fee

Banks are to levy 1 per cent of total amount subject to rescheduling. It is assumed that a similar percentage fee will apply to the rescheduling of suppliers' credits.

4. Interest payments (net)

US\$1,200 million allows for 18 3/4 per cent on rescheduled bank

sum of US\$636 million, US\$134 million, US\$116 million, and US\$120 million. In turn, US\$636 million is suppliers' arrears from 1982; US\$134 million is suppliers' arrears incurred between January 1 and March 1, 1982; US\$116 million is suppliers' credits due in 1982; US\$120 million is the total of suppliers' exclusions that the banks have said they would tolerate.

2. Exclusions

These are the amounts that are to be paid in full.

- a. US\$120 million for small credits and necessities such as airport fees.
- b. US\$220 million is estimated officially guaranteed short-term debt, none of which is to be rescheduled.
- c. US\$111 million is estimated medium- and long-term payments due in 1982 that have already been paid, hence are not subject to rescheduling.
- d. US\$57 million is due to IBRD.
- e. US\$51 million is due to IMF.

3. Restructuring fee

Banks are to levy 1 per cent of total amount subject to rescheduling. It is assumed that a similar percentage fee will apply to the rescheduling of suppliers' credits.

4. Interest payments (net)

US\$1,200 million allows for 18 3/4 per cent on rescheduled bank credits and official rescheduling of US\$96 million in interest.

5. Increase in reserves

As included in the program.

6. Net credits extended

Export credits that Romania extends to its customers.

Explanatory Notes to Table 103 (cont.)

Sources

1. IBRD

Figures are from IBRD staff.

2. IMF Purchases

US\$385 million includes the SDR 217.5 million overhang from the first year of the program and one third of the SDR 367.5 million of the second year of the program. Also includes initial SDR 10 million. Exchange rate assumed is US\$1.10 per SDR.

3. Suppliers' credit

These are inflows for 1982.

a. US\$134 million were arrears that developed between January 1, 1982 and March 1, 1982 and that the Romanians are trying to reschedule. They are included as a source because as arrears they were incurred in 1982. Twenty per cent of them are included in the downpayment to suppliers.

b. US\$350 million from BAC, CITROEN, etc..

c. US\$500 million from oil producers, etc..

4. Other (current account) services

Comprises tourism (US\$200 million), transportation and telecommunications (-US\$270 million), and other services (US\$260 million).

5. Residual--Trade Account Surplus

US\$917 million is the amount required to meet all the requirements listed above.



Office Memorandum

2

May 21, 1982

MEMORANDUM FOR FILES


Subject: Romanian Diary - May 17-21

1. I called Erb early in the week concerning the date for the postponed Paris Club meetings, and the likelihood the U.S. would go along with the proposed decision. He would try to find out. Meanwhile he expressed "great discouragement" on reading the Board paper. Though he accepted that the Romanians were making a substantial effort with demand restraint, he thought the structural measures remained unimpressive, and wondered whether one should scale back the Fund's involvement to a one-year program.
2. We received a message on Wednesday from Mr. De Lauzun of the Treasury in Paris who said Camdessus had agreed with the Romanian Finance Minister to propose the 17th and 18th of June for a meeting of the Paris Club. It remained for the creditors to agree.
3. I talked to Bhagwat (SEC) and Boese (TRE) to fix the last day we could send the proposed decision up to the Board and still make it for a Board meeting on May 28th. I was told that to allow Treasurer's to make financial arrangements in the normal manner, May 24th would be the deadline for issuing the proposed decision.
4. I had a number of conversations with Mookerjee, as well as with Salop, Oh (LEG) and Holder (LEG) on the text of the proposed decision, particularly paragraph 6, to keep it as close as possible to the meaning of Mr. Whittome's memo to management dated May 7, 1982. Some problems remain regarding paragraphs 5(b) and 6.
5. I talked with Erb around the question of a new date for the Board meeting. There would probably not be a U.S. decision on Romania before the Versailles Summit of June 4-6, 1982. We would have to issue the proposed decision as soon after that as possible if the Board meeting was to take place before the Paris Club meeting on June 17-18, 1982. If the Board meeting took place on June 14th it would coincide with the discussion on "The Application of Fund Policies in Planned Economies".
6. I called Nigel Carter on Friday to say that unless the Managing Director thought otherwise I would ask for the Romanian Board meeting to be postponed. He said he would check this out and call me

back. I also called Mr. Bhagwat and agreed with him on June 14th as the "fall-back" date for the Board meeting.

7. Mr. Erb called to confirm that neither the State nor Treasury Departments would commit themselves at this time to U.S. participation in a rescheduling of the Romanian debt. I said we would now operate on the assumption that a positive decision would be made after the Versailles Summit, and propose June 14th as the new date for the Board meeting.

8. Nigel Carter called to say that the Managing Director had no objection to the postponement of the Board meeting to June 14th. I also informed Mr. Bhagwat, and also Mr. Polak's office.


Hans Schmitt

cc: Mr. Whittome (on return)
Mr. Tyler (on return)
Ms. Salop
EED



Office Memorandum

0-185
230

May 21, 1982

To: Mr. Mookerjee
Mr. Paljarvi

From: William E. Holder

Subject: Romania - Review of Stand-By Arrangement -
Proposed Decision

Paragraph 5.a(vi) of the proposed draft decision dated 5/17/82 should be renumbered as paragraph 5.b and should read as follows:

- b. during any period after November 1, 1982 until the review referred to in paragraph 19 of the annexed letter of April 20, 1982 has been carried out, and understandings have been reached, or while such understandings, having been reached, are not being observed, or



Office Memorandum

Mr. Schmitt

MEMORANDUM FOR FILES

May 19, 1982

Subject: Romania--Proposed Decision

Mr. Kohnert (German Executive Director's office) rang this morning to inquire about the proposed decision. He said that the Ministry of Finance and Bundesbank cabled to say that they needed it by Monday, May 24.

J. Salop *JS*

cc: Mr. Schmitt
Mr. Hole

INTERNATIONAL MONETARY FUND

May 19, 1982
1.55 p.m. .

Lynne,

Mr. De Lauzun from the Treasury in Paris (telephone 260-3300 Ext. 3503) called to speak to Mr. Whittome. He wanted to let him know that Mr. Camdessus and the Romanian Minister of Finance have agreed in principle for a meeting of the Paris Club for the 17th and 18th of June. This is quite theoretical up to now but it will be proposed to the creditors and, if they agree to meet, then the meeting will take place on those days.

Mr. Schmitt knows.

Isabel



Office Memorandum

2

May 19, 1982

MEMORANDUM FOR FILES

Subject: Tyler in Romania

Tyler called to report the following:

1. The Romanians thought the Paris Club meeting had been rescheduled for some time between June 15-20, and that the U.S. position was positive;
2. As regards the commercial banks, the Romanians were still waiting to hear what would be decided regarding the treatment of suppliers' credit;
3. The Moscow and Arab banks were told that they would receive the same treatment as the western banks inasmuch as the Romanians did not have the money to do otherwise;
4. The Romanian balance of payments was doing better than required by the program mainly because of severe restrictions on economic growth.
5. On the IFS, inclusion of balance of payments figures in the July issue was all right; Swaminathan's visit is now confirmed for Monday, June 8, 1982.
6. Tyler would be back on Friday as scheduled.

A handwritten signature in black ink, appearing to be "HS".

Hans Schmitt

cc: Ms. Salop

MR. IONESCU-LUNGU
MINISTRY OF FINANCE
BUCHAREST, ROMANIA

I AM HAVING SOME DIFFICULTY WITH PLANE RESERVATIONS
IT IS PROBABLE THAT I SHALL ARRIVE ON FLIGHT RO 216 FROM
FRANKFURT AT 4:40 P.M., SUNDAY.

BEST REGARDS
GEOFFREY TYLER
INTERFUND

BCF 864-11239

GT:ecf

72967

EUR

5.14.82

INTERNATIONAL MONETARY FUND

May 18, 1982
11.10 a.m.

HS,

Mr. Erb's secretary called. She said Mr. Erb will call you this afternoon but he wanted you to know the meeting had definitely been postponed until after the summit and that the U.S. Government had not yet agreed to participate in the rescheduling of Romania's debt.

Isabel

MR. IONESCU-LUNGU
MINISTRY OF FINANCE
BUCHAREST, ROMANIA
TELEX NO.: 864-11239



I SHALL ARRIVE IN BUCHAREST ON RO 716 FROM PARIS AT
4:30 P.M. ON SUNDAY, MAY 16.

Mr. Polak

INTER ALIA, DURING OUR DISCUSSIONS, I WOULD LIKE TO
COVER THE FOLLOWING SUBJECTS:

(A) LATEST DEVELOPMENTS AND DATA ON BALANCE OF
PAYMENTS, PRODUCTION IN INDUSTRY AND AGRICULTURE,
MONETARY AND FISCAL AREAS.

(B) STATUS OF RESCHEDULING DISCUSSIONS, INCLUDING
UPDATED TABLE SHOWING CURRENT LEVEL OF ARREARS BY
CATEGORY.

(C) PROVISION OF DATA FOR INCLUSION IN I.F.S.

BEST REGARDS
GEOFFREY TYLER
INTERFUND

864-11239

MINISTERUL FINANTELOR

GT:ecf

72967

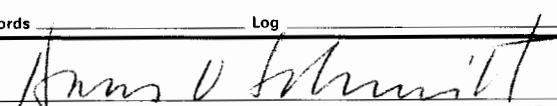
EUR

5/13/82

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT
WHEN ALIGNING INTO LINE 23

23	MR. L.A. WHITTOME	
22	BANK-FUND CONFERENCE OFFICE	D O N O T E R E
21	FINLANDIA HALL	
20	HELSINKI, FINLAND	
19		MARK XX FOR CODE () CODE
18	ON BASIS OF DATE OF PARIS CLUB MEETING, WE PROPOSE TO ISSUE	DISTRIBUTION
17	DRAFT DECISIONS. HOWEVER, WE SHALL NEED TO HAVE	N O T E D E N D
16	CONFIRMATION THAT MANAGING DIRECTOR APPROVES THE APPROACH	
15	OF PHASING AND REVIEW THAT WE AGREED WITH YOU.	
14	BEST REGARDS	
13	HANS SCHMITT	
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A	SPECIAL INSTRUCTIONS ↑ TEXT MUST END HERE ↓	
B		
C	TELEX NO.:	CABLE ADDRESS:
D	DRAFTED BY NAME (TYPE): G. TYLER	EXT: 72933 DEPT.: EUR DATE: 5/13/82
E	AUTHORIZED BY NAME (TYPE): HANS SCHMITT <i>HS</i>	AUTHORIZED BY NAME (TYPE): _____
F	FOR CABLE ROOM USE ONLY TYPE ** ON LAST OR ONLY PAGE OF MESSAGE	
G	No. of words _____ Log _____ Route _____ Operator _____	
G	 SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE	

May 12, 1982

2

MEMORANDUM FOR FILES

Subject: Romania - Paris Club

With the meeting on Romania scheduled for June 1 and 2, 1982, I have made reservations at the Hotel Lotti for Mr. Brau and Ms. Salop from May 31 to June 2 (3 nights).

97

Geoffrey Tyler

cc: Mr. Hole
Mr. Brau
Ms. Salop

May 12, 1982

copy 1/16
Z

MEMORANDUM FOR FILES

Subject: Romania - Bank Rescheduling

Mr. Kjellerin telephoned to discuss Romania. In the course of the conversation he indicated that the final form of the agreement with Romania would probably be clear in about three weeks. The main problem continued to be suppliers' credits. Lloyds Bank has put forward a proposal that Kjellerin characterized as suiting Lloyds and its customers, but which the U.S. banks did not like. Kjellerin was looking for an alternative that would be tougher and he mentioned the possibility of excluding amounts under \$100,000. With the Romanians he had looked at the possibility of excluding credits in respect of a limited number of key imports, such as fertilizers, but this had not proved practical.

57

Geoffrey Tyler

cc: Mr. Whittome
Mr. Hole
Ms. Salop

May 12, 1982

MEMORANDUM FOR FILES

Subject: Romania - Paris Club

With the meeting on Romania scheduled for June 1 and 2, 1982, I have made reservations at the Hotel Lotti for Mr. Brau and Ms. Salop from May 31 to June 2 (3 nights).

Geoffrey Tyler

cc: Mr. Hole
Mr. Brau
Ms. Salop

*Reservations to be
cancelled by
Francis
5/14*

GT:ecf
5/12/82

Mr. Teyssier

May 11, 1982

Brian Rose

Travel to Romania

It may be necessary for Mr. Geoffrey Tyler to visit Romania during the week beginning May 17 for discussions with the authorities relating to the stand-by arrangement.

May we have your approval to this travel please.

BR:ecf

5/11/82

ITT World Communications Inc.



EER

RECEIVED
I.M.F.

1982 MAY -7 AM 8:55

CABLE
ROOM

496181

PH
JS
file



TO IMF WASHINGTON
DE MANTRUST BUCHAREST

MAY 7, 1982
CABLE NO 2082

KIND ATTN. MR. GEOFFREY TYLER

WOULD YOU PLEASE FORWARD TO MY ADDRESS IN NEW YORK THE
REVISED 1981 FIGURES AND THE REVISED 1982-1985 CASH FLOW
FIGURES. THEY ARE NECESSARY TO REVISE THE INFORMATION PACKAGE
REGARDS

LEE KJELLEREN
MANUFACTURERS HANOVERTRUST BUCHAREST

*
440040 FUND UI
11572B MHTB R

ITT World Communications Inc.

May 7, 1982

Dear Lee,

I enclose the latest projections we have of the 1982-85 cash flow figures. They are based on the 80 per cent, 6 1/2 years with 3 years grace agreed at Frankfurt and assume all debt is treated equally. It takes the same inflows of capital from the various sources as was assumed in Frankfurt.

I also enclose the 1981 balance of payments in convertible currencies that we have in our papers. I have added to the projections a corresponding set of flows for 1981.

I trust this is what you want, If not, please do not hesitate to ring me.

Yours sincerely,

Geoffrey Tyler

Enclosures

Mr. A. L. Kjelleren
Vice President
Manufacturers Hanover Trust Company
350 Park Avenue, New York 10022

CHRONOLOGICAL COPY



Office Memorandum

1) GT to visit
during week beginning
17/5

TO : Mr. Whittome

DATE: May 7, 1982

FROM : G. Tyler 97

2) 76

SUBJECT : Romania--Board Decision

3) 1 FS

Executive Directors should be aware that a decision is to come. The covering note said "Draft decisions will be circulated later." On the main substance of your memorandum, I have spoken to Mr. Mookerjee and what I propose below is acceptable to us both and in line with our understanding of experience with other reschedulings insofar as this is relevant.

4) Camdessus

5) MD

We agree that we should circulate draft decisions around mid-May but that the U.S. position is crucial. We could circulate after receiving your telex following a discussion with Camdessus but I am not clear who would take up the question "direct" or with whom, if you cannot get hold of him. There is also the question of who will clear the draft decision. Although the principle of the decision on the stand-by arrangement has been cleared with the Managing Director, the precise phasing has not, nor has the Article IV decision been cleared with him.

Mookerjee and I would propose the following:

(i) after the initial SDR 76 million, no more should be provided until after a review. The review should establish that the reschedulings are sufficiently far advanced for the Fund to be assured that the program is a satisfactory one.

(ii) Immediately after the review a further SDR 200 million would be released and on November 15, 1982 a further SDR 135.5 million. This would mean that during calendar 1982, Romania would obtain the purchases of November 1981 (SDR 76 million), February 1982 (SDR 76 million), and May 1982 (SDR 75.5 million) under the first year of the stand-by and two payments of SDR 92 million under the second year. In the first half of 1983, there will be purchases of SDR 92 million in February and SDR 91.5 million in May.

(iii) With respect to governments, the first Paris Club meeting should be successfully concluded but the bilaterals need not be so.

from core
banks

(iv) With respect to banks, we should be assured that the rescheduling will be concluded but the agreement need not be signed.

(v) With respect to debt to suppliers, including the Arab central banks and the Moscow banks, we should not insist on a rescheduling.

However, we should be assured that insofar as they may not be rescheduled before the end of 1982, the balance of payments projections in the program are still viable (for example, because of alternative loans) or that the program is appropriately adjusted.

cc: Mr. Mookerjee
Mr. Rose
Mr. Schmitt
Mr. Paljarvi
Ms. Salop



Office Memorandum

Mr. Rose

TO : Mr. Whittome

DATE: May 7, 1982

FROM : G. Tyler 47

SUBJECT : Romania--Board Decision

Executive Directors should be aware that a decision is to come. The covering note said "Draft decisions will be circulated later." On the main substance of your memorandum, I have spoken to Mr. Mookerjee and what I propose below is acceptable to us both and in line with our understanding of experience with other reschedulings insofar as this is relevant.

We agree that we should circulate draft decisions around mid-May but that the U.S. position is crucial. We could circulate after receiving your telex following a discussion with Camdessus but I am not clear who would take up the question "direct" or with whom, if you cannot get hold of him. There is also the question of who will clear the draft decision. Although the principle of the decision on the stand-by arrangement has been cleared with the Managing Director, the precise phasing has not, nor has the Article IV decision been cleared with him.

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However, we should be assured that insofar as they may not be rescheduled before the end of 1982, the balance of payments projections in the program are still viable (for example, because of alternative loans) or that the program is appropriately adjusted.

cc: Mr. Mookerjee
Mr. Rose
Mr. Schmitt
Mr. Paljarvi
Ms. Salop



Office Memorandum

DMD
LAW

TO : The Managing Director

FROM : L.A. Whittome *LAW*

SUBJECT : Romania--Board Decision

DATE: May 7, 1982

On the assumption that nothing upsets the timing of the Board meeting (May 28, 1982) we shall need to issue draft decisions for the resumption of the stand-by arrangement and the Article IV consultation.

Earlier you had agreed (i) that we should release SDR 76 million immediately after the decision had been adopted and (ii) that no further amounts should be made available until after a review which would look at the results of the various rescheduling negotiations required to regularize the arrears position. If you approve, we shall issue a draft decision covering these two points and specifying that the phasing of future purchases will be established at the time of the review. This will permit us to be sure that the eventual phasing will match Romania's needs in the light of the final form of the reschedulings.

Would you agree please.

agreed
LAW

cc: The Deputy Managing Director
Mr. Carter

The Managing Director

May 7, 1982

L.A. Whittome

Romania--Board Decision

On the assumption that nothing upsets the timing of the Board meeting (May 28, 1982) we shall need to issue draft decisions for the resumption of the stand-by arrangement and the Article IV consultation.

Earlier you had agreed (i) that we should release SDR 76 million immediately after the decision had been adopted and (ii) that no further amounts should be made available until after a review which would look at the results of the various rescheduling negotiations required to regularize the arrears position. If you approve, we shall issue a draft decision covering these two points and specifying that the phasing of future purchases will be established at the time of the review. This will permit us to be sure that the eventual phasing will match Romania's needs in the light of the final form of the reschedulings.

Would you agree please.

cc: The Deputy Managing Director
Mr. Carter

bcc: Mr. Tyler
EED



Office Memorandum

TO : Mr. Tyler

FROM : L.A. Whittome *LA*

SUBJECT : The Romanian Decision

DATE: May 6, 1982

We still have to agree the text of the decision in its final form and distribute it to Executive Directors. Do in fact Executive Directors now realize that a decision is still to come? Some don't and I think we must ask the Secretary's Department to phone round and warn Executive Directors offices.

Then when is the document to be distributed? We should aim for mid-May. I assume the crucial point is knowledge that the U.S. are not going to block the Paris Club meeting. I shall try and talk with Camdessus in Helsinki and telex you but if I fail to meet with him the question will have to be taken up direct.

Then what is the document to say? We now have management agreement that SDR 76 million will be disbursed at once. I shall seek to warn Gigea in Helsinki. I have also told Polak and Erb and they are content.

The balance of the accumulated SDR 225 million can then only be released after a review. The review would have to be able to show that the Governmental and bank reschedulings were--were what? "Finally signed" is surely too strong given the long lags that can so easily occur. We need I guess at the least on the Government side knowledge that initial Paris Club meeting has gone according to plan (incidentally what happens if the agreement on the say the rescheduling of interest is different from that assumed--presumably the review would then have to incorporate some new figuring) and also that the bilateral agreements were "well on the way"? to being signed. But all of them? Presumably yes.

But what as regards the banks? And in particular what about the problem of the Soviets and the oil producer central banks?

Then again I suppose the decision will ask for approval of the new program but that none of the tranches due under this program, e.g., from June 1982 can be disbursed until a review. (If not we shall risk disbursements under the new program before those of the first year are completed and we also risk an enormous bunching).

Would you please discuss these problems with Mr. Rose who will himself be leaving next week and with Mr. Schmitt.

cc: Mr. Rose ✓
Mr. Schmitt
EED

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

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23 MR. MICHEL CAMDESSUS
22 TRESOR
21 PARIS
20 FRANCE

MARK XX FOR SERVICE

(**XX**) TELEX

D () FULL RATE

O () CODE

DISTRIBUTION

T
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18 THE REPORT ON ROMANIA WAS ISSUED TO EXECUTIVE
17 DIRECTORS LAST NIGHT, THURSDAY, APRIL 29, AND THE DATE
16 FOR THE BOARD MEETING HAS BEEN FIXED FOR FRIDAY, MAY 28.
15 BEST REGARDS
14 ALAN WHITTOME

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SPECIAL INSTRUCTIONS

TEXT MUST END HERE

D	DRAFTED BY:	LAWHITTORE EXT. 73074	DEPARTMENT:	EUR	DATE:	4/30/82
E	NAME (TYPE):	L.A. WHITTOME	NAME (TYPE):		(**)	
F	No. of words	Log	Route	Operator	TYPE ** ON LAST OR ONLY PAGE OF MESSAGE	
G	SIGNATURE: <i>L.A. Whittome</i>		SIGNATURE:			

248331 IMF UR
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248331 IMF UR
TRESOR PARIS

RECEIVED
I.M.F.

1982 APR 30 AM 8:26

495238

CABLE
ROOM

CONFIDENTIEL

PARIS LE 30 AVRIL 1982

DE TRESOR SON NUMERO 82/742 POUR MONSIEUR WHITTOME - F.M.I. -

EN REPONSE A VOTRE TELEX, JE VOUS CONFIRME LES RESULTATS DE LA CONSULTATION QUE J'AI FAITE AUPRES DES 16 CREANCIERS OCCIDENTAUX DE LA ROUMANIE, EN PARTICULIER A L'OCCASION DE LA REUNION DU 18 MARS DERNIER, A LAQUELLE ASSISTAIT UN REPRESENTANT DU F.M.I.

LES PAYS SE SONT DANS L'ENSEMBLE DECLARES D'ACCORD POUR QUE SOIT EXAMINEE LA QUESTION DE LA REUNION DU CLUB DE PARIS AUSSITOT APRES QUE LE F.M.I. AURA CONCLU UN ACCORD AVEC LA ROUMANIE, LA POSITION DE CERTAINS CREANCIERS RESTANT TOUTEFOIS RESERVEE JUSQU'A CET ACCORD.

VOUS M'ANNONCEZ QUE LA MISE AU POINT DE CET ACCORD DU F.M.I. AVEC LES ROUMAINS EST PARVENUE A SON TERME TECHNIQUE. JE VOUS SERAIS, DES LORS, RECONNAISSANT DE BIEN VOULOIR M'INDIQUER A QUELLE DATE LE CONSEIL DU FONDS DOIT EXAMINER LE PROJET D'ACCORD AVEC LES ROUMAINS, DE MANIERE A ME PERMETTRE DE FAIRE LES CONSULTATIONS NECESSAIRES ET, VOUS CONFIRMER DEFINITIVEMENT LA DATE DE REUNION DU CLUB DE PARIS, QUI DEVRAIT CONFORMEMENT AUX USAGES SE SITUER IMMEDIATEMENT APRES LA REUNION DU CONSEIL DU FONDS.

EN REPONSE A VOTRE TELEX, JE VOUS CONFIRME LES RESULTATS DE LA CONSULTATION QUE J'AI FAITE AUPRES DES 16 CREANCIERS OCCIDENTAUX DE LA ROUMANIE, EN PARTICULIER A L'OCCASION DE LA REUNION DU 18 MARS DERNIER, A LAQUELLE ASSISTAIT UN REPRESENTANT DU F.M.I.

LES PAYS SE SONT DANS L'ENSEMBLE DECLARES D'ACCORD POUR QUE SOIT EXAMINEE LA QUESTION DE LA REUNION DU CLUB DE PARIS AUSSITOT APRES QUE LE F.M.I. AURA CONCLU UN ACCORD AVEC LA ROUMANIE, LA POSITION DE CERTAINS CREANCIERS RESTANT TOUTEFOIS RESERVEE JUSQU'A CET ACCORD.

VOUS M'ANNONCEZ QUE LA MISE AU POINT DE CET ACCORD DU F.M.I. AVEC LES ROUMAINS EST PARVENUE A SON TERME TECHNIQUE. JE VOUS SERAIS, DES LORS, RECONNAISSANT DE BIEN VOULOIR M'INDIQUER A QUELLE DATE LE CONSEIL DU FONDS DOIT EXAMINER LE PROJET D'ACCORD AVEC LES ROUMAINS, DE MANIERE A ME PERMETTRE DE FAIRE LES CONSULTATIONS NECESSAIRES ET, VOUS CONFIRMER DEFINITIVEMENT LA DATE DE REUNION DU CLUB DE PARIS, QUI DEVRAIT CONFORMEMENT AUX USAGES SE SITUER IMMEDIATEMENT APRES LA REUNION DU CONSEIL DU FONDS.

AMITIES.

SIGNE : MICHEL CAMDESSUS.

⊕

248331 IMF UR

TRESOR PARIS



Office Memorandum

April 27, 1982

MEMORANDUM FOR FILES

Subject: Romania

1. I asked Mr. Wright to book May 28 for a Board meeting on Romania on a definite basis.

2. I confirmed to Miss Le Lorier that May 28 would be the Board date and asked her to ask the Trésor to set a meeting for the Paris Club as soon as possible after that date. I also told her that we would hope to issue the paper by the end of this week.

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

L.A. Whittome

cc: Mr. Tyler
Mr. Hole
EED



Office Memorandum

TO : The Managing Director
DATE: April 27, 1982

FROM : L.A. Whittome *LAW*

SUBJECT : Romania--Release of Fund Resources Under Stand-By Arrangement

In approving the Board paper on the review of the stand-by arrangement, you agreed that we should not unlock immediately the whole of the SDR 227.5 million which will have been held back by the end of May. Instead we should provide for the release of a token sum only with the balance becoming available after a review. Given the travel schedules of those attending the Interim Committee it would seem sensible to decide now what that "token" amount might be. The range of reasonable possibilities runs from SDR zero to SDR 76 million, the latter being the amount of the unused purchase of November 1981. There is an obvious argument in favor of zero, but it would be an awkwardly tough line to take, and would surely weaken the position of Minister Gigea. Something less than SDR 76 million--for example, SDR 50 million--has no logic to it other than that of being a round number but SDR 76 million could be justified on the basis that it was the purchase missed in 1981 and that it would be logical to withhold the sums intended for 1982 (SDR 151.5 million) until the 1982 program--including the rescheduling--was on firm footing. I would recommend SDR 76 million, even though it has the look of being somewhat on the high side.

cc: The Deputy Managing Director ✓
Mr. Finch
Mr. Hole
Mr. Carter
EED

MD - I would agree with Mr. Whittome's recommendation.
[Signature]

APR 28 1982



CONFIDENTIAL

Office Memorandum

(M. D. DeLo
A. Whittome
APR 27 1982
JS

TO : The Managing Director

DATE: April 27, 1982

FROM : L.A. Whittome *LAW*

SUBJECT : Romania--Release of Fund Resources Under Stand-By Arrangement

In approving the Board paper on the review of the stand-by arrangement, you agreed that we should not unlock immediately the whole of the SDR 227.5 million which will have been held back by the end of May. Instead we should provide for the release of a token sum only with the balance becoming available after a review. Given the travel schedules of those attending the Interim Committee it would seem sensible to decide now what that "token" amount might be. The range of reasonable possibilities runs from SDR zero to SDR 76 million, the latter being the amount of the unused purchase of November 1981. There is an obvious argument in favor of zero, but it would be an awkwardly tough line to take, and would surely weaken the position of Minister Gigea. Something less than SDR 76 million--for example, SDR 50 million--has no logic to it other than that of being a round number but SDR 76 million could be justified on the basis that it was the purchase missed in 1981 and that it would be logical to withhold the sums intended for 1982 (SDR 151.5 million) until the 1982 program--including the rescheduling--was on firm footing. I would recommend SDR 76 million, even though it has the look of being somewhat on the high side.

cc: The Deputy Managing Director
Mr. Finch
Mr. Hole
Mr. Carter
EED



Office Memorandum

M. Whitton
E

MEMORANDUM FOR FILES

April 26, 1982

Subject: Romania--Meeting Between the Managing Director and
the Commercial Bankers

On Tuesday, April 20, 1982, representatives of the "Group of Nine" and the London law firm of Coward Chance met with the Managing Director and the Deputy Managing Director and several staff members. The meeting lasted about 45 minutes, from 12:20 p.m. to 1:05 p.m. It consisted primarily of an exchange of information and views between the Managing Director and the bankers on the Romanian situation. Mr. Kjelleren of Manufacturers Hanover Trust was the principal spokesman for the bankers. A complete list of participants at the meeting is attached.

At the outset of the meeting the Managing Director told the bankers that the Fund had reached agreement with the Romanians on the second year of the stand-by program. He said that the negotiations had involved a long process and had not been easy. Under the agreed program, the deficit in the current account in convertible currencies targeted for 1982 was less than US\$500 million and met the Fund's requirement of a significant improvement. He added that fiscal deficits had not been a source of the difficulties in Romania, which were rather more related to the functioning of the economy, particularly as regards the price, exchange rate, and incentive systems. Accordingly, the program contained special measures with respect to prices--retail, energy, and producer--and exchange rates. He added that he thought the program was a good one and that he had just received the signed letter of intent from the Romanian authorities that morning.

Mr. Kjelleren asked about the timing of the discussions in the Fund's Executive Board and whether the US\$265 million (SDR 227.5 million) outstanding from the first year of the program would be available before the end of May. The Managing Director said that a date for the program's going before the Board had not yet been set. He stressed that, regardless of the particular date, the Romanians would not be able to draw under the program until the Fund was "reasonably confident" about the outcome of the negotiations with the banks and the Paris Club. While the agreement with the banks would not have to be "signed and sealed" for the Fund to be "reasonably confident," negotiations would have to be virtually concluded, i.e., without the major stumbling blocks that apparently characterized the present situation. Nevertheless, in order to expedite matters vis-à-vis the financial community and the Paris Club, which were anxious for a signal from the Fund, it might be appropriate either to circulate the papers to the Executive Board now without fixing a date for discussion and without a proposed decision, or to schedule the program for discussion at the Executive Board as soon as possible and to include a review clause preventing Romania from drawing under the program until the Fund was satisfied with the status of the various rescheduling negotiations. Thus, while the US\$265 million might not be available in May, it would be available when it was needed for the "downpayment" for the rescheduling.

Mr. Kjelleren reported on the current status of the bankers' negotiations with the Romanians. He said that the bankers had worked together harmoniously and had made fairly rapid progress. The lawyers had also done a very good job, and their draft document was ready. However, there remained several outstanding problems relating to the "pari passu" clause of the agreement that remained to be solved before the next stage in the negotiations could be reached, and that it was really for the Romanians to propose how these problems might be addressed. Discussion of these problems--namely, the treatment of repayments due to suppliers, the Moscow banks IBEC and IIB, 1/ and some Arab central banks--plus the question of the Paris Club occupied the remainder of the meeting.

With respect to the US\$625 million in suppliers' credits, Mr. Kjelleren said that the Romanians had argued that in principle they were not against a rescheduling, but that in practice the likely repercussions on the functioning of the domestic economy made them reluctant to take such action. Nevertheless, the Romanians had neither made precise the dimensions of the problem that they foresaw in this connection nor had they made a specific counterproposal to the bankers' proposal that all suppliers' credits be rescheduled on the same terms as the bankers' credits. Thus, while it seemed that the Romanians were arguing that a rescheduling of some of these credits totaling US\$179 million--due partly in cash and partly in goods in countertrade to large suppliers (US\$500,000 or above) from eight countries--would put a particular strangelhold on the economy, they had not specifically requested that these credits be excluded from the "pari passu" provision of the agreement. In view of the Romanians' somewhat dilatory approach to the issue of suppliers' credits, Mr. Grimmond asked the Managing Director whether the Romanians understood that their ability to draw from the Fund would be conditional on the rescheduling negotiations with the banks being essentially complete and, as such, conditional on the resolution of the question of suppliers' credits. The Managing Director, after conferring with staff, said that, yes, the Romanians were aware of this.

With respect to the Moscow banks, Mr. Kjelleren said that there were due US\$190 million in 1982 and US\$160 million 2/ in future years. Apparently, the Romanians have tried to secure a rescheduling of these credits from the Moscow banks; Mr. Eremia has already been twice to Moscow and is to return again next week; the Romanians have not formally proposed that the bankers exclude these credits from the "pari passu" clause of the agreement; and the whole question is still considered open by both sides. Mr. Wolkenstein noted that the bankers had received conflicting stories from the Romanians about these credits and the Russians' willingness to reschedule them. It seems that, at one time, the Russians were depicted as arguing that these credits could not be rescheduled and that they should be treated in the same manner as credits extended from the Fund and World Bank, IBEC and IIB being their respective COMECON counterparts. At another

1/ International Bank for Economic Cooperation and International Investment Bank.

2/ Our figures suggest that US\$221 million is due after 1982.

time, the Russians were said to have indicated that rescheduling would indeed be possible if they, the Russians, could replace the repayments to be rescheduled with new borrowings.

With respect to the Arab central banks, Mr. Kjelleren said that these involved credits totaling some US\$400 million 1/ from the central banks of Iraq, Iran, and Libya. These credits had been granted in connection with purchases of crude oil, and the banks involved had declined to agree to a rescheduling. Apparently, it was being argued by the Romanians that these credits should be excluded from the "pari passu" clause because of the importance of oil imports to the smooth functioning of the domestic economy and the Romanians' reluctance to jeopardize their relations with their principal suppliers. Nevertheless, the Romanians had not put forward a specific proposal to this effect.

The discussion of the official debt rescheduling took two parts. First, the Managing Director suggested that the credits to the Moscow banks and to the Arab central banks might properly be considered as official credits and for that reason beyond the scope of the bankers' agreement. As such, perhaps the best way for the bankers to proceed would be for them to wrap up all the details of their own agreement, but to condition its taking effect on the Romanians' securing equal treatment of official and suppliers' credits. In this way, the complex and interdependent process of rescheduling might be expedited by having at least this part completed. 2/ Second, Mr. Kjelleren said that the bankers had heard from the Romanians that they had formally requested a Paris Club meeting but that there had been no official confirmation of this report. At the same time, he noted that official creditors had not yet been notified of the March 1 cutoff, and that some official creditors were believed to be still receiving principal payments. Mr. Whittome confirmed that Mr. Camdessus had received a request for a Paris Club meeting. He indicated that a date for the Paris Club would be set only after the Fund's Executive Board met on the Romanian program. To Mr. Schwarzenberg's question about preliminary indications on the likely outcome of the Paris Club, Mr. Whittome said that the Fund staff remained optimistic but had nothing specific to report in this respect.

J. K. Salop *JKS*

cc: Mr. Whittome
Mr. Tyler
Mr. Paljarvi

1/ Our figures suggest that US\$339 million is due.

2/ While no objection to this advice was voiced, it did not seem to accord with the concerns raised at the meeting by Messrs. Meyer and Wolkenstein about the possibility of an 80 per cent rescheduling of official and bank credits being too low to satisfy the Romanians' financing requirement if the suppliers' and other credits are not likely to be rescheduled as expected. Moreover, as it would not serve the bankers' interests to condition their agreement on a clause that was unlikely to be met, the bankers would probably be disinclined to conclude their negotiations before these questions were better resolved.

ROMANIA

Participants at Meeting with
the Managing Director
on April 20, 1982

Bank of America

Mr. Werner Schubert

Banque Nationale de Paris

Mr. Jean-Pierre Mathis

Barclays Bank International Limited

Mr. Brian Grimmond

Mr. Peter Morgan

Crédit Lyonnais

Mr. Alexis Wolkenstein

Mr. André Labbens

Deutsche Bank

Mr. Knut Witschel

Dr. Hans-Dirk Krekeler

Lloyds Bank International Limited

Mr. Henry Meyer

Manufacturers Hanover Trust

Mr. Lee Kjelleren

Mr. Stephen Pelletier

Société Générale

Mr. F. Bexon

Union Bank of Switzerland

Dr. S. von Schwarzenberg

Mr. B. Beck

Coward Chance, London law firm

Mr. Cliff Godfrey

Mr. Martin Hughes

Fund Staff

Mr. de Larosière

Mr. Dale

Mr. Whittome

Mr. Finch

Mr. Tyler

Mr. Carter

Ms. Salop

4/24/82.

Mu Whitstone
9-120
✓

Romania wins IMF approval

By Anatole Kaletsky
in Washington

ROMANIA has successfully completed negotiations with the International Monetary Fund on re-opening an SDR 1.1bn standby credit facility which Romania has been prevented from using since November last year.

The IMF staff are recommending that Romania be allowed to draw one third, or SDR 330m of the facility during the current year and their recommendation is likely to be approved by the executive board before the summer.

The standby arrangement was originally negotiated in June last year, but drawings were abruptly stopped in November because of Romania's failure to meet the performance criteria set by the IMF.

Only SDR 140m of the credit had been drawn by then and it has not yet been decided how much of the undrawn part of the first year's facility will now be released. Past practice is that undrawn amounts of standby facilities are released either in one instalment or in equal tranches over the remaining years of the standby arrangement.

The problem which led to Romania's facility being interrupted was the accumulation of arrears on the country's external debts. Since November, IMF officials have been in constant touch with Bucharest and have now concluded that there has been substantial progress in three key areas of Romania's economic performance.

Romania's current account deficit with countries outside the Comecon area in 1981 was approximately \$800m, much lower than the target set by the IMF.



Office Memorandum

file: EE
Hungary
Romania
Yugoslavia

cc: Mr. de Fontenay
Mr. Tyler
Mr. Hole
EED

April 23, 1982

MEMORANDUM FOR FILES

Subject: Eastern Europe

1. Hungary

a. Mr. Marjai has asked to see Mr. Clausen; the Bank are attempting to arrange.

b. We must take the issue of IFS classification with Fekete and Bako as soon as we see them.

c. Harry Taylor believes a \$200/250 million three to five year credit could be syndicated and is prepared to go to Europe to explore. I have told Fekete and warned him of unease at the Schroder initiative.

d. The issue of the Bank shares is still unsolved and the impasse can seemingly only be broken if the U.K. renounce some of their shares. Otherwise Hungary will accept a token allocation for the time being.

e. The per capita income question is now bedeviling the Bank. Karaosmanoglu tells me that he is prepared to back a figure very similar to ours but has opposition (this in confidence) from some colleagues elsewhere in the Bank; de Groote is pressing for a quick paper; Stern is not prepared to issue a paper which as he says can be disputed for ever. I have asked Stern or Karaosmanoglu to get in touch with de Groote.

2. Romania

a. I have told Polak of our position; he wonders if a "token drawing" might be the SDR 76 million not disbursed in November. I said we would think.

b. I have told Karaosmanoglu of the position. I have also spoken to him on Poland.

3. Yugoslavia

a. We will with Polak again consider calling Makic early next week to suggest that he return via New York.

b. I have told Karaosmanoglu of the position. He tells me that inability of a Yugoslav bank to put up a deposit led to the postponement of a project loan of \$78 million recently.

L.A. Whittome



Office Memorandum

file: EE
vs
romania
Hungary

April 23, 1982

MEMORANDUM FOR FILES

Subject: Eastern Europe

Mr. Kjelleren called this morning to report on the banks meeting with Mr. Eagleburger yesterday. He said that the meeting had been somewhat disappointing and that they intended to pursue the questions raised at subsequent meetings. In general Eagleburger took the line that from the U.S. point of view there were strong differences as between the East European countries and in particular the U.S. had a strongly supportive attitude toward Yugoslavia. As regards the other countries there was an elusive reference to the fact that in the Administration's opinion Romania and Hungary were not in line to suffer from the imposition of U.S. sanctions. In this way, but in this way only, these countries were differentiated from the others in the bloc.

The bankers were of course very aware of Eagleburger's "bias" and of the fact that State is not the spokesman for the Administration.

L.A. Whittome

L.A. Whittome

cc: The Managing Director
The Deputy Managing Director
Mr. Hole
Mr. Carter
EED



Office Memorandum

Mr. Whittaker
file: Hungary
Romania
Yugoslavia

April 23, 1982

MEMORANDUM FOR FILES

Subject: Meeting with Manufacturers Trust

A meeting was held today in Mr. Dale's office with representatives of the Manufacturers Hanover Trust Bank to discuss mainly Hungary, Romania and Yugoslavia.

On Hungary, the staff explained that use of Fund resources in the form of a stand-by arrangement could take place in the latter part of the year. A fact-finding mission would visit Budapest in June and, depending on its findings, a negotiating mission may be sent at a later stage. The maximum amount of the stand-by arrangement could be of the order of US\$600 million but the actual amount would be lower than that. As to the lines of credit from the BIS, the staff said that US\$100 million was disbursed in April and another US\$100 million is expected to be disbursed in May although one or two central banks have not yet received guarantees from their governments; as to the talks for an additional US\$300 million, negotiations are under way. With regard to the commercial bank credits, the bank representatives said that negotiations are in progress for an amount of about US\$300 million.

On Romania, the staff explained that the whole or part of the amount of the stand-by arrangement that could have been drawn up to the time when the Board approves the program for 1982/83 would be made available to Romania immediately. This amount is US\$227 million. The bank representatives commended the Fund staff for the constructive role they had played in the debt rescheduling of the Romanian debt.

On Yugoslavia, the staff clarified information relating to debt and balance of payments for 1982 and explained developments in the first quarter. The bank representatives said that in their view Yugoslavia is implementing a sound set of policies with the adjustment effort being greater than expected by other countries. However, mainly because of political factors, there has been some withdrawal of credits mainly by the smaller regional banks especially U.S. banks; this has affected confidence and aggravated the strong seasonal factors in the first half of the year. The prospects for Yugoslavia to obtain medium- or long-term financial credits are not favorable at present but the efforts of the Yugoslav authorities to mobilize new short-term credits of the order of US\$300 million and broadly maintain the lines of short-term credits at their present level deserve the support of the international banking community.

However they
wondered that
it might well
be decided to
have drawing
on the amount
so as to guard
against any
pre-judgment
in Eastern
countries.
IDW

If today's meeting of the State Department with the U.S. banks results in political backing of Yugoslavia, this would help the efforts of the Yugoslavs to mobilize bank credits. The discussions led to the conclusion that the lack of leadership on the part of the international banks for Yugoslavia creates serious difficulties. It was hoped that this issue would be resolved soon.

Michael Dakolias *MD*

cc: Mr. Whittome ✓
Mr. Tyler

ITT World Communications Inc

ITT World Communications Inc.

cc: EFA

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INTERNAZIONAL MONETARY FUND
ATT. MR. WITTOME

CABLE
ROOM

IN CONNECTION WITH OUR DISCUSSIONS IN WASHINGTON, I LET
YOU KNOW THE FOLLOWINGS :

1. THE FORMAL REQUEST OF THE ROMANIAN GOVERNMENT TO
RESCHEDULE ITS DEBT TO GOVERNMENTS AND ITS PUBLIC GUARANTEED DEBT
WAS PRESENTED TO MR. MICHEL CAMDESSUS IN PARIS. THE GOVERNMENT
OFFICIALS IN PARIS WILL INFORM THE CREDITOR GOVERNMENTS UPON THIS
REQUEST.

2. WITH RESPECT TO THE INCREASE IN PRICES OF HEAVY OIL AND
NATURAL GAS, THE ROMANIAN GOVERNMENT HAS TAKEN THE NECESSARY
MEASURES, IN OBSERVANCE OF PRICE LEVELS AND TERMS AGREED IN
WASHINGTON.

YOUR FAITHFULLY,

GV PETRE GIGEA - MINISTER OF FINANCE

440040A FUND
11239B MIFIN R



Office Memorandum

E

April 21, 1982

MEMORANDUM FOR FILES

Subject: Discussions with Jack Norman of AP-Dow Jones and Art Pine of the Wall Street Journal

Today I phoned Jack Norman of AP-Dow to respond to an earlier question of his regarding an article in the WSJ giving a list of 15 countries whose loans with the Fund had been cut off. I started by saying that in our view the word "cut off" is an unfortunate word that does not describe accurately how the Fund is working. I then went on to individual countries. On Romania I told him that the Fund has just completed negotiations for the second tranche of the three-year stand-by which will be submitted for Board approval soon. Romania is aiming at reducing its current account deficit with the convertible area to \$450 million in 1982 as compared to an actual outcome for 1981 of \$800 million, which is already by far below the target for that year. Romania is progressing in unifying the exchange rate system and has implemented price adjustments in accordance with world market price levels for important commodities. On Morocco I told him that a new arrangement involving a substantial amount is imminent. On Uganda I informed him that it did draw the last tranche of its arrangement with the Fund last week. I also added that the Fund is in discussions with several of the countries listed in the WSJ article and that in some of these cases the discussions have progressed quite far.

Mr. Norman seemed to be interested and indicated he would move a story basically dealing with Romania and Morocco.

In my discussion with Mr. Pine of the WSJ, whom I did not reach previously, I made several points--first on the general thrust of the article and second on individual countries. Mr. Pine, who didn't indicate he would run a correction of his article, appreciated the additional information but deplored that this information had not been made available to him before publication of the article. He realized, however, the constraints on the Fund in talking about country matters and offered that in future cases when information is available to him he would consult with us and would be prepared to "freeze" a story if we had overwhelming objections to his use of confidential

matters that he may have access to. I thanked him for this offer mentioning that his story of April 19 had caused considerable trouble not only to the Fund but to countries, which he regretted. He said that he would liaise with Mr. Norman and consider a story on Romania and Morocco as well.


Hellmut Hartmann

cc: Mr. Dale
Mr. Mohammed
Mr. Gardner (o/r)
Mr. Whittome ✓
Mr. Carter

- IMF EXECUTIVE DIRECTORS EXPECTED TO ACT SOON ON RESUMING FINANCIAL ASSISTANCE TO ROMANIA, MOROCCO

WASHINGTON-(DJ)--ROMANIA HAS GOTTEN "BACK ON TRACK" WITH THE INTERNATIONAL MONETARY FUND (IMF) AND PROBABLY WILL GET IMF APPROVAL SOON TO DRAW SEVERAL HUNDRED MILLION DLRS AGAINST A SUSPENDED 1.2 BILLION DLR, THREE-YEAR CREDIT AUTHORIZED IN 1981.

IMF SOURCES SAID WEDNESDAY THAT ROMANIA CURRENTLY IS CARRYING OUT ECONOMIC ADJUSTMENTS REQUIRED UNDER THE TERMS OF THE ORIGINAL LOAN AGREEMENT TO REDUCE THE COUNTRY'S CURRENT-ACCOUNT INTERNATIONAL PAYMENTS DEFICIT, ALTHOUGH IT WASN'T DOING SO EARLIER.

THE ROMANIAN ECONOMIC SITUATION WILL BE REVIEWED IN THE NEAR FUTURE BY THE EXECUTIVE DIRECTORS OF THE 145-NATION AGENCY, AND THIS COULD CLEAR THE WAY FOR A RESUMPTION OF IMF LOAN DISBURSEMENTS THAT WERE SUSPENDED LAST NOVEMBER, IMF SOURCES SAID.

ROMANIA DREW ONLY ABOUT 156 MILLION DLRS AGAINST THE 1.2 BILLION DLR IMF LOAN BEFORE FURTHER LOAN DISBURSMENTS WERE SUSPENDED BY THE INTERNATIONAL AGENCY IN LATE 1981.

IT WILL BE UP TO THE IMF EXECUTIVE DIRECTORS, REPRESENTING MEMBER GOVERNMENTS, TO DECIDE WHETHER ROMANIA WILL BE PERMITTED TO DRAW ABOUT ONE-THIRD OF THE ORIGINAL LOAN, OR ABOUT 400 MILLION DLRS, DURING THE NEXT 12 MONTHS, OR PERHAPS A LARGER AMOUNT THAT MIGHT INCLUDE SOME OF THE MONEY THAT WASN'T AVAILABLE, BECAUSE OF THE SUSPENSION, DURING THE FIRST YEAR OF THE LENDING ARRANGEMENT.

ACCORDING TO IMF SOURCES, MOROCCO IS ANOTHER COUNTRY THAT IS IN THE PROCESS OF WORKING OUT ITS PROBLEMS WITH THE INTERNATIONAL AGENCY.

EARLIER, THE IMF HAD APPROVED A LOAN OF ABOUT 900 MILLION DLRS TO SUPPORT THE NORTH AFRICAN COUNTRY'S MEDIUM-TERM ECONOMIC ADJUSTMENT EFFORTS, BUT SUSPENDED DISBURSEMENTS AFTER MOROCCO HAD DRAWN ABOUT 150 MILLION DLRS AGAINST THE FIRST-YEAR INSTALMENTS OF THIS CREDIT.

MOROCCO, LIKE ROMANIA, HAS BEEN AMONG ABOUT A DOZEN IMF BORROWING COUNTRIES THAT HAVE HAD LOAN DISBURSEMENTS CUT-OFF AT LEAST TEMPORARILY BY THE INTERNATIONAL AGENCY BECAUSE THEY EITHER COULD NOT OR WOULD NOT MEET THE

LAST NOVEMBER, IMF SOURCES SAID.

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MOROCCO, LIKE ROMANIA, HAS BEEN AMONG ABOUT A DOZEN IMF BORROWING COUNTRIES THAT HAVE HAD LOAN DISBURSMENTS CUT-OFF AT LEAST TEMPORARILY BY THE INTERNATIONAL AGENCY BECAUSE THEY EITHER COULD NOT OR WOULD NOT MEET THE CONDITIONS OF THEIR ORIGINAL LOAN AGREEMENTS.

RATHER THAN PROPOSING A RESUMPTION OF DISBURSMENTS AGAINST THE 1981 CREDIT TO MOROCCO, IT IS EXPECTED THAT THE IMF MANAGEMENT, WITH THE CONCURRENCE OF THE MOROCCAN GOVERNMENT, WILL RECOMMEND TO IMF EXECUTIVE DIRECTORS THAT THE SO-CALLED "EXTENDED-FACILITY" CREDIT BE CANCELLED AND THAT A NEW ONE-YEAR STANDBY LOAN BE APPROVED INSTEAD.

THE AMOUNT OF THE PROPOSED ONE-YEAR CREDIT REPORTEDLY HASN'T BEEN DECIDED.

-(DJ-04-21-82 2256GMT



Office Memorandum

TO : Mr. Whitton *W*
FROM : G. Tyler *57*
SUBJECT : Romania - Rescheduling

DATE: April 20, 1982

co. 6-5
The table lending should make it clear to even the more cursory reader that these are assumptions, please
10/20/82

This is the latest set of tables showing the capital account flows implicit in the rescheduling agreement tentatively rendered at the last Frankfurt meeting. It should be noted, that it assumes that arrears and 1982 repayments of suppliers credits, credits from central banks, and credits from the Moscow banks will all be rescheduled on the same terms as commercial bank debt. It also assumes that governmental rescheduling will include interest (this provides US\$75 million of relief in 1982).

Attachments

Table 1. Romania: Gross Financing Requirements
in Convertible Currency, 1982-85

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987
Current account deficit	450	--	-200	-500		
Repayment of long- and medium- term debt as of December 31, 1981	2,423	1,511	1,170	1,752		
Nonguaranteed debt to banks	1,014	910	391	496		
Government guaranteed	636	302	219	213		
Suppliers' credits <u>1/</u>	116	70	210	525		
Other <u>2/</u>	657	229	350	518		
Repayment of short-term debt	643	500	800	800		
Repayment of post-1981 credits to cover the residual financing requirements	--	--	--	944		
Commercial banks	--	--	--	485		
Governments	--	--	--	155		
Others	--	--	--	304		
Increase in reserves	125	175	175	200		
Credits extended	150	180	200	200		
Repayment of arrears	143	--	--	--		
Banks	467	--	--	--		
Governments	40	--	--	--		
Suppliers	636	--	--	--		
Total	4,934	2,366	2,145	3,396		

Source: Romanian authorities.

1/ Includes amounts of suppliers' credits already rescheduled over 1982-83, plus installments due in new suppliers' credits on the basis of an average of five years maturity with one year grace.

2/ Comprises repayments to IMF and World Bank plus repayments to Moscow banks.

Table 2. Romania: Sources of Convertible Currency
Financing, 1982-87

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987
World Bank loans	325	275	275	275		
IMF purchases (gross)	475	415	220	--		
Medium- and long-term import- related credits	330	700	800	900		
Short-term import-related credits	500	800	800	800		
Other	--	--	--	--		
Residual financing requirements	3,304	176	50	1,421		
Commercial banks	1,699	110))		
Governments	541	37))		
Moscow banks	152))	50)	1,421
Suppliers' credits	919))))	
Total	4,934	2,366	2,145	3,396		

Source: Romanian authorities.

CONFIDENTIAL

The Managing Director

April 19, 1982

L.A. Whittome

Romania

The U.S. tell me that their overall policy attitude towards Eastern European matters is still undecided and is likely to remain undecided for at least two or three months. They say that perhaps it will be possible to reach a decision after the projected Summit Meeting now seemingly to take place--if at all--later this year. In the meantime they warn that the U.S. Government will not take any decision until it has to and as each issue comes up for decision it is very unpredictable how it will be decided. To make matters more difficult, they also say that they have not yet decided whether or not to seek to distinguish between East European countries. I understand from other sources that there are strong pressures in Congress for a hawkish attitude to Eastern Europe on financial matters.

These are the reasons why the U.S. has so far been unable to decide whether to vote for the Hungarian application for membership. It is also the reason why they cannot now say whether they would agree to the rescheduling of Romanian intergovernment debt within the Paris Club. I warned them that their representative has seemingly not made his position wholly clear when it was last discussed; I shall send a message to Mr. Camdessus warning him of this difficulty.

I then warned that we faced a difficult decision in the case of Romania, for we now have a 1982 program which we are prepared to recommend to the Board to approve and were waiting only for reasonable assurances that the commercial bank and intergovernment debt would be rescheduled as envisaged. I said that we hoped to obtain a firm impression of the banks' attitude as the result of the meeting scheduled to be held with the banks' representatives tomorrow. I added that I suspected that, given the uncertainties on the U.S. side, it would be preferable for us to issue the paper when it was ready and to leave it to the U.S. to request that its discussion be delayed if they so wished. Mr. Erb himself thinks that this is the correct course for the Fund though he says that it will inevitably put him personally in a difficult position. He emphasized that he is not using this as an argument to request us to delay the issue of the paper.

cc: The Deputy Managing Director
Mr. Finch
Mr. Nicolotopoulos
Mr. Carter

EED



Office Memorandum

E.E.
Cc: Hungary
Romania
Yugoslavia
U.S.S.R

TO: Mr. Whitton *W*

FROM: G. Tyler *GT*

SUBJECT: Eastern Europe--Meeting with Chemical Bank

April 19, 1982

At their request, I had lunch with Mr. Tunney, Vice President, Mr. Goldsmith, Assistant Vice President, and Mr. McCarthy, all of Chemical Bank. The following are the highlights of the discussion.

Hungary

They were anxious to know how the membership looked. I explained the present position. They specifically asked what I thought the United States would do since their contacts with Congress suggested significant opposition from some quarters there to Hungarian membership and any form of economic assistance, official and private, to Eastern European countries. This point was repeated in the context of the discussion on Romania.

Romania

They are obviously less than fully informed of the present position of the negotiations and, because of that and relations with the Romanian authorities over the last 18 months, expressed general unhappiness with Romania. They claimed that inside the U.S. banking community there is a general feeling that Manufacturers Hanover Trust and Bank of America have unilaterally taken over the role of coordinators and decisionmakers for all U.S. banks without letting them have any say in what the commitments and conditionality should be. There appears to be a belief that the rescheduling of short-term debt creates a potential precedent that is very unwelcome. In the discussion, they spoke of the possibility of having to start the negotiations afresh, but I doubt that they as a bank would go that far. It is reasonable to hope that, when they have the information package, see that the Fund is going ahead with the stand-by, and know that a Paris Club is to meet, they will accept, albeit reluctantly, what the nine banks have negotiated.

Yugoslavia

There have been a number of instances of late payments of interest and principal to U.S. banks. In one case, Citibank paid other U.S. consortium banks out of its own pocket. The main American and European banks met last week in Frankfurt specifically to discuss Yugoslavia and next week a delegation is to visit Belgrade. Many banks, especially the smaller U.S. banks, have withdrawn short-term credit lines and deposits with Yugoslav banks. It is unlikely that the smaller U.S. banks can be persuaded by the major New York banks to support Yugoslavia, since they have been twice burned by New York through loans to Chrysler and International Harvester. The major U.S. banks are hoping that something can be done to avoid a rescheduling.

(Mr. Mookerjee tells me that scattered temporary delays in payments, accepted by the creditors, need not constitute arrears but anything widespread and continued would be another matter.)

U.S.S.R.

I was told there are rumors of a "large Fund mission" that is said to be going to Moscow. I said I knew nothing of this.

cc: Mr. Dakolias



Office Memorandum

TO : Mr. Whitome

FROM : George P. Nicoletopoulos *GPN*

SUBJECT : Romania - Meeting with Commercial Banks

DATE: April 16, 1982

I agree with the tenor and approach of your draft memorandum of April 15, 1982 to the Managing Director.

In the text of the memorandum, I would propose two small changes of wording on page 2:

Eighth last line: Substitute "understandings" for "agreement".

Last line: Refer to "resumption of purchases under the stand-by" rather than "resumption of the stand-by".

cc: Mr. Rose
Mr. Tyler

The Managing Director

April 16, 1982

L. A. Whittome

Romania--Meeting with Commercial Banks

On Tuesday, April 20, 1982 you are to meet briefly at 12:15 p.m. with representatives of the nine banks that comprise the group that is negotiating a rescheduling of Romania's debt to foreign banks.

The present situation is that you have agreed with the Romanian Minister of Finance, Mr. Gigea, on a program for 1982 that would be acceptable provided suitable rescheduling agreements are reached with Romania's major creditors or that these negotiations have reached a sufficiently advanced stage. Our understanding is that the banks are concerned that the Fund might agree to a stand-by arrangement before their negotiations are fully completed and thereby weaken their bargaining position. We believe that you should not present a proposal to the Executive Board until there is reasonable clarity on the outcome of the rescheduling negotiations. Without this, the capital account projections would be too imprecise and we would not therefore know what domestic adjustment would be needed. However, this does not mean that we should refuse to support a member that had a basically satisfactory program until the last clause in the rescheduling agreement has been agreed between the member and all its creditors and certainly we cannot allow the banks to think they can exert any veto power on the issue of the stand-by paper.

We do not know the present position of the rescheduling negotiations. In February 1982 Romania and the nine banks reached agreement on the amount of rescheduling, maturities, and interest rates. They were: 80 per cent of arrears as of December 31, 1981 and 80 per cent of principal repayments falling due in 1982 would be rescheduled for six and one half years with three years' grace; interest charges would be LIBOR plus 1 3/4 per cent with a rescheduling fee of 1 per cent. The major matter of dispute related to how debt to the two Moscow banks, two central banks, and to nonbank, nonguaranteed suppliers were to be treated. The banks insisted that virtually all these should be rescheduled on identical terms. The Romanians said that they would try to work for this but that for some suppliers it would be very difficult. It seems that debts owed to the U.S.S.R. and to certain OPEC countries constitute the core of this problem, though we have this only on hearsay.

In earlier cases, we have sometimes gone to the Board when an agreement in principle had been reached with banks on rescheduling but not yet signed, and, on other occasions we have gone ahead when an

agreement de jure or in principle was not thought necessary. It is rare for us to have insisted on the full completion of rescheduling negotiations. It is also, to our knowledge, rare for banks to insist that virtually all suppliers' credits be rescheduled on identical terms as bank credits. The precedents, therefore, provide us with considerable scope for doing whatever we think is appropriate.

At your meeting I would suggest therefore that you begin by telling the banks (list of those probably attending is attached) that we have reached understandings on a 1982 program which seeks to reduce the current account deficit in 1982 in convertible currencies to marginally under \$500 million and to turn this into a small surplus in 1983. Domestic economic policies in the program are compatible to this end. You could add that as envisaged from the beginning of the arrangement the Romanians will take further steps to unify the existing range of exchange rates and also further steps to bring domestic prices into line with world prices. You might then add that this gives the necessary base for proposing an early resumption of purchases under the stand-by and that you hope that you can do this in the knowledge that the banks' discussions on the rescheduling of Romanian debts had progressed satisfactorily and were expected to be completed in the near future. At this point it would seem wise to ask the banks where indeed their discussions now stood. In the light of their response we should need to consider whether or not the paper to the Board should be issued around the end of April for Board discussion at the end of May as presently planned or whether we should consider postponing any action.

A further complication arises as a result of the inter-governmental debts. The situation here is that the subject of Romania was very briefly touched on at the end of a creditors' meeting on Poland held on the 18th of March. Mr. Camdessus then said that the Romanians had questioned whether their debts had to be discussed in the Paris Club or whether some other forum could not be found. The views of those who spoke were that the Paris Club should be the forum but the U.S. delegate added remarks which were less than clear but which were interpreted as meaning that the U.S. Government had not made up its mind on the question of rescheduling Romania's debt. Apparently he was not challenged either inside or outside the meeting.

The most recent development is that the Romanians yesterday formally --and at last--asked Mr. Camdessus to convene a meeting of the Paris Club and he has said that he will do so as soon as he is told of the expected date of the Board meeting. Privately I gather that the Trésor also feel uncertain about the U.S. position. I have therefore asked Mr. Erb to explain it but he has said that on this matter he will have to seek instructions which may take a couple of days.

For this reason alone we cannot now decide when to set the date of the Board meeting, but the arguments for going ahead as rapidly as

possible remain strong in my view. It is important for the liquidity position of all East European countries that the Romanian difficulties should be resolved as soon as possible and, secondly, if Board discussion were to be delayed beyond May it will become progressively more difficult to recommend a resumption of the stand-by rather than its cancellation and replacement by a new arrangement. So long as the existing stand-by is put back onto track then we have always envisaged the immediate release of SDR 227.5 million (62 per cent of quota) being the tranches due in November 1981 and in February and May of this year. These have been held up because of the existence of arrears; in other respects performance targets have been met.

Attachment

cc: The Deputy Managing Director
Mr. Habermeier
Mr. Finch
Mr. Mohammed
Mr. Van Houtven
Mr. Schmitt
Mr. Tyler
Mr. Carter
Mr. Paljarvi
Ms. Salop
Mr. Robichek
Mr. Shaalan
Mr. Tun Thin
Mr. Zulu



Office Memorandum

Mr. Nicoletopoulos

4/15

April 15, 1982

To: Mr. Finch
Mr. Nicoletopoulos ✓

From: L. A. Whittome *LAW*

Subject: Romania--Meeting with Commercial Banks

I would be grateful for any comments on the attached draft by the close of business tomorrow please. We have to send the note to the Managing Director by Monday at the latest.

cc: Mr. Rose
Mr. Tyler

DRAFT
4/15/82

To: The Managing Director
From: L. A. Whittome
Subject: Romania--Meeting with Commercial Banks

On Tuesday, April 20, 1982 you are to meet briefly at 12:15 p.m. with representatives of the nine banks that comprise the group that is negotiating a rescheduling of Romania's debt to foreign banks.

The present situation is that you have agreed with the Romanian Minister of Finance, Mr. Gigea, on a program for 1982 that would be acceptable provided suitable rescheduling agreements are reached with Romania's major creditors or that these negotiations have reached a sufficiently advanced stage. Our understanding is that the banks are concerned that the Fund might agree to a stand-by arrangement before their negotiations are fully completed and thereby weaken their bargaining position. We believe that you should not present a proposal to the Executive ^{Board} ~~Directors~~ until there is reasonable clarity on the outcome of the rescheduling negotiations. Without this, the capital account projections would be too unprecise and we would not therefore know what domestic adjustment would be needed. ^{Have} ~~Against this, it would be unreasonable to refuse to support a member that had a basically satisfactory program, until the last clause in the rescheduling agreement has been agreed between the member and all its creditors.~~ ^{does not mean that we should}

We do not know the present position of the rescheduling negotiations. In February 1982 Romania and the nine banks reached agreement on the amount of rescheduling, maturities, and interest rates. They were: 80 per cent of arrears as of December 31, 1981 and 80 per cent of principal repayments falling due in 1982 would be rescheduled for six and one half years with

three years' grace; interest charges would be LIBOR plus 1 3/4 per cent with a rescheduling fee of 1 per cent. The major matter of dispute related to how nonbank, nonguaranteed suppliers' credits were to be treated. The banks insisted that virtually all these should be rescheduled on identical terms. The Romanians said that they would try to work for this but that for some suppliers it would be very difficult. It seems that debts owed to the U.S.S.R. and to certain OPEC countries constitute the core of this problem, though we have this only on hearsay.

In earlier cases, we have sometimes gone to the Board when an agreement in principle had been reached with banks on rescheduling but not yet signed, and, on other occasions we have gone ahead when an agreement de jure or in principle was not thought necessary. It is rare for us to have insisted on the full completion of rescheduling negotiations. It is also, to our knowledge, rare for banks to insist that virtually all suppliers' credits be rescheduled on identical terms as bank credits. The precedents, therefore, provide us with considerable scope for doing whatever we think is appropriate.

At your meeting I would suggest therefore that you begin by telling the banks (list of those probably attending is attached) that we have reached ^{understandings} agreement on a 1982 program which seeks to reduce the current account deficit in 1982 in convertible currencies to marginally under \$500 million and to turn this into a small surplus in 1983 and ensures that domestic economic policies are geared to this end. You could add that as envisaged from the beginning of the arrangement the Romanians will take further steps to consolidate the existing range of exchange rates and also further steps to bring domestic prices into line with world prices. You might then add that this gives the necessary base for proposing an early resumption of ^{purchases under} the stand-by

and that you hope that you can do this in the knowledge that the banks discussions on the rescheduling of Romanian debts had been completed as regards all the main issues. At this point it would seem wise to ask the banks where indeed their discussions now stood. In the light of their response we should need to consider whether or not the paper to the Board should be issued around the end of April for Board discussion at the end of May as presently planned or whether we should consider postponing any action.

A further complication arises as a result of the inter-governmental debts. The situation here is that the subject of Romania was very briefly touched on at the end of a creditors meeting on Poland held on the 18th of March. Mr. Camdessus then said that the Romanians had questioned whether their debts had to be discussed in the Paris Club or whether some other forum could not be found. The views of those who spoke were that the Paris Club should be the forum but the U.S. delegate added remarks which were less than clear but which were interpreted as meaning that the U.S. Government had not made up its mind on the question of rescheduling Romania's debt. Apparently he was not challenged either inside or outside the meeting.

The most recent development is that the Romanians today formally-- and at last--asked Mr. Camdessus to convene a meeting of the Paris Club and he has said that he will do so as soon as he is told of the expected date of the Board meeting. Privately I gather that the Trésor also feel uncertain about the U.S. position. I have therefore asked Mr. Erb to explain it but he has said that on this matter he will have to seek instructions which may take a couple of days.

For this reason alone we cannot now decide when to set the date of the Board meeting, but the arguments for going ahead as rapidly as possible remain strong in my view. It is important for the liquidity position of

all East European countries that the Romanian difficulties should be resolved as soon as possible and secondly if Board discussion were to be delayed beyond May it will become progressively more difficult to recommend a resumption of the stand-by rather than its cancellation and replacement by a new arrangement. So long as the existing stand-by is put back onto track then we have always envisaged the immediate release of SDR 227.5 million being the tranches due in November 1981 and in February and May of this year.



Office Memorandum

TO : Mr. Whitton *W*
FROM : G. Tyler *GT*
SUBJECT : Romania - Bankers' Visit to Washington

DATE: April 15, 1982

Your proposals for the meeting as outlined in your memorandum of April 13, 1982 seem fine to me.

I have asked Ms. Salop to meet the bankers downstairs and to bring them to the 12th floor conference room.

Mr. Hadjimichael will not be at the lunch since he will be on leave. *(1)*

cc: Ms. Salop

Lyme
✓ a) PL rate *(1)* for lunch
✓ i) 4) PL want Front Desk

April 15, 1982

To: Mr. Finch
Mr. Nicoletopoulos

From: L. A. Whittome

Subject: Romania--Meeting with Commercial Banks

I would be grateful for any comments on the attached draft by the close of business tomorrow please. We have to send the note to the Managing Director by Monday at the latest.

cc: Mr. Rose
Mr. Tyler

DRAFT
4/15/82

To: The Managing Director
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We do not know the present position of the rescheduling negotiations. In February 1982 Romania and the nine banks reached agreement on the amount of rescheduling, maturities, and interest rates. They were: 80 per cent of arrears as of December 31, 1981 and 80 per cent of principal repayments falling due in 1982 would be rescheduled for six and one half years with

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In earlier cases, we have sometimes gone to the Board when an agreement in principle had been reached with banks on rescheduling but not yet signed, and, on other occasions we have gone ahead when an agreement de jure or in principle was not thought necessary. It is rare for us to have insisted on the full completion of rescheduling negotiations. It is also, to our knowledge, rare for banks to insist that virtually all suppliers' credits be rescheduled on identical terms as bank credits. The precedents, therefore, provide us with considerable scope for doing whatever we think is appropriate.

At your meeting I would suggest therefore that you begin by telling the banks (list of those probably attending is attached) that we have reached agreement on a 1982 program which seeks to reduce the current account deficit in 1982 in convertible currencies to marginally under \$500 million and to turn this into a small surplus in 1983 and ensures that domestic economic policies are geared to this end. You could add that as envisaged from the beginning of the arrangement the Romanians will take further steps to consolidate the existing range of exchange rates and also further steps to bring domestic prices into line with world prices. You might then add that this gives the necessary base for proposing an early resumption of the stand-by

and that you hope that you can do this in the knowledge that the banks discussions on the rescheduling of Romanian debts had been completed as regards all the main issues. At this point it would seem wise to ask the banks where indeed their discussions now stood. In the light of their response we should need to consider whether or not the paper to the Board should be issued around the end of April for Board discussion at the end of May as presently planned or whether we should consider postponing any action.

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all East European countries that the Romanian difficulties should be resolved as soon as possible and secondly if Board discussion were to be delayed beyond May it will become progressively more difficult to recommend a resumption of the stand-by rather than its cancellation and replacement by a new arrangement. So long as the existing stand-by is put back onto track then we have always envisaged the immediate release of SDR 227.5 million being the tranches due in November 1981 and in February and May of this year.



Office Memorandum

BR
As a fall back
April 15, 1982

TO: Mr. White ~~Home~~

FROM: G. Tyler 57

SUBJECT: Romania - Timing of the Stand-By Arrangement

Write this report possible.
to be probably better than issuing a paper
without a recommendation. But first I need to
get an answer from the U.S.
4/15/82

One possible way to deal with the impasse that could arise because of delay in the banks agreeing to a rescheduling could be the following. At present we have worked on the assumption that the stand-by arrangement would not be presented until after negotiations with the banks (and governments) were basically finalized because not until then could we estimate the capital account. We have also assumed that we would immediately release the purchases of SDR 76 million, SDR 76 million, and SDR 75.5 million, missed in November 1981, February 1982, and May 1982, respectively.

However, it would be possible for us to reopen the stand-by arrangement but to make only a modest amount available for purchase immediately. Our money effectively goes to repay creditors and, until the reschedulings are finalized, it is not needed; hence, Romania should not be upset. From the banks' point of view, the money would not be frittered away to repay suppliers. We would make the release of a large amount on a later date, say, August, but only if rescheduling agreements had been signed with banks (and/or governments) and only if the agreements were in line with our current expectations.

I have discussed the proposition with Mr. Mookerjee and Mrs. Lachman. They thought it would be presentable. It could have the appearance that we were handing Fund money directly to banks. The argument that we could use would be that the timing of the purchase would be connected directly with when we finally knew that the program was fully appropriate.

The major advantages of the above approach are:

- (i) we appear to be treating Romania fairly;
- (ii) we encourage Romania and its creditors to reach an agreement, with the knowledge that the stand-by is in place;
- (iii) at the same time, we are not permitting Fund money to be used to support a program that is not workable; and
- (iv) Romania cannot use Fund money to pay off those not involved in rescheduling negotiations.



Office Memorandum

April 15, 1982

TO: Mr. Whittome *[Handwritten signature]*
FROM: G. Tyler *[Handwritten initials]*
SUBJECT: Romania--Position in the Paris Club

As far as I am aware, the last meeting in Paris to discuss Polish debt was on January 14, 1982. Messrs. Guetta and Taplin attended and I attach a copy of their report to management. It says nothing about Romania.

I am also attaching a copy of a note that you did following a talk with Mr. Nowzad. I think that this probably is the piece of paper that you recalled. As you will see, there is nothing in the conversation to suggest that governments were reluctant to discuss Romania in the context of a formal Paris Club.

Attachments



Office Memorandum

March 22, 1982

MEMORANDUM FOR FILES

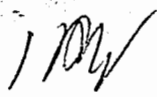
Subject: Poland and Romania

1. Poland. Mr. Nowzad called today to talk about recent Paris Club discussions on Poland and Romania. On Poland he said that there had been a long meeting of all 16 countries to discuss how they should respond to a letter from the Minister of Finance asking for a rescheduling of 1982 maturities. Overwhelming majority of countries had been reluctant to take any steps and the decision was made to inform the Poles that the Paris Club countries were not in a position to open negotiations at this time.

Nowzad said, however, that countries wanted to keep the door open and though they were conscious that the economic reform on the balance of payments developments were pushing Poland increasingly into the hands of the Eastern bloc.

2. Romania. The Paris Club briefly discussed Romania and have unanimously decided that when the Romanians ask for discussions these would have to take place in the Paris Club and that there should be no discussion of possible alternatives.

Secondly, Camdessus has asked to be told when the Fund has an agreement with Romania. I told Nowzad we would do this direct.


L.A. Whittome

cc: EED

WITHDRAWAL NOTICE

PROJECT

Project number 2014-012
Project name
Project tab number 05
Project box number A24724-074

DOCUMENT

Series / File Romania - Correspondence and Memos (29923)
Original box / file No 74 / 3
Date 01/18/1982
Type
From A. Guetta
To Managing Director/Deputy Managing Director
Subject / Title Polish Debt Meeting
Number of pages 4
Classification STRICTLY CONFIDENTIAL
Authority IMF European Department Immediate Office

COMMENTS

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

Entered by skarimova

Entered on 2014-12-08



Office Memorandum

cc: Romania
Hungary
Poland

April 14, 1982

MEMORANDUM FOR FILES

Subject: Eastern Europe

I asked Mr. Erb today what exactly was the U.S. position in regard to Romania and the rescheduling of intergovernmental debt. He said he was not up to date but would find out and come back. We then talked about the recent Reuters report on the U.S. attitude with regard to Poland and Hungary. Mr. Erb said that the reporter in question had spoken to the U.S. Treasury and briefly with himself. However, the report that was published was not formally correct. The formal U.S. position was that they had not yet made up their minds as to whether they would vote in favor of Hungarian membership and that they would not so decide until the votes began coming in. As regards Poland their formal position was that the matter was still at a technical stage and they could not decide on their position until this first stage had been completed.

I asked him what in fact was their position saying that I hoped very much that they would be voting in favor of Hungarian membership. He said that he thought this would be the case but stressed that he had to be very careful because the final decision could contain surprises. As regards Poland the position is the same as before namely that if it were to come to a decision today the U.S. would certainly have to argue against Polish admission but that this situation could change in the future.

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

L.A. Whittome

cc: Mr. Hole
EED



Office Memorandum

April 14, 1982

MEMORANDUM FOR FILES

Subject: Romania

Mr. Popescu, President of the Romanian Investment Bank called today. It proved to be nothing but a courtesy visit.

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

L.A. Whittome

cc: EED

Mr. Tyler

April 13, 1982

L.A. Whittome

Romania

Thinking ahead about the meeting with the commercial bankers next Tuesday I presume that they should arrive in the Fund at noon or very shortly thereafter and be met by someone from East European Division and escorted up to the Managing Director's conference room on the 12th floor. I assume that I and you would welcome them there and the Managing Director would then join us at 12.15 p.m.

I would suppose that the best course would be for the Managing Director to welcome them to the Fund in no more than two or three sentences and then have one spokesman from the banks (this would all have to be arranged before) summarize the position that has been reached. The Managing Director could then take it over by telling them where we now stand and how we see the events moving in the near future. I assume the Managing Director could be very open as regards amounts and our intentions but that his statement regarding our need to wait on assurances that the rescheduling is firmly on track would need to be very carefully drafted and shown in advance to both Legal and ETR. I would also assume that on the staff side the meeting on the 12th floor will be kept to as few people as possible (the room is not a large one) and perhaps this means besides yourself and myself, the Deputy Managing Director, just Ms. Salop and if he wishes Mr. Finch. The remainder of the staff who will be joining us for lunch include Mr. Habermeier, Mr. Mohammed, Mr. Finch, Mr. Van Houtven, Mr. Schmitt, Ms. Salop, Mr. Paljarvi, and Mr. Hadjimichael. would meet in the dining room

Have you any better ideas?

cc: Mr. Finch (on a personal basis)



Office Memorandum

Mr. Whittome
cc. EED
PCH

TO : The Deputy Managing Director

FROM : John B. McLenaghan *JBM*

SUBJECT : Romania - National Accounts Data

DATE: April 8, 1982

The European Department has asked the Bureau of Statistics to verify that the national accounting methodology used by Romania in compiling GDP and related data is essentially in accordance with the United Nations System of National Accounts (SNA). The work would support the undertaking of the Romanian authorities with regard to the inclusion of such estimates in the Fund's statistical publications. We normally regard such work as the responsibility of the United Nations Statistical Office (UNSO). However, the UNSO is known to have very little in the way of national accounts statistics for Romania.

Mr. Whittome has proposed that a Bureau mission to Romania and informal discussions with the UNSO precede the publication in IFS of SNA data for Romania and we support the proposal. However, I think we should first discuss our plans with the UNSO, partly to explain the limited and exploratory nature of the proposed mission to Romania and partly to ensure that we are familiar with the ongoing work of others to reconcile the data of the Material Product System, adopted by most centrally planned economies, with the SNA. I propose a visit to New York by Mr. M. Swaminathan, Chief of the Bureau's Financial Statistics Division "B", as soon as possible. Upon his return, we would discuss with the European Department the terms of reference for a visit to Romania, to be communicated to the Romanian authorities. Mr. Swaminathan would inform the UNSO that the mission is not expected to collect publishable data beyond those to be reported in IFS, and that the Fund would request that the Romanian authorities provide the UNSO with all publishable data submitted to the Fund.

✓ cc: Mr. Whittome

Mr. Whittome

April 7, 1982

ly

MEMORANDUM FOR FILES

Subject: Romania

Mr. Lovato asked me to give him a rundown of the present situation. I did so, indicating, inter alia, that the Managing Director was basically satisfied with the 1982 program and that when a satisfactory solution was arrived at in negotiations with the banks and governments, a Board paper would probably be issued.

G. S. Tyler

G. Tyler

cc: Mr. Whittome

The 7th of April, 1982

Bucharest

Dear Mr. Whittome,

Recalling with pleasure the latest discussions we held together in Washington I would like to express my appreciation for the way the actions concerning the finalization of the stand-by arrangement programm for the next period have been concluded.

Knowing that you have an important contribution in the achievement of the cooperation between the Fund and Romania I wish to express my appreciation for your endeavors in finalizing both the actions concerning the stand-by arrangement and those with respect to the contacts with the commercial banks. At the same time I have to mention that we benefited from your high professional competence as well as from the extremely important support of your colleagues to whom I kindly ask you to convey my thanks for their endeavors and for the attention with which they have approached the complex problems occurred during the consultations with the Romanian part.

With the best wishes

Yours sincerely,

Petre Gigea

Minister of Finance

Mr. L. A. Whittome
Director
European Department
International Monetary Fund
Washington D. C.

Bucharest

The 7th of April, 1982

Dear Mr. de Larosiere,

Back in Bucharest, I would like to thank you warmly once again for the cordial reception you extended to me and to my colleagues during our visit in Washington. Please allow me to express my belief that the matters discussed with you and with the Fund staff will be an important moment in the development of cooperation between my country and the International Monetary Fund, as well as our cooperation with the financial - banking institutions and organisations from other countries.

Having in view the official invitation that I have already extended to you to pay a visit in our country, I believe that I will have the pleasure to meet you in Bucharest as soon as possible.

With my best personal regards.

Yours sincerely,

PETRE GIGEA

Minister of Finance

ORIG: EUR
CC: MD
DMD
MR. POLAK
MR. N. CARTER

RECEIVED
INTERNATIONAL
MONETARY FUND
1982 APR 16 PM 2-23
COMMUNICATIONS
DIVISION

Mr. JACQUES de LAROSIERE
Managing Director
International Monetary Fund
Washington, D. C.

478048

Comptroller
1982 APR 16

cc: EED

Romania

April 6, 1982

Dear Mr. Korné,

Thank you for sending me the Memoir of your Group. I have passed this information on to those concerned.

Yours sincerely,

L.A. Whittome

Mr. M. Korné
125 Bureaux de la Colline
92213 Saint Cloud
France

cc: EEO

3

Michel Korné
125 Bureaux de la Colline
92213 Saint Cloud
Tél. (1) 602.05.41 Tlx 270152 F

INTERNATIONAL MONETARY FUND
19 and H Street
Washington, DC 20431
U. S. A.

Nice de ...

March 23rd, 1982

Attention : Director of foreign department

NEGOTIATIONS ON THE FOREIGN DEBT
OF THE RUMANIAN SOCIALIST REPUBLIC

Dear Sirs,

I have the honour to enclose a Memoir of our Groupe describing the social and economic situation in Rumania.

We feel that under present circumstances it is impossible to enforce a sharper austerity policy. While austerity has obviously worked in other countries, misery in Rumania has reached such a level that similar measures could only discourage what energy is left and hence jeopardize any recovery. For this reason we have suggested a few structural reforms, some of which have already proved their efficiency.

Yours truly,

Michel Korné.

Mars 1982

MEMOIRE
sur la situation économique et sociale en Roumanie (R.S.R.)

La République Socialiste de Roumanie (R.S.R.) se trouve actuellement en cessation de paiements à l'égard de ses créanciers occidentaux . Sur le plan interne, la population subit une grave pénurie alimentaire . Cela n'est pas dû à la baisse de la production agricole qui s'est accrue plus que celle de la population depuis 1965, mais aux exportations massives d'aliments, afin de rembourser partiellement la dette extérieure . Les exportations se font à des prix inférieurs aux prix mondiaux, de même qu'aux prix de revient et aux prix intérieurs roumains (voir Annexe A) . Nous sommes en présence d'un dumping caractérisé qui justifie à lui seul des mesures de restriction de la part des pays importateurs . En outre, le cas de la R.S.R. est aggravé par le fait que son gouvernement pratique le dumping des produits alimentaires au moment où le pays se trouve dans un état de pré-famine .

Il ne nous appartient pas de juger des effets du dumping sur les producteurs occidentaux . Toutefois, dans la situation actuelle, leurs intérêts et ceux de la population de Roumanie convergent pour demander l'arrêt des importations des aliments en provenance de R.S.R., aussi longtemps que ces aliments seront introuvables sur les marchés intérieurs roumains ou qu'ils se vendent à des prix disproportionnés aux prix d'exportation .

Il reste toutefois à harmoniser ces intérêts avec ceux des créanciers occidentaux . Nous sommes conscients que dans cette situation, notre demande d'arrêter les importations d'aliments peut surprendre car elle conduit dans l'immédiat à réduire encore la capacité de remboursement des dettes de la R.S.R. . Cependant, à plus long terme, cela permettrait un assainissement de l'économie roumaine sans lequel les dettes existantes resteront de toute manière impayées .

En effet, il y a lieu de rappeler que les prêts accordés à la R.S.R. étaient destinés à son développement industriel et devaient être remboursés par les produits de cette industrie. La productivité des investissements industriels s'est avérée catastrophique non seulement pour des erreurs de conception, mais surtout parce que le facteur humain, essentiel au succès de toute entreprise, a été totalement négligé. Lorsque l'ensemble de la population active passe son temps journallement à faire la queue pendant des heures pour se procurer les aliments de base et les biens de consommation indispensables, il devient impossible d'atteindre la productivité prévue. Mal nourris, les gens sont également mal payés, alors qu'ils travaillent 46 à 48 heures, soit six jours par semaine, pour un salaire de misère (environ 2.000 lei par mois dans l'industrie et le tertiaire). Compte tenu des prix des 220 produits de première nécessité augmentés en moyenne de 35 % au 15 février 1982, de la parité entre le leu et les monnaies occidentales (voir annexe A), les salaires en R.S.R. se situent entre 1/5 et 1/10 des salaires du Marché Commun. Ainsi, ce n'est pas étonnant qu'avec de tels salaires, des costumes d'hommes fabriqués en R.S.R. soient vendus en France et en Italie à FF 98,- soit au tiers du prix des costumes fabriqués dans ces pays soit FF 280,- (l'Usine Nouvelle du 16/10/80). Compte tenu du fait que ces mêmes articles sont vendus sur le marché interne de la R.S.R. à des prix trois ou quatre fois plus élevés, dans ce secteur également le dumping est manifeste et les intérêts du consommateur roumain rejoignent ceux des producteurs étrangers pour limiter les exportations afin d'approvisionner à meilleur compte le marché intérieur de la R.S.R.

A un moment où la précédente politique des échanges entre l'Occident et la R.S.R. est en crise, il nous paraît nécessaire de concevoir pour l'avenir une politique qui rende ces échanges viables . Nous sommes convaincus que la productivité du travail peut être sensiblement améliorée en R.S.R. à condition d'améliorer l'alimentation, les conditions de travail et les salaires . Cette politique n'est pas incompatible avec une baisse du temps hebdomadaire de travail pour la ramener à 40 heures par semaine . Semblables conditions existent déjà dans certains Etats du COMECON . Par l'entremise des organisations syndicales mais aussi des groupements professionnels et bien entendu des instances politiques occidentales, nous estimons qu'il serait possible de déterminer le gouvernement de la R.S.R. à mieux nourrir la population et à augmenter son niveau de vie . Préoccupés d'abord du sort de nos compatriotes, nous pensons créer en même temps les conditions du remboursement de la dette extérieure . Il est en outre indispensable que le gouvernement modifie son attitude à l'égard des travailleurs, de l'industrie comme de l'agriculture . A l'égard des premiers, il faut obtenir l'abrogation du décret 400 du 29/12/82 qui inflige des peines de prison de 3 mois à 20 ans pour le non-respect de la discipline dans le travail (voir annexe B) , et il y a lieu de préparer dès maintenant la place qui revient à la Roumanie dans le cadre d'une Europe libre . Pour cela, nous avons besoin de l'aide de tous les hommes et de toutes les organisations privées ou gouvernementales des pays libres .

En dehors des moyens dont dispose chaque pays occidental pour astreindre les actuels dirigeants de Bucarest à améliorer le sort des citoyens roumains, le Fonds Monétaire International peut agir également en mettant en demeure la R.S.R. à se conformer à ses recommandations .

Nous croyons savoir que le gouvernement de Bucarest fera des concessions importantes pour ne pas être obligé de quitter cet organisme . Aussi proposons nous les mesures suivantes :

- Annulation des dispositions qui obligent les paysans à céder à l'Etat une part des produits cultivés et du bétail élevé sur les lopins qui leur appartiennent, à des prix imposés et les autoriser à les vendre sur les marchés urbains en dehors des limites de leur département ;
- Doublement des lopins individuels ;
- Révocation du décret N° 400 du 29/12/81 infligeant des peines de prison pour des fautes mineures de travail ;
- Réduction du temps hebdomadaire de travail à 40 heures sans réduction de salaire et amélioration des conditions et de la sécurité du travail .
- arrêt des exportations des produits alimentaires qui manquent sur le marché intérieur .
- Suppression des taxes douanières exorbitantes imposées par le décret n°337 du 16/11/81 sur les secours alimentaires en provenance de l'Etranger (organisation humanitaire, parents etc)

Nous estimons que la dette extérieure de la R.S.R. : 13 milliards de dollars, ne peut plus être remboursée si un changement psychologique profond ne se produit en Roumanie pour redonner au pays l'intérêt de l'effort . Sans ce changement, il ne servirait à rien d'exiger de la population des sacrifices qui ne se traduiraient que par un accroissement de la misère sans aucun bénéfice réel pour ses partenaires occidentaux . A nos yeux, il n'y a pas de solution économique sans la solution préalable des problèmes sociaux énumérés ci-dessus .

Annexe A

ANNEES	1965	1974	1982
POPULATION	19.027.367	21.028.841	22.550.000 (estimation)
PRODUCTION EN T.			(prévisions)
- Céréales	12.601.200	13.350.200	20 000 000
- Betteraves	3.275.000	4.947.100	5.400.000
- Tournesol	564.600	680.600	824.000
- Soja			268 000
- Pommes de terre	2.195.000	4.119.000	4.000.000
- Légumes	1.435.000		3.828.000
- Fruits	1.134.600	1.058.900	1.347.000
- Raisins	921.300	1.087.200	1.755.000
- Sucre	349.000	516.000	564.000
- Lait (de vache)	2.972.000	4.110.000	4.510.000
- Viande	308.000	671.000	1.060.000
- Laine	25.000	31.000	
Cheptel			chiffre de fin 81*
- Bovins	4.935.000	5.983.000	6.341.000
- Porcs	5.365.000	8.566.000	11.305.000
- Brebis	13.125.000	13.929.000	15.583.000

* un recensement est en cours depuis le 1/02/82

L'accroissement de la production a dépassé dans la plupart des cas celle de la population ce qui prouve que la pénurie n'est pas due à de mauvaises récoltes mais aux exportations qui se sont fortement accrues.

Il est néanmoins exact que la productivité de l'agriculture est très basse. La raison en est donnée par le quotidien de Bucarest : Romania Liberă du 3.2.82, qui reconnaît que parmi les coopératives :

- 1 000 vendaient le blé à 24 % sous le prix de revient,
- 1 240 le maïs à 33 % de perte, celle-ci se situant à 38 % pour le tournesol de 453 unités, à 36 % pour 930 producteurs de betterave à sucre, à 32 % pour 245 fermes à bovins et à 31 % dans 455 établissements d'élevage d'ovins.

Par conséquent, plusieurs milliers de coopératives, dont certaines ont plus de 3 000 membres, soit des millions de coopérateurs agricoles n'avaient plus d'intérêt à livrer leurs produits au marché d'Etat.

Dans le département GIURGIU, en 1969 le prix de revient et de vente étaient à parité. Depuis, les premiers ont dépassé de 57 % les seconds.

La raison de ce déséquilibre est attribuée par les autorités roumaines à la crise énergétique et à la hausse des matières premières sur les marchés internationaux.

En réalité, le gouvernement de la R.S.R. pensait ainsi diriger la population agricole vers les industries urbaines en la spoliant.

De 1976 à 1979, environ 467.000 paysans ont quitté les campagnes. De ce fait, le secteur agricole a connu d'abord une stagnation et à partir de 1980, un déclin brutal qui aboutit au désastre actuel.

En 1980, le bilan des coopératives agricoles s'est soldé avec une perte de plus de 5 milliards de lei affectant 79,8 % des unités, 54,2 % ayant subi des pertes de plus d'un million de lei. Dans 177 coopératives, le négatif dépassait 5 millions de lei.

Aussi la production s'en est-elle ressentie. Toujours en 1980, 57 % des coopératives ont obtenu moins de 2 500 kg/ha de blé, dont 30 % moins de 1 000 kg/ha, tandis que 72 % d'unités productrices de maïs n'ont pas dépassé les 3 000 kg/ha, dont 589 même pas les 1 000 kg/ha.

Le gouvernement de la R.S.R. était non seulement averti mais il connaissait les solutions puisque des scientifiques à sa solde, tel le Professeur dr. Oprea PARPALA, qui avait déjà publié le résultat de ses recherches, concluaient à la nécessité d'une augmentation des prix des produits agricoles.

Ces produits agricoles que l'Etat s'approprie en dessous du prix coûtant, sont revendus sur les marchés intérieurs, dans les magasins d'Etat, à des prix qui viennent encore d'augmenter le 15/2/82 soit :

	<u>unité</u>	<u>lei</u>	<u>franc</u>
Pain	kilo	2,50 à 8,10	7,75 à 15,-
Farine (de maïs)	kilo (blé)	3,50 à 4,25	3,15 à 4,30
Pâtes	500 g	4,50 à 6,50	3,10 à 4,50
Biscuits	kilo	11,- à 16,50	11,20 à 17,-
Riz	kilo	15,-	3,75 à 8,60
Lait	litre	3,50 à 3,75	2,57 à 3,65
Beurre	kilo	55,-	22,40 à 28,60
Fromage	kilo	28,- à 46,-	11,65 à 68,-
Viandes	kilo	23,- à 80,-	14,- à 88,-
Volailles (vivantes)	kilo	19,- à 27,-	9,80 à 26,-
Oeufs	un	1,40 à 1,80	0,65 à 0,80
Sucre	kilo	14,- à 15,-	4,20 à 4,70
Huile de table	litre	17,50 à 19,-	6,30 à 6,20
Margarine	kilo	25,-	7,20
Vins (8 à 11,5°)	litre	15,50 à 19,-	4,25 à 5,35
Pommes de terre	kilo	1,80 à 2,75	1,50 à 3,50

Si l'on prend comme base de conversion le change officiel 1 FF = 0,76 lei, à l'exception du pain, les prix roumains sont supérieurs aux prix français. Il faut préciser aussi que les magasins d'Etat en R.S.R. vendent des produits d'une qualité médiocre voire carrément mauvaise qui entraîne des déchets du tiers voire de la moitié des produits.

Par ailleurs, ces magasins sont vides, les produits manquent ou sont en quantité insuffisante ce qui explique les queues de centaines de personnes qui se forment lorsqu'il y a des "arrivages". Cela explique également le marché parallèle où les produits sont vendus à 2, 3 ou même 5 fois le prix officiel (l'oeuf 9 lei en déc. 1981).

Rapportés aux salaires moyens de l'industrie et du tertiaire, toutes catégories confondues, soit env. 2.000 lei/mois, les prix sont excessifs. (le salaire minimum SMIC était en France, à la même époque de FR.F. 3.146/mois et le salaire moyen des ouvriers non qualifiés de 4.700/mois).

Pour les paysans dont la rémunération pécuniaire est souvent inférieure au tiers voire au quart, ces prix sont inabordables. Certes les paysans collectivisés reçoivent des produits de la récolte, mais les quantités sont infimes et ne leur permettent pas de subsister, d'où l'exode rurale.

Sur la base du change officiel, il est manifeste que la R.S.R. exporte ses produits alimentaires à des prix de dumping nettement plus bas que les prix du marché intérieur. Si par contre l'on applique le change touristique, la proportion se réduit sans pour autant disparaître, mais dans ce cas se pose le problème si les pays d'Europe occidentale doivent continuer à accepter la concurrence des salaires artificiellement bas de l'Europe du Centre et de l'Est, dont la R.S.R. est l'exemple le plus frappant. Nous estimons que les intérêts des salariés roumains et occidentaux convergent également sur ce point et que les syndicats et les autorités occidentales peuvent agir pour déterminer le gouvernement de Bucarest à réduire la disparité des salaires qui, au taux touristique de 1 FR.F = 2,5 lei, ne représente plus en moyenne que FR.F 800,-/mois, soit un rapport de 1 sur 6 comparé au salaire des seuls ouvriers en France.

Le rapport d'une grande banque occidentale analysait dès janvier 1979 la situation économique de la R.S.R. comme suit :

"Quoi qu'il en soit, la balance commerciale en devises convertibles semble bien se dégrader rapidement. Il en résulte un endettement croissant évalué par le F.M.I. à 3 milliards de dollars... Les exportations de céréales n'ont commencé que récemment en 1975, 1 million de tonnes, 1,6 million de tonnes en 1976 et 2 millions de tonnes en 1977. Les possibilités paraissent néanmoins limitées car la production de céréalière n'arrive pas vraiment à démarrer... Bien qu'exportatrice de viande (194.000 tonnes en 1977) et de moutons (1.500.000 unités en 1977), les perspectives ne sont pas bonnes car ces ventes se font au détriment d'un marché intérieur sous-approvisionné. Cette pénurie de viande est vivement ressentie par la population et les exportations en la matière sont d'autant plus dures que la Roumanie est de tous les pays de l'Est, si l'on excepte l'U.R.S.S., celui qui précisément produit par tête d'habitant le moins de viande... La Roumanie s'est lancée dans une industrialisation à outrance avec une prédominance très marquée pour la métallurgie et la mécanique lourde. Les résultats sont-ils convaincants ? Si les productions d'acier et d'énergie par tête d'habitants sont comparables au niveau français, force est bien de constater que la comparaison avec notre pays s'arrête là. Outre les questions que l'on peut se poser sur la rationalité de l'usage qui est fait finalement de l'acier et de l'énergie ainsi produits, il convient également de s'interroger sur l'opportunité d'un développement presque simultané de presque tous les secteurs industriels à la fois... On ne voit pas dans ces conditions comment l'activité économique pourrait devenir plus rentable au cours de ces prochaines années et partant sur quelle base le niveau de vie de la population pourrait être accru de manière sensible. Bien qu'il ait, de l'avis général, progressé depuis deux ou trois ans, il reste encore en ce domaine bien des progrès à faire si l'on songe que la semaine de travail est de 48 heures et le salaire moyen mensuel de 1 800 lei, soit au cours du change 630 FR.F"

Cette situation s'est nettement détériorée depuis.

Les raisons n'en sont pas uniquement économiques. Nous ne pouvons exclure l'hypothèse que la pénurie soit volontairement accentuée de manière à briser la résistance de la population au régime. Les communistes ont plusieurs fois utilisés la famine comme moyen de lutte (Ukraine 1930, Roumanie 1945, etc.) considérant que lorsque la population fait la queue pour se nourrir, elle n'a pas l'énergie de faire la révolution.

DECRET N° 400 DU 29/12/81

Décret du Conseil d'Etat en vue d'instituer certaines règles relatives à l'exploitation et à l'entretien des installations, outillages et machines, au renforcement de l'ordre et de la discipline du travail dans les entreprises à feu continu ou dans celles qui comprennent des installations présentant un degré élevé de danger d'exploitation.

Extraits.

Chap. I. Dispositions générales :

Art. 1. L'organisation de l'activité dans les unités pour les installations, d'outillages ou de machines à fonctionnement continu ou qui présentent un degré élevé de danger d'utilisation - dans les branches de la chimie, des mines ou du pétrole, de la métallurgie, de la machine-outil, de l'énergie électrique ou thermique, des matériaux de construction, les industries du bois, de la cellulose et du papier et d'autres secteurs - doit assurer le déroulement continu des processus de production, conformément aux normes de travail en vigueur; elle doit assurer le respect strict de la discipline technologique de toutes les règles de l'ordre et de la discipline du travail, la prévention de toute avarie, explosion, incendie ou autre accident technique."

Art. 2. Quelle que soit la fonction qu'il occupe, le personnel des unités à fonctionnement continu ou qui comportent des outillages présentant un degré élevé de danger d'exploitation est directement responsable du bon déroulement de la production dans des conditions de sécurité absolue; il est responsable de la surveillance, de la vérification, de l'exploitation, de l'entretien et de la réparation des installations, outillages et machines...

Art. 4. La liste des unités à feu continu ou qui comportent des installations, outillages ou machines dont l'exploitation présente un degré élevé de danger - entreprises, usines, sections, secteurs, ateliers ou d'autres groupes de production similaires qui sont dotés d'installations, sembla-

-bles - seront définis par le Conseil des Ministres à la proposition du Ministère de l'approvisionnement technique et matériel ... et du Ministère du Travail ainsi que d'autres ministères ou organes centraux.

Chap. III. Obligations et responsabilités du personnel affecté aux unités à feu continu ou qui comprennent des installations, outillages ou machines présentant un degré élevé de danger d'exploitation.

Art. 9. La direction des unités et les autres personnes responsables doivent accomplir leur devoir de façon exemplaire, prendre des mesures afin d'instaurer l'ordre et une discipline ferme de l'ensemble du personnel, développer dans leurs rangs le sens du devoir et de la responsabilité, sanctionner avec sévérité tout manquement ou non-respect des normes d'exploitation et des attributions de chacun.

Chap. IV. Sanctions.

Art. 17. Le non-respect des dispositions du présent décret entraîne, selon le cas, la responsabilité disciplinaire, matérielle, civile, délictuelle ou pénale des coupables.

Art. 18. Sont passibles d'une peine de 3 mois à 2 ans de prison les infractions suivantes commises par le personnel qui travaille directement sur les installations, outillages ou machines à feu continu ou qui présentent un degré élevé de danger d'exploitation:

- a) Le fait de laisser sans surveillance les installations, outillages ou machines avec lesquels ils travaillent.
- b) Le fait de quitter son lieu de travail pendant les heures de travail sans autorisation du contremaître ou d'un autre responsable immédiat.
- c) Le fait de cesser son activité avant de confier les installations, outillages ou machines, dans les conditions prévues par la loi, aux ouvriers de l'équipe suivante.
- d) Le non-respect des règles de sécurité relatives à l'arrêt des installations, outillages et machines lorsque l'équipe suivante n'est pas présente.

Constitue également une infraction sanctionnée par la peine prévue au premier alinéa, l'un des faits suivants, quelle que soit la fonction de son auteur dans les unités industrielles qui ont des installations, outillages ou machines à feu continu ou qui présentent un degré élevé de danger d'exploitation :

a) Fumer ou introduire des cigarettes, allumettes, briquets, matériaux ou produits qui pourraient provoquer des incendies ou des explosions sur les lieux de travail où il est défendu de fumer ou d'introduire ces articles.

b) Introduire ou consommer des boissons alcoolisées dans l'entreprise, ou se présenter dans l'entreprise sous l'influence de la boisson.

Si par l'une des infractions prévues aux alinéas 1 et 2, une perturbation est survenue dans la bonne marche de l'entreprise ou si une perte a été provoquée au détriment du patrimoine collectif et quelle qu'en soit la valeur, la peine applicable est de 6 mois à 5 ans de prison.

Au cas où l'infraction prévue aux alinéas 1 ou 2 a eu pour conséquence une perturbation particulièrement grave de l'activité de l'entreprise ou a entraîné une perte importante pour l'économie nationale ou une grave atteinte à l'intégrité corporelle à la santé ou a provoqué la mort d'une personne, la peine applicable est de 5 à 20 ans de prison avec suppression de certains droits et confiscation partielle des biens; et si elle a eu pour suite une grave atteinte à l'intégrité corporelle, à la santé ou a entraîné la mort de plusieurs personnes la peine est de 10 à 20 ans de prison avec suppression de certains droits et confiscation partielle des biens.

Chap. V. Dispositions finales.

Art. 20. Le présent décret s'applique également aux unités à feu continu ou qui comportent des installations, outillages ou machines présentant un degré élevé de danger d'exploitation dans le cadre des organisations coopératives ou autres organisations collectives.

Art. 21. La liste des unités concernées par l'article IV sera établie par décision du Conseil des Ministres jusqu'à la date de mise en application du présent décret. Concernant les entreprises nouvellement créées la désignation des unités intéressées se fera, au plus tard, trente jours avant ^{la date de} leur mise en fonctionnement.

Art. 22. Le présent décret entre en application le 1er janvier 1982."

Nicolae Ceausescu

Président de la République Socialiste
de Roumanie,

Bucarest, le 29 décembre 1981.

Mr. Dannemann

April 2, 1982

L. A. Whittome

IFS Data for Romania

While I fully understand the concerns expressed in your memorandum of March 26, 1982 to Mr. Tyler on the above subject, I would hope that it would be possible to publish in IFS the data which Romania is finally willing, at our joint insistence, to supply for publication.

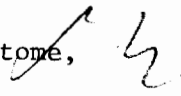
With respect to national accounts data, perhaps a Bureau expert could visit Romania as early as is mutually convenient, to verify that the national accounting methodology used by that country is in conformity with international guidelines. It might also be possible to obtain the (informal) opinion of the U.N. Statistical Office on the Romanian national accounts.

As regards balance of payments data, while we would not want to publish the balance of payments in convertible currencies alone, but we would very much want to show it together with the total balance of payments. Publishing the whole balance of payments alone would be of little interest to most users or to ourselves.

I hope that these issues can be resolved rapidly so as to permit early publication of the data.

INTERNATIONAL MONETARY FUND


April 1, 1982

Mr. Whittome, 

I understand that the Bureau is in fact quite flexible. They are concerned about possible criticism by the U.N. Statistical Office if we publish national accounts which do not conform to international guidelines and they would not want to have to publish balance of payments data in convertible currencies only.

Attached is a draft memorandum
o Mr. Dannemann.

Attachment


Patrick de Fontenay



Office Memorandum

TO : Mr. Whittome

FROM : G. Tyler 47

SUBJECT : IFS Data for Romania

DATE: March 26, 1982

I attach a copy of a memorandum from Mr. Dannemann.

With respect to his attitude toward publishing national accounts data, no doubt this could be solved by a visit to Bucharest by a Bureau expert. We have no reason to believe that the methodology of conversion used by Romania is flawed.

Regarding balance of payments data, I am dumbfounded. The publication of total balance of payments data would satisfy no one interested in Romania. We know from our own experience with the country and from that of governments and banks involved with Poland that all concerned with the CMEA countries have an intense interest in the division of transactions into convertible and nonconvertible currencies. Moreover, to me the tone of the final paragraph in the memorandum is one of lengthy appraisal and delay.

It would be ludicrous in view of the attitude of the Board and the Managing Director if we come to the position that the Romanians are willing, at our insistence, to supply data but that we do not publish it in an analytically useful way because it offends the purity of the Balance of Payments Manual, which I presume never was looked at with CMEA-type economies in mind, although I may be wrong on that.

I believe it would be helpful, if you agree with my view, for you to write formally to Mr. Dannemann on this matter.

cc: Pdf ✓

pl ponder & advise
re how to reply.

MW 26/3



Office Memorandum

TO : Mr. Tyler

FROM : Werner Dannemann *[Signature]*

SUBJECT : IFS Data for Romania

DATE: March 26, 1982

I understand that in the meeting that you and Mr. Saunders had with Romanian officials on Wednesday, March 24, Mr. Marin indicated that the following data could be made available for publication in an early issue of IFS:

1. Data on gross national product (SNA-basis) and its components, at current prices, in the form shown in Table 5 of SM/80/226, together with separate data on the three components of "Net exports of goods and nonfactor services and errors (residual)."
2. Data on the total balance of payments and the balance of payments in convertible currencies, in the form shown in Tables 38 and 39, respectively, of SM/80/226.

From a presentational point of view, the inclusion of national accounts data in IFS in the above form presents no problems since it broadly conforms to the normal IFS presentation. However, the Bureau's national accounts data shown in IFS are generally based on the SNA and, in the absence of national documentation, the United Nations, which is the focal point for the formulation of international guidelines in this field of statistics, is our only source of information on national methodology. Since SNA-based data for Romania are not yet published by the United Nations, and presumably have not been made available to that organization by the Romanian authorities, our understanding of the methodology used in the compilation of these data is necessarily limited. Therefore, before publishing the data in IFS, we would like to have a description of how the conversion of national accounts data from an MPS to an SNA basis has been made, in order to assess the degree to which it conforms to recommended United Nations practice.

Concerning the publication in IFS of balance of payments data for Romania, it would be our preference to publish the data on the total balance of payments. This would be in line with balance of payments statistics published for other countries and with trade statistics given in the international transactions section of IFS, in the world trade tables of IFS, and in the Direction of Trade Statistics series. The question of whether we should also publish the balance of payments in convertible currencies would have to be further investigated, largely because any such treatment might have consequences for balance of payments data published for other countries. As you are aware, the fourth edition of the Balance of Payments Manual does not recommend the separate identification of balance of payments transactions in convertible currencies, although I appreciate that such information is of analytical value.

cc: Mr. Bouter
Mr. Swaminathan