Files on Romania should be
retained from beginning as
it is comparatively new
member. Records management
have been so informed.

orig. sent back to GT

Office Memorandum

TO : Mr. Whittome

DATE: December 19, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Rescheduling

In 1979, Romania has repurchases falling due at the end of three years, totaling SDR 150 million. Mr. Wein and I discussed the rescheduling with Mr. de Gyor of Treasurer's and we agreed that an appropriate schedule would be SDR 30 million on each of August 15, 1979, February 15, 1980, August 15, 1980, and February 15, 1981, and SDR 15 million on each of May 15, 1981 and Aug. 15, 1981. The odd division in 1981 is to ensure that each purchase is fully repurchased before the end of five years.

If the Romanians made a very strong case for not scheduling the first SDR 30 million in 1979 because of a very difficult payments situation then I would think that an alternative of SDR 37.5 million on each of February 15, 1980, August 15, 1980, and February 15, 1981, SDR 20 million on May 15, 1981 and SDR 17.5 million on August 15, 1981 would be satisfactory. Mr. de Gyor said that technically this would not be a problem, although off the record it might be presentationally more difficult in his department. I suggest that we be authorized to discuss this, but only if the Romanians press strongly.

It is implicit in the present exercise that we be willing to reschedule SDR 62.5 million falling due in 1980, otherwise there would be a very large repurchase due in that year.

Do you agree with the position set out in the first two paragraphs?

yes but I would emphatically prefer the first approach the more especially as we tend to present pictures of an improving b of p punctuated with occasional natural disasters.

19/12

cc: BR
Can you watch over the possibilities ?
LAW 18/12

December 18, 1978

MEMORANDUM FOR THE FILES

Subject: Romania--Discussions on CFF and Rescheduling

Messrs. Tyler and Wein will arrive in Bucharest on January 19 and aim to complete their discussions by January 26, though there is some leeway as the Yugoslav consultation does not begin until January 31.

I have suggested that it would be in our interest for another economist to join so as to provide some more flexibility; Tyler agrees. It is possible that someone going to either Israel or Turkey might be asked to visit Bucharest first.

LAW

L. A. Whittome

cc: EED

Office Memorandum

CONFIDENTIAL

TO : Mr. Whittome

DATE: December 18, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania

Mr. Pepper, the desk economist for Romania in the World Bank, rang me this morning on an informal basis. He said that his chief in the Bank had been telephoned by a newspaper correspondent in Bucharest regarding rumours that are circulating there. The correspondent said that the Soviet Union had told Romania that a guarantee that had previously existed, by which the Soviets undertook to furnish convertible foreign exchange if this were needed for debt repayment, would no longer apply. I told Mr. Pepper that I had not been aware that such an undertaking had existed. If the rumour is true, it may be that there was such an undertaking which was revoked, or that the Soviet Union is pretending that there was one to make life difficult for the Romanians. Mr. Pepper said that he understood that some Western banks are looking very carefully at their exposure in Romania and have reduced limits applying to such lending. In particular, he said that he understood one American bank had reduced its maximum exposure from US$40 million to US$17 million. He also said that Western bankers making the rounds of Eastern European capitals have not been calling at Bucharest.

It is difficult to know exactly what to make of all this. However, there seems good ground for assuming that bankers, rightly or wrongly, are much more worried about the Romanian debt position. On the basis of the information we have, the Romanian debt servicing problem seems well in hand, especially when compared with that of several other of their socialist neighbors. Be that as it may, it is what bankers think that is important and, as a group, they have tended to believe that the Romanian position is worse than we think, partly because they do not have access to the data that we have. A general unwillingness to roll-over maturing debt or to extend new debt could place a serious burden on the Romanian balance of payments.

cc: Mr. Wein

Office Memorandum

TO : Mr. Whittome /hw

DATE: December 18, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania

As you will see from the attached note for the files, the Romanians want to negotiate a CFF in January, as well as to discuss rescheduling of 1979 repurchases. I have informed Mr. Ruding and he has, of course, no problems with the visit. I would propose that Mr. Wein and I go with a secretary arriving on January 19, 1979. Mr. Wein could then return with a draft of those sections of the paper that we are responsible for and the secretary and I would proceed to Yugoslavia for the Article IV mission.

I attach a memorandum to management requesting approval for the visit.

Attachment

cc: Mr. Wein

Mr. Whittome
[initials]

MEMORANDUM FOR THE FILES

Subject: Romania   December 18, 1978

Mr. Besteliu rang today to say that the Minister of Finance, Mr. Niculescu, has informed him that he would like a mission to come to Bucharest in January to discuss a CFF purchase and rescheduling of repurchases due in 1979. He asked for the dates and airline arrival times. I said I would let him know these. I indicated that Mr. Wein would accompany me and perhaps a secretary.

Geoffrey Tyler

cc: Mr. Whittome ✓
Mr. Wein

Office Memorandum

TO : The Deputy Managing Director

DATE: December 18, 1978

FROM : L.A. Whittome /LAW

SUBJECT : Romania

The Romanian Minister of Finance, Mr. Niculescu, has requested a mission in January 1979, to discuss a purchase under the compensatory financing facility. The maximum amount available to them is SDR 41.25 million, which would bring outstanding purchases under the facility to 75 per cent of quota. The Romanians are also expected to request rescheduling of repurchases totaling SDR 150 million, falling due at various dates in 1979 following purchases of SDR 95 million in April 1976 (CFF), and SDR 20 million, SDR 17.5 million, and SFR 17.5 million in May, June, and September 1976, respectively (SBA).

If you agree, I would propose that Messrs. Tyler and Wein (both EUR), with a secretary yet to be selected, visit Bucharest from January 19, 1979. Mr. Ruding knows of the requested visit and supports it.

OK WBD

cc: ADM (after approval)
Mr. Tyler

GI

orig. to Mr. Tyler

I doubt that a strong line will stand up to pressure. Certainly it won't for a rescheduling & it most probably won't for the CFF. I think you will need to exert all your persuasive powers in January — warning them in advance — and rely on the doubts that breaches of commitments give rise to as regards financial operations [illegible] 15/12

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler

DATE: December 14, 1978

SUBJECT : Romania--Broken Cross Rates

You will remember that in early September 1978, the Romanians revised the system that is used to adjust the foreign exchange quotations between the leu and quoted non-socialist currencies and the Yugoslav dinar so as to avoid broken cross rates in excess of 2 per cent. This was necessary to remove multiple exchange rates that would have prevented a purchase under the then-existing stand-by arrangement. The final purchase under that stand-by arrangement was therefore approved.

Since we had not received exchange quotation lists from Romania, I cabled, requesting the lists issued since September last. Mr. Nosé brought a reply with him on his return from the statistical mission in Bucharest. The data consisted of two sets of quotations, which implied that the only changes in quotations took place on October 27 and December 11, 1978. Mr. Wein is in the process of calculating the cross rates and the extent of the breaks in them, but his preliminary calculations made it clear that broken cross rates in excess of 2 per cent, in some cases considerably so, occurred from late September or early October onward although they were corrected on the dates of the two new sets of quotations. While we cannot be certain that no changes were made except on the two dates supplied to us, it seems highly like,based on the internal evidence of the documentation and our knowledge of Romania's practices in the past, that no other changes were made.

It is not clear why the authorities have acted as they have. The failure to establish new quotations appears to break the provisions of the decree governing exchange rates. It is conceivable that the National Bank just omitted to realize that new quotations were needed, but I find this hard to envisage.

In the circumstances, I believe that it is best to leave the matter for discussion in Bucharest in January, although I would suggest that we warn them in advance of our desire to discuss the subject. However, we shall need to decide on our attitude toward the future policy that Romania will follow. In this respect, it is relevant that in the summer we took the line, agreed with management, that we would not support a request for a purchase under the stand-by arrangement while the then-existing system that allowed broken cross rates continued. Analogous to this position, it could be argued that we should not support a request for a rescheduling or a compensatory financing facility purchase on the basis that Romania was not cooperating with the Fund. However, it is not clear that we could take such a strong line given decisions taken on other countries. For example, I believe that Morocco was given a CFF purchase when a new multiple exchange rate had been created. Perhaps this problem will solve itself in that the Romanians will bring their practices into good standing when we talk with them.

My own preference would be to try for a strong line and gain authorization to tell the Romanians that management would not support requests for rescheduling or use of the CFF unless the exchange system is regularized. I would think that ETR would support us although perhaps LEG might have difficulties. If you share my preference our best approach might be to prepare a memorandum for ETR and LEG, giving our view and asking for their reactions before putting anything to management.

MEMORANDUM FOR THE FILES

Subject: Romania December 11, 1978

At my request Mr. Besteliu visited me today. I reminded him that we had agreed that the rescheduling of the 1979 repurchases could be discussed early in the coming year and that Mr. Whittome had suggested during his visit to Bucharest that I might make a short visit to Romania for that purpose. I told Mr. Besteliu that I was due to be in Yugoslavia at the end of January and would propose stopping in Bucharest before the latter visit.

I also reminded Mr. Besteliu that Mr. Whittome had agreed that the staff would be willing to discuss a possible compensatory finance purchase, if the 1978 outturn indicated a shortfall. I said that if the authorities wanted such discussions, I would arrive somewhat earlier than if it were only to discuss rescheduling and would be accompanied by another staff member. I said that, on the assumption that the shortfall year would be calendar 1978, we would need the following data: (a) the balance of payments outcome for 1978 and a forecast for 1979; and (b) annual export data for 1973-78 with forecasts for 1979 and 1980 on a volume and value basis with a commodity breakdown similar to that provided to a mission that discussed the compensatory purchase in 1977.

I told Mr. Besteliu that we understood that there would be at least an elimination of the official exchange rate on January 1, 1979 and that there had been some newspaper reports that more extensive exchange rate action might be undertaken. I suggested that he remind Bucharest of the need to inform the Fund of any such actions.

Regarding the timing of my arrival, I suggested that if only repurchases were to be discussed, I could arrive about January 24 but that if a compensatory purchase were to be discussed the mission could arrive about Janaury 18 or 19. I said that it would be helpful to know as early was possible what the Romanians' wishes were.

In discussing the likelihood of a shortfall in 1978, Mr. Besteliu said that the recent explosion in the oil refinery at Pitesti had apparently affected output and exports. Moreover, the domestically used output of the refinery was an important input to other chemical complexes and their exports could also be affected. He mentioned that there had also been an explosion at a rubber factory which could reduce exports somewhat.

GT

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler

DATE: December 8, 1978

SUBJECT : Romania--Exchange Rate

A little while ago, Mr. Besteliu rang us wanting to know how he could obtain daily SDR rates. He was given the required information. He did not volunteer any reason for wanting it.

As you will see from the attached memorandum by Mr. Wein, it appears that some Romanian enterprises may be in effect quoting their prices in SDRs. It is also worthwhile noting that there had been reports that Romania has been considering some new exchange rate policies. We know from earlier discussions that they probably intend to eliminate the official rate, currently Lei 4.47 per U.S. dollar, on January 1, 1979. It is possible that more extensive action is in prospect. In particular, since we know they had been studying the impact of various baskets, it is not beyond the realm of possibility that they are thinking of moving to an SDR basket.

Mr. Besteliu is to see me on Monday, and I will see if he has anything to say. In addition, I will ask him to remind his authorities of the need to inform the Fund of any exchange rate actions.

cc: Mr. Wein

Office Memorandum

TO : Mr. Tyler

DATE: December 8, 1978

FROM : J. Wein JW

SUBJECT : Romania--Price Quotations Linked to SDRs

A Mr. Matwiy of the Paris Glove Company in Quebec City rang to ask me some questions about the composition of the SDR. His company is considering importing from Romania and has been quoted a price in U.S. dollars. However, the Romanians have proposed that a margin of 3 per cent around the December 4, 1978 SDR rate in dollars be established, movements outside of which on sales dates would result in price adjustments for the importer.

Mr. Matwiy seemed rather apprehensive about this proposal, but did not know how his company would finally react. In any case, the request for the series of daily SDR quotations made by Mr. Besteliu a few days ago now seems to have a clearer purpose.

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler

SUBJECT : Romania and Yugoslavia

DATE: November 21, 1978

You may be interested in two notes on the above countries, prepared by Mr. Wein and Mr. Manison, respectively.

Attachments--2

Office Memorandum

TO : Mr. Tyler

FROM : James Wein

SUBJECT : Romania--1979 Plan

DATE: November 20, 1978

The 1979 Plan has been published in Scinteia. The main plan indicators are given below, but as usual the growth rates shown are based in part on estimated outturns for the current year. Both net and gross growth targets are shown for industrial and agricultural production. For industrial production, the net and gross rates of growth projected for 1979 are nearly the same, which may indicate there is now little hope for increasing net production by reducing material inputs. However, the planned growth of industrial production in 1979 seems to be comparable with the outturn (around 10-11 per cent growth) we expect for 1978.

An interesting feature of the 1979 Plan is that the planned growth of agricultural output is, by Romanian standards, noticeably low. The rather meager information available in the press does not suggest that there was anything more than an adequate agricultural outturn this year, so a bumper 1978 outturn is not likely to be an important factor in the low 1979 projection. The low 1979 figure may simply be an attempt at more realistic planning targets ("normal" agricultural conditions are assumed), or it may represent a decision to de-emphasize agriculture still more relative to the industrial sector. In any case, the low projected growth for 1979 in the agricultural sector, is also reflected in the planned growth of national income, which is on the low side for Romania.

In addition to the agricultural target, the planned growth of investment is also low by Romanian standards. As usual, only foreign trade turnover is indicated.

ROMANIA

1979 Main Plan Indicators

(In per cent; at prices of January 1, 1979)

National income	8.8
Industrial production, net	11.5
Industrial production, gross	11.3
Agricultural production, net 1/	6.5
Agricultural production, gross	5.1-5.6
Investment	9.1
Foreign trade turnover	16.6

Source: Scinteia.

1/ State agricultural enterprises.

Mr. Whittome

Office Memorandum

TO : Treasurer
Internal Auditor
Director, European Department
General Counsel

DATE: November 13, 1978

FROM : The Secretary Katherine F. Magurn

SUBJECT : Romania - Postponement of Repurchase

This is to advise you that within the time specified no Executive Director ~~has~~ expressed an objection to the matter set out in EBS/78/600 (11/7/78).

Accordingly, the Executive Board's approval is assumed and will be so recorded.

SEC-14
10-19-73

454645

EMBASSY OF THE
SOCIALIST REPUBLIC OF ROMANIA
WASHINGTON, D. C.

cc: EED

November 6, 1978

The Honorable
Jacques de Larosiere
Managing Director
International Monetary Fund
7oo, 19th Street, N.W.
Washington, D.C. 2o431

Dear Sir:

Pursuant to the instructions of Finance Ministry of Romania, I am entitled to convey to you the text of the letter concerning the stand-by purchase equivalent to SDR 4o million, completed on November 13, 1975.

The text of the above-mentioned letter was just cabled to me by Mr. Paul Niculescu Mizil, Romania's Minister of Finance.

Sincerely yours,

Nicolae Ionescu
Ambassador

Orig. & Encl: TRE
cc: MD
DMD
Mr. Ruding
EUPO
LEG
RES
ETR
SEC

454645

The Honorable
Jacques de Larosiere
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosiere:

Reference: Stand-by purchase equivalent to SDR 40 million completed on November 13, 1975

The rapid development of the Romanian economy has inevitably placed some strains on the external accounts but the earthquake of March 1977 led to a substantial and immediate increase in the difficulties in this area. Romania has appreciated Fund assistance and progress has been made under program supported by Fund. Recovery of the balance of payments following the earthquake inevitably must be gradual and low level of convertible international reserves, which still represent less than one month's imports paid for in convertible currency, is an additional factor.

We, therefore, propose that repurchase of above-mentioned purchase be made in four equal installments equivalent to SDR 10 million each not later than April 15, 1979, October 15, 1979, April 15, 1980 and October 15,1980.

Sincerely yours,

Paul Niculescu Mizil

RCA NOV 06 0306

248331 IMF UR

11239 IGFSMF R

NR.1055/6.11.1978

F.O. copy

RECEIVED
I.M.F.

1978 NOV -6 AM 9:26

CABLE
ROOM

358275

I M F UR WASHINGTON D.C.

MR. GEOFFREY TYLER - DIRECTOR ASSISTANT

REFERANCE YOUR TELEX OF NOVEMBER 3, 1978.

ON NOVEMBER 3, 1978 OUR EMBASSY RECEIVED BY CABLE THE TEXT OF THE LETTER, IN ORDER TO PRESENT IT TO YOU, UNTILL THE TRANSMITTAL OF THE ORIGINAL LETTER.

IF NOT YET RECEIVED, PLEASE CONTACT MR. BESTELIU.-

BEST REGARDS,

I. BITULEANU

K

248331 IMF UR

November 3, 1978

MEMORANDUM FOR FILES

Subject: Romania - Visit in October

1. Much time was spent on again emphasizing that the Fund could not be regarded as a cornucopia--rather it should be thought of as a method of insurance.

2. They are agreeable to a short visit by Mr. Tyler, preferably in January.

3. I have asked them to look at the possibility that they may have an entitlement under the CFF and have asked them to ensure that they have the figures for Mr. Tyler's visit in January.

4. I have also told them that we can look at the rescheduling of the repurchases falling due in 1979 during the January visit.

5. I drafted a sentence to replace the first sentence in the draft text of their request for a rescheduling of the November 1978 repurchase.

6. We discussed SDRs and the Supplementary Financing Facility. I made it very plain that, if their balance of payments moved as we and they hoped then they would not be an applicant for the SFF. This was--at any rate for the present--accepted without demur.

7. The Minister talked at some length of the difficulties created by the present currency fluctuations. I said only that the dichotomy between a rigidly planned domestic system and an enlargement of trade with the Western world was beginning to show itself in a more virulent fashion. We debated the possible conclusions that might be drawn.

L. A. Whittome

cc: EED

November 3, 1978

Dear Mr. Minister:

Now that I have returned to Washington I wanted to take as early an opportunity as possible to write to thank you for the arrangements that were made with care and thought to allow my short stay in Bucharest to be interesting and worthwhile. My gratitude is due to yourself and your collaborators who put their time at my disposal. I also owe you my very sincere thanks for the magnificent book which you presented to me.

Yours sincerely,

L. A. Whittome

His Excellency
Paul Niculescu-Mizil
Vice-Prime Minister and
Minister of Finance
Ministry of Finance
Bucharest, Romania

cc: EED.

November 3, 1978

Dear Mr. Bituleanu:

It did me a lot of good to see you looking well again. I am very grateful for the trouble which you personally took to make my brief visit worthwhile. For me it was a real pleasure to be back again in Bucharest.

With best wishes,

Yours sincerely,

L. A. Whittome

Mr. Iulian Bituleanu
Deputy Minister of Finance
Ministry of Finance
Bucharest, Romania

cc LLED

cc LEED

The Managing Director November 2, 1978

L. A. Whittome

Visit to Romania of Chinese Delegation

The Romanians have recently received an important delegation from China. They said that amonst other subjects the Chinese wanted to discuss membership of the Bank and the Fund, and had a number of questions to pose. The Romanians drew the conclusion only that the Chinese were "studying" the possibility of membership.

cc: The Deputy Managing Director
Mr. Tun Thin
Mr. Benjenk
Mr. Ware

LAW

9-406

SPECIAL DELIVERY
CABLE

RECEIVED
I.M.F.

1978 OCT 31 AM 8:57

357752

CABLE
ROOM

11239IGFSMF R

NR.1037/31.10.1978

I M F UR 248331 WASHINGTON D.C.

MR. GEOFFREY TYLER

DIRECTOR ASSISTANT

WE DISPATCHED TODAY THROUGH ROMANIAN EMBASSY THE LETTER FOR RESCHEDULING OUR REPURCHASE OF NOVEMBER 1978.

THE AMENDMENT OF THE DRAFT LETTER HAS BEEN AGRRED UPON WITH MR.L.A.WHITTOME.

BEST REGARDS,

GHI. DITULEANU

C

248331 IMF UR

11239IGFSMF R

Romania file

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

CHECK SERVICE
- Telex ☒
- Night Letter ☐
- Full Rate ☐
- Code ☐

RECEIVED IMF
1978 OCT 23 PM 5 48

TIME RECEIVED

Special Instructions

ADDRESS

~~Mr. L. A. Whittome (hold for arrival afternoon October 24)~~

~~Grantel 42398~~

~~(Grand Hotel Ankara - Turkey)~~

The following cable received from Bituleanu today:

Quote

Mr. Whittome's visit in Bucharest between October 29 and 31,1978 agreed. We acknowledge too the reservation in Hotel Intercontinental for that period.

End quote

Regards

Pfeifer

Interfund

Distribution

MESSAGE MUST END HERE

Drafted by: R. Evensen

Department: European

Date: October 23, 1978

R. Evensen — NAME (TYPE)

Rolf Evensen — SIGNATURE

NAME (TYPE)

SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 3 min.

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Operator: PD

//OCR

9-406

seen by Mr. Evensen.

SPECIAL DELIVERY
CABLE

2:16 357144

248331 IMF UR

CABLE
ROOM

11703C EBANK R

cc: F.O. 10/23

23/10/1978 H 2011

ON BEHALF OF

MINISTRY OF FINANCE

XXX

ATT. MR. GEOFFREY TYLER

RE YOUR CABLE OF OCTOBER 18 1978 [MR WITTOME'S VISIT IN BUCHAREST BETWEEN OCTOBER 29 AND 31 1978 AGREED WE ACKNOWLEDGE TOO THE RESERVATION IN HOTEL INTERCONTINENTAL FOR THAT PERIODE]

~~BEST REGARDS~~

signed

IULIAN BITULEANU

DEPUTY ~~MINISTER OF FINANCE~~

+

248331 IMF UR

11703C EBANK R

Office Memorandum

TO : Mr. Whittome

DATE: October 18, 1978

FROM : Geoffrey Tyler

SUBJECT : Romania

I attach copies of the following documents.

(i) Staff Report for the 1978 Article IV Consultation (SM/78/231)
(ii) Romania--Recent Economic Data (EBS/78/517)
(iii) Brief for the Annual Meeting
(iv) Departmental Brief for the Annual Meeting
(v) Special Brief for the Managing Director at the Annual Meeting
(vi) Note for the File on Meeting with Romanian Delegation
(vii) Note for the File on Meeting to Discuss IFS
(viii) Notes (2) for the File on Request for Rescheduling
(xi) Telex address of Ministry of Finance
(x) Copy of telex detailing your visit timetable.

These provide a summary of current economic developments, including the latest balance of payments forecasts, and a discussion of current and proposed operational matters.

Rescheduling

Subsequent to the Annual Meeting, Mr. Besteliu asked if we would prepare a draft communication requesting rescheduling so that he could transmit it to the Minister. A draft has been agreed with Treasurers' and given to Mr. Besteliu. It proposes rescheduling the repurchase of SDR 40 million due in November 1978. Treasurers' and we have agreed that the 1979 repurchases totalling SDR 150 million can be looked at in 1979 as a group. I do not think there will be any problem satisfying the need test but we shall want some idea of the 1979 balance of payments prospects before agreeing to a request. I would suggest that we say that I could visit Bucharest briefly either on the way to or from Yugoslavia (i.e., late January or the second half of February).

Visit of Bureau mission

This has been agreed with the Romanians but the Bureau has not yet finalized the exact date since Mr. Saunders, who will accompany Mr. Nose, has been ill.

Use of Fund resources

It is possible that this will be raised. You may wish to be reminded that we said at the Annual Meeting that an exchange reform consisting merely of the elimination of the official rate (currently lei 4.47 per U.S. dollar) would not seem major enough to warrant Fund financial assistance since it is at present no more than an accounting rate. (See memorandum on Discussion at Annual Meeting).

125 +$1½
200 $3k

15%

It is possible that Romania would be entitled to a compensatory purchase on the basis of a calendar 1978 shortfall. A change from an arithmetic to a geometric average could prejudice their case since the relatively high average rates of export growth in Romania make it relatively easy to have an arithmetic average shortfall. The Romanians are probably not aware that a request before the next review of the CFF could turn out to be to their advantage.

75 10

50% -

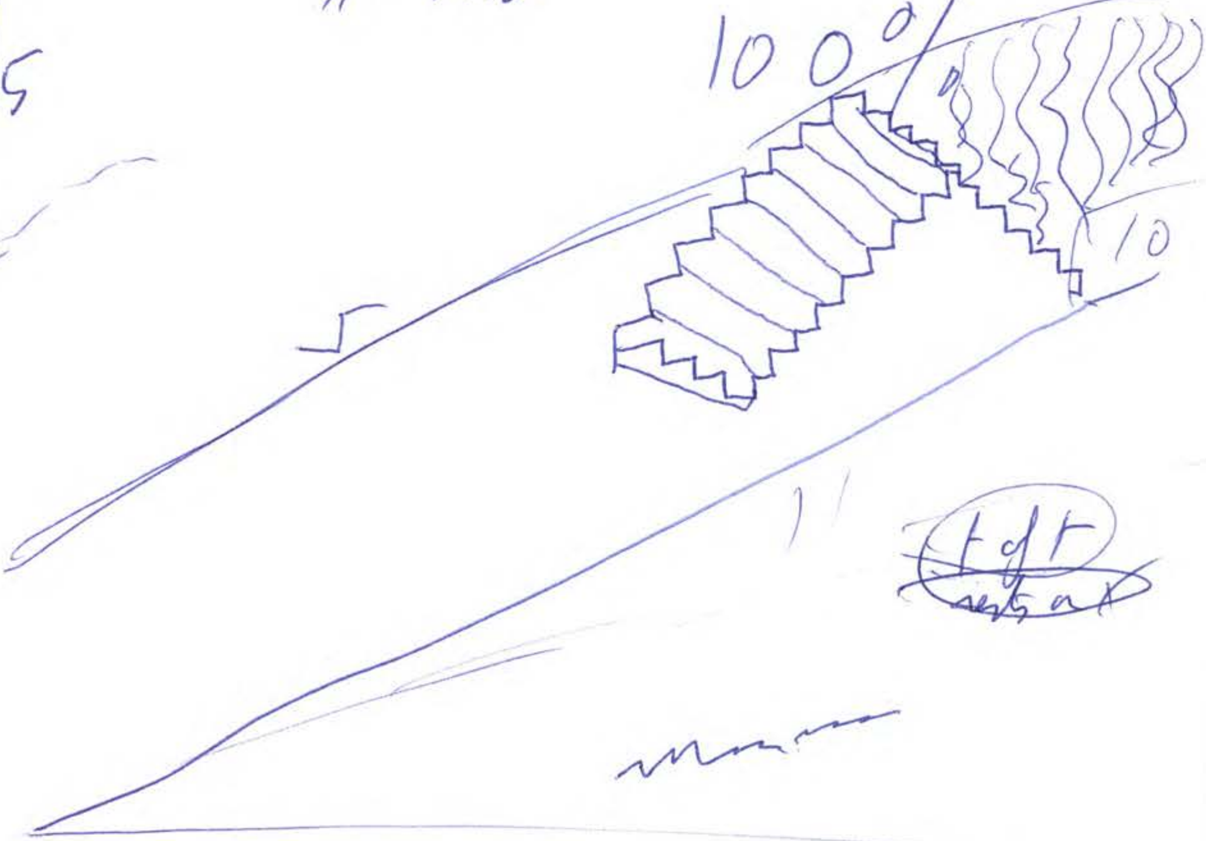
Attachments

75% old
" new

~~75~~% of que

100%

245



CHECK SERVICE

Telex ☒
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OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Mr. Bituleanu
Deputy Minister of Finance
Ministry of Finance
Bucharest, Romania

Special Instructions

Although formal confirmation that Mr. Whittome's visit is convenient has not yet been received, we have finalized his itinerary on basis of visit to Bucharest. He will arrive from Zurich on Sunday, October 29 at 8.20 p.m. on RO 220. He will leave on Tuesday, October 31 for London at 6 p.m. on BE 713. He would be grateful if you could make reservations for October 29-30 at the Intercontinental. Could you please confirm these arrangements.

Distribution

Best regards,

Geoffrey Tyler

INTERFUND

MESSAGE MUST END HERE

Drafted by: AGTyler/af
Department: European
Date: October 18, 1978

Geoffrey Tyler
NAME (TYPE)

G S Tyler
SIGNATURE

NAME (TYPE)

SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 3Mins
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Route: TRT, TLX
Operator: JJ

SEC-17/OCR
9-2-76

Annual Meeting 1978

Country:	Romania
Delegate:	Mr. Nicolae Eremia, Director, Ministry of Finance
European Dept.:	Messrs. Tyler and Wein
Bureau Staff:	Messrs. Dannemann and Nose
Date:	September 28, 1978

There was a brief discussion of the recent integration into the Bureau of the work on the balance of payments statistics and of the Bureau's publication program. In discussing Bureau publications, the desirability of having a Romania page in *IFS* was suggested.

Mr. Eremia responded to say that the Minister of Finance had already taken up the question of a Romania page in *IFS* during a meeting with the Managing Director and he indicated during the course of this meeting that the Ministry had decided in principle there should be a Romania page. The delegate also stated that in taking the necessary steps for preparation of a page there would be particular need for the Fund staff to understand the Romanian methodology and for the national officials to know how any proposed *IFS* data would compare with the existing indicators now compiled in Romania. In resolving questions of methodology it would be useful to have a meeting between the Fund staff and the national experts and Mr. Eremia indicated the meeting could be either in Washington or in Bucharest. However, he pointed out that the assembly of data for the page would concern various national agencies, i.e., the Minister of Foreign Trade, the National Statistical Office, the National Bank and others, and that it would probably be more practicable to have the discussions take place in Burcharest.

The delegate expressed the view that, if possible, such a visit take place later this year. Mr. Dannemann suggested that since work of the Bureau is divided by function that it might be useful to have the visit include two Bureau staff members, one from the financial side and the other from general statistics.

There was a brief discussion on the *IFS* correspondent system and a question as to who might wish to act as the *IFS* correspondent. The delegate indicated that the correspondent might be in the Ministry of Finance but the decision could be made at a later date.

The Bureau expressed the view that once a page is included in *IFS* that the availability of monthly data would be an important question to be resolved. The delegate indicated that matters of periodicity and time series length would be one of the things to be discussed during the visit to Romania. It was thought the visit could be of two weeks duration but that the Bureau might be flexible if additional time would be required to complete this initial exploratory visit.

With regard to the question of whether the staff taking on the assignment would need to be fluent in French it was indicated that language was not really a problem although there was some preference for French speaking persons.

The Bureau promised to write the Ministry referring to this meeting and it was agreed that the letter could be directed to Mr. Eremia. Mr. Eremia also indicated that it would be useful if the Ministry could have, in advance of a visit, an agenda of the topics that would be covered during the visit.

October 16, 1978

MEMORANDUM FOR FILES

Subject: Romania

I told Mr. de Vries today that I intended to stop in Bucharest for a couple of days on my way back from Ankara in late October.

L. A. Whittome

cc: EED

FO.
I agreed with Mr Tyler that this seems reasonable
Oct 13.

Office Memorandum

TO : Mr. Pfeifer

DATE: October 12, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Rescheduling of Purchases

During the Annual Meeting the Romanians made an informal approach to me regarding the possible rescheduling of purchases made in late 1976 and 1977 under a stand-by arrangement and a compensatory financing facility purchase. At that time, I cleared with Mr. Whittome that we would be willing to support a Romanian request. In addition, I spoke with Mrs. Watkins in Treasurer's Department who said that there would be no problem as long as our department was willing to support the balance of payments need justification. I attach a copy of a memorandum for the files written at that time.

Yesterday, Mr. Besteliu, of the Romanian Embassy, came to see me to ask about what needed to be done. I attach a copy of a memorandum for the files recalling this discussion. Following it, I spoke to Mrs. Watkins. She said that in the circumstances the normal practice at this stage would be to deal with the rescheduling of a repurchase of SDR 40 million due in November 1978. The next repurchase for which rescheduling is wanted does not occur until April 1979 (SDR 95 million), and there are subsequent repurchases of SDR 20 million in May and two repurchases each of SDR 17.5 million in June and September. Mrs. Watkins said that these were too far away to be able adequately to justify the balance of payments need at this time, since, for example, it was always possible that there might be a strong recovery in the balance of payments in 1979. Personally I have no problem with dealing at this stage only with the November 1978 repurchase and I said this to Mrs. Watkins. She will prepare a draft letter from the Romanians to the Fund requesting rescheduling of this purchase. When she has finished the draft and it has been cleared with you,* I would show it to Mr. Besteliu who would then forward it to his authorities. We shall probably propose four semi-annual installments beginning on April 30, 1979.

* My redraft of Treasurer's draft is attached. Perhaps you could glance at it before I discuss it with Treasurers.

Attachments

N.B. The proposed text for a request was given to Mr. Besteliu on Oct. 17, 1978

I agree
[initials] Oct 13.

Draft
10/12/78

Suggested draft of cable to be sent by Romania to the Fund regarding postponement of stand-by purchases

Reference stand-by purchase equivalent to SDR 40 million completed on November 13, 1975.

[Romania has had a difficult balance of payments situation for several years and the earthquake of March 1977 increased these difficulties.] Romania has appreciated Fund assistance and progress has been made under program supported by Fund. Recovery of the balance of payments following the earthquake inevitably must be gradual and the low level of convertible international reserves, which still represent less than one month's imports paid for in convertible currency, is an additional factor.

We, therefore, propose that repurchase of abovementioned purchase be made in four equal installments equivalent to SDR 10 million each not later than April 15, 1979, October 15, 1979, April 15, 1980, and October 15, 1980.

The rapid development of the Romanian economy has inevitably placed some strain on the external account but the earthquake of March 1977 lead to a substantial and immediate increase in ~~the Romanian external~~ the difficulties in this area

GT - OK from I Fed

Mr. Pfeifer

MEMORANDUM FOR THE FILES

Subject: Romania--Rescheduling of Purchases October 11, 1978

When Mr. Besteliu called upon me today, he said that his authorities had asked him to discuss with me further the question of rescheduling, which had been raised by Mr. Eremia during the Annual Meeting. The repurchases in question are those in 1978/79 resulting from purchases under the 1976 stand-by arrangement and the 1977 compensatory financing purchase. We agreed that (1) I would discuss with Treasurer's Department whether it would be appropriate to deal with a request for all the relevant purchases at the one time; and (2) to prepare a draft letter from the Minister of Finance for discussion with Mr. Besteliu.

GT

Geoffrey Tyler

cc: Mr. Pfeifer ✓
Mr. Wein

September 28, 1978

MEMORANDUM FOR FILES

Subject: Romania - Rescheduling

Mr. Eremia spoke to me regarding the possible rescheduling of the large repurchases falling due in November 1978 and in 1979. He wanted an indication for his Minister that a formal request would be agreed to if it were made. After discussing the matter with Mr. Whittome and Mrs. Watkins I told Mr. Eremia that a request could be expected to be received favorably. I indicated that the normal schedule was 8 quarterly instalments.

G. Tyler

cc: Mr. Whittome
Mr. Wein

Mr. Whittome
[handwritten initial]

MEMORANDUM FOR THE FILES

Subject: Romania--New Ambassador   October 11, 1978

I learnt from Mr. Besteliu that the new Romanian Ambassador is a Mr. Nicolae Ionescu. He is now aged 56 and since the age of 28 has filled a variety of deputy minister positions, in the Ministry of Education, the Ministry of Foreign Trade, and the Ministry of Planning. He speaks neither English or French. While Mr. Besteliu spoke well of him, it was quite clear from the conversation that he did not really think him to be a first class replacement. This matches in with the fact that he reached a relatively senior position at an early age but has since made no progress.

It also came out in the conversation that a Mr. Cora, who also dealt with economic matters at the embassy, will not be returning to Washington following his vacation in Romania. It was obvious from the conversation that when Mr. Cora went to Romania he expected to return. One might speculate that Mr. Cora's removal from Washington may be connected with the many such transfers of Romanians from their previous positions as a result of the defection earlier in the year of Mr. Pacepa.

Geoffrey Tyler

cc: Mr. Whittome ✓
Mr. Wein

Mr. Whittome.
G

MEMORANDUM FOR THE FILES

Subject: Romania--Visit of Mr. Whittome October 11, 1978

During his visit, I explained to Mr. Besteliu that Mr. Whittome would like to take up the Romanian invitation for his visit in the week beginning October 30, 1978. I told Mr. Besteliu that Mr. Whittome would need to co-ordinate the Romanian visit with his other European commitments and that he might arrive during the week-end of October 28/29 or early in the week beginning October 30. I said that I understood that he would be able to remain in Bucharest for only two days.

Mr. Besteliu said he felt sure that the proposed visit would be welcomed by his authorities and he undertook to be in touch with them.

GT

Geoffrey Tyler

cc: Mr. Whittome ✓
Mr. Pfeifer

Mr. Pfeifer

Hold for KAW

MEMORANDUM FOR THE FILES

Subject: Romania--Visit by Mr. Whittome October 10, 1978

Mr. Pfeifer told me this morning that Mr. Whittome would like to visit Bucharest for two days--no more--on the week beginning October 30, 1978. It was agreed that I would speak to Mr. Besteliu to obtain confirmation that the Romanians would be pleased to see Mr. Whittome. Also, we agreed that I would say that Mr. Whittome was not yet sure of his exact time of arrival and he hoped that it would not cause the authorities any problem if at this stage he said he would be arriving either on the week-end of October 28/29 or early in the week commencing October 30.

Geoffrey Tyler

cc: Mr. Pfeifer

Office Memorandum

TO : Mr. Whittome

DATE: September 29, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania

In your note for the files regarding the visit of the Romanian Minister to the Managing Director, mention is made in the last paragraph to discussions between the Romanian authorities and management on the question of the quota. Mr. Wein has spoken informally to Mr. Ruding's technical assistant and it is on the basis of that conversation that the following is written. The technical assistant would not like the information that he gave to be used officially. If necessary, I am sure Mr. de Vries would confirm the facts.

The Romanians through Mr. de Vries* put their case on the quota question to the Managing Director. Basically we understand that their argument rests on the decrease in their percentage of total quotas from 0.65 per cent to 0.63 per cent. Mr. de Vries apparently had a discussion with the Managing Director and afterward sent a telex to Romania saying that their case had been put but there were no prospects for a special increase for the time being.

On the above facts, it would not seem that any action is required by us. I am not aware whether anyone on the staff has seen the original communication from Mr. de Vries to the Managing Director.

* We are not completely sure whether de Vries or Ruding handled the matter with the M.D.

original to Tyler.

Yes, this is [illegible] what happened. It was left that 8th Review would look into the matter

29/9

cc: Mr. Wein

MEMORANDUM FOR THE FILES

Subject: Romania--Staff Meeting

September 29, 1978

Mr. Eremia, Ministry of Finance, met with Messrs. Dannemanm, Nose, Tyler, Mrs. Watkins, and Mr. Wein on Thursday, September 28, 1978. The topics of discussion were a possible IFS page for Romania, and procedures for the exchange of lei into a freely usable currency.

1. On the former topic, Mr. Dannemann said that he was anxious to make progress on a Romanian IFS page, which need not necessarily cover the full range of IFS statistics normally presented. Mr. Eremia said that Minister Niculescu-Mizil had communicated to the Managing Director the decision in principle to have an IFS page for Romania. It was, however, necessary to study Romanian methodology so that the indicators published for Romania are comparable with those for other countries. It would be necessary to consult with experts in the National Bank, Romanian Bank for Foreign Trade, Directorate of Statistics, etc., regarding the various statistical series to be published. In principle, there was no objection to providing data more frequently than annually, perhaps even monthly. Mr. Dannemann concurred in this procedure, but noted that once publication of an IFS page for Romania began, the Bureau of Statistics would ask that one Romanian correspondent be named to revise and update statistical series.

It was agreed that the best procedure for the immediate future would be for a staff mission to visit Bucharest for about two weeks in November. Mr. Dannemann said that he proposed sending an expert on financial statistics and another on general statistics. It was agreed that an outline of what information is required would be sent to Mr. Eremia in advance of the mission.

2. Mrs. Watkins asked if the Romanian authorities had agreed on procedures for the exchange of lei into a freely usable currency, as had been requested in the Fund's cable of May 1978. There was a legal obligation to establish such procedures. In this regard, Mr. Eremia agreed to show to Minister Niculescu-Mizil a letter drafted in the Treasurer's Department, which the Minister might find acceptable. He warned, however, that as the Minister had only been in office a few months, it would be necessary for him to consider the matter further before responding.

J. Wein

James Wein

cc: Mr. Dannemann
Mr. Tyler
Mr. Nose
Mrs. Watkins

cc: CED
NED
LWD

Office Memorandum

TO : The Deputy Managing Director

DATE: September 29, 1978

FROM : L. A. Whittome LAW

SUBJECT : Visits to United Kingdom, Turkey, and/or Copenhagen and Bucharest

I would like to spend two days in London in the second half of October to renew contacts with the Treasury and the Bank on my way to Ankara with Mr. Woodward for a visit. We hope to schedule a four-day visit in Ankara from October 24 or 25. Whilst I am in Europe I would also intend to spend two days in either or each of Copenhagen and Bucharest in order to fulfill long-standing commitments. The Executive Directors of the countries concerned are fully aware and the invitations have come from the authorities of the countries.

The United States are sending a special team to the OECD review of Turkey due on October 31. We have been asked to send a representative from Washington. Mr. Woodward will be in Europe and I think he should attend.

May I have your approval for these plans please.

All OK

The Deputy Managing Director

September 29, 1978

L. A. Whittome

Visits to United Kingdom, Turkey, and/or Copenhagen and Bucharest

I would like to spend two days in London in the second half of October to renew contacts with the Treasury and the Bank on my way to Ankara with Mr. Woodward for a visit. We hope to schedule a four-day visit in Ankara from October 24 or 25. Whilst I am in Europe I would also intend to spend two days in either or each of Copenhagen and Bucharest in order to fulfill long-standing commitments. The Executive Directors of the countries concerned are fully aware and the invitations have come from the authorities of the countries.

The United States are sending a special team to the OECD review of Turkey due on October 31. We have been asked to send a representative from Washington. Mr. Woodward will be in Europe and I think he should attend.

May I have your approval for these plans please.

yes, but we should, as a courtesy make sure Vanhala knows.

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors · 1978 Annual Meetings · Washington, D.C.

September 28, 1978

MEMORANDUM FOR FILES

Subject: Romania - Rescheduling

Mr. Eremia spoke to me regarding the possible rescheduling of the large repurchases falling due in November 1978 and in 1979. He wanted an indication for his Minister that a formal request would be agreed to if it were made. After discussing the matter with Mr. Whittome and Mrs. Watkins I told Mr. Eremia that a request could be expected to be received favorably. I indicated that the normal schedule was 8 quarterly instalments.

G. Tyler

cc: Mr. Whittome
Mr. Wein

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(ITT) 440040 FUND UI
(WUI) 64111 INTERFUND

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J

INTERNATIONAL MONETARY FUND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

Press Release No. 44

September 27, 1978

HOLD FOR RELEASE
UNTIL DELIVERY

Statement by the Hon. PAUL NICULESCU-MIZIL,
Deputy Prime Minister, Minister of Finance, and
Governor of the Fund and Bank for ROMANIA,
at the Joint Annual Discussion

Accepting the invitation to save time, let me present some brief matters for consideration:

In the analysis of the current economic situation, we take into account the fact that we live in an era characterized by essential transformation, continuous and profound changes in the economic and political relationships. In an important number of countries, a new social order has been declared; we note an ever-growing determination of the peoples liberated from colonial domination to organize an efficient economy, to consolidate the status of the newly created states and to strengthen their independence; in the developed capitalist countries, periods of economic progress alternate with periods of recession, growth rates vary from country to country, development in general is extremely contradictory; ever-growing social and political forces advocate serious reorganization of society.

Notwithstanding last year's efforts to surmount the grave situation resulting from economic, monetary, and energy crises, the results do not come up to the expectations. In a number of states, especially in the developed ones, the economic growth rate is low, production capacities are not fully utilized, unemployment is high and inflation is not controlled. To this, one can add the fluctuations of the balance of payments--surpluses in some countries along with serious deficits in others, instability of exchange rates and disorder on financial markets.

Romania is seriously preoccupied with the consequences of these phenomena, which increase the justified dissatisfaction of the working people in these countries and at the same time lead to a continuous increase of contradiction between the main developed countries, between rich and poor countries, and among different groups of countries, and which stimulate tendencies to redivide markets and raw material resources, and zones of influence and domination, favor tensions and create grave dangers to peace.

Although the causes of these extremely complex phenomena originate in the economic structures generating them and the lasting solutions cannot but be found in a national economic policy which will take into account concrete situations that differ greatly from country to country, we consider that these effects can be softened by enlarging international cooperation, by rules to promote the interests of all countries.

In my country's opinion, under the present circumstances it is ncessary to act in these main directions:

The efforts of all peoples, and of the entire international community as well, must be concentrated toward eradication of underdevelopment--one of the gravest problems of the present time. Despite the numerous debates and programs on this matter, the great gaps between the developed and developing countries are maintained and growing, perpetuating the malnutrition and poverty that millions of people live in and creating serious social problems and misunderstanding in the world.

Considering that realization of socioeconomic progress presupposes, first of all, sustained efforts on the part of the respective peoples, Romania is in favor at the same time of the necessity of more substantial international support, primarily on the part of the developed countries, by means including the reduction of military expenditures and transfer of part of these sums to development financing. The main thrust of this support must be stimulation of economic growth, enlargement of production forces in agriculture and industry, a fairer distribution of national income, and the strengthening of independence and sovereignty.

It is necessary to undertake efficient and immediate measures to assure unlimited access for all countries, especially for the developing ones, to modern science and technology, to energy resources, and establishment of a more just relation between the prices of industrial products and those of raw materials, which will create an incentive for both industrial countries and producers of raw materials.

Solving the great problems of humanity in the interest of all countries is closely linked to the reconsideration of the old type of international relations and liquidation of the policy of diktat and domination, to the establishment of the new international economic order of state-to-state relations based on full equality in rights, noninterference in domestic affairs, respect for national independence and mutual advantage. Romania is steadily promoting these principles, and the active and creative contribution of President Nicolae Ceauşescu to their elaboration and implementation is unanimously recognized.

I would like to bring to your attention the necessity of common action, with more perseverence, to eliminate all kinds of barriers and restrictions in the field of trade, the consequences of protectionist and discriminatory policies, in order to overcome in the future the separation of the world in closed economic groups and to enlarge international cooperation.

Immediate and decisive measures need to be taken to end inflation and its consequences which are so badly affecting the large masses of working people.

I would also emphasize the importance which my country attaches to the restructuring of financial relations in order to reinforce national currencies, to assure a greater stability of exchange rates, and, first of all, of the currencies playing the main role in economic international relations.

The consensus achieved during this session regarding the increase of quotas and a new allocation of special drawing rights will contribute to the expansion of financial resources, for a more substantial support to the member countries. We express our hope that the agreed measures will be implemented as soon as possible.

Romania strongly supports an active participation for the solution of international problems of small and medium countries, of all countries in the world, irrespective of their social system, the size of their economic power, and, within this context, the need for participation of all countries in the activity of the international bodies and their democratization.

The Romanian Government, positively appreciating the activities of the IMF and IBRD and the cooperation of these institutions with our country, considers that they have to play a more active and efficient role in supporting developing countries--and in this context, welcomes the intention to increase the Bank's capital and trusts that this measure will be implemented as soon as possible--in equitably solving international monetary and financial problems, and in the support extended to countries to overcome more easily their financial and economic difficulties.

Socialist Romania, a developing country, has to solve itself the problems of bridging the gap vis-à-vis the developed countries in as short a time as possible.

It is well known that Romania is constantly achieving high rates of industrial development and has obtained good results in the reorganization and development of agricultural output, foreign trade, and other fields. We are permanently acting for the strengthening of our currency's purchasing power, and the stability of prices, for a sound money supply and financial balance. We have accordingly laid down the basis for the adoption of measures to increase, to a higher extent, the real incomes of all categories of working people, surpassing the provisions of the Five-Year Plan.

I would like to stress that these achievements are, primarily and decisively, the results of mobilizing all the creative forces of the nation, and the available material and financial resources. The constant allocation of more than one third of the national income for investment is a relevant proof of the huge effort our nation is making.

In spite of all these achievements, Romania is still far from the level reached by the developed countries as concerns the national per capita income, the productivity of labor, and the production level for certain products. My country is faced with the difficulties related to an undertaking of such proportions. At the same time, even though Romania has an economic and social organization and mechanisms and means different from those of other countries, we have to overcome the negative influences resulting from the external economic environment.

I am happy to inform you that the Romanian people are committed to firmly implementing the policy of the accelerated development of the economy in order to accomplish the historical task that it has set for itself, in order to emerge from the developing country stage in the near future and to secure a high degree of material and spiritual civilization.

Let me conclude by greeting the new members--the Solomon Islands, Cape Verde, and Suriname, by welcoming Mr. de Larosière as the head of the International Monetary Fund, by commending the steady efforts undertaken by Mr. McNamara in his leadership of the World Bank, and by wishing the management and staff of these bodies success in fulfilling their tasks, with the support and interest of us all.

Mr. Whittome

MEMORANDUM FOR THE FILES September 27, 1978

Subject: Romania--Discussion at Annual Meeting

Mr. Whittome and Mr. Tyler met with the Romanian delegation at 12.10 p.m. on September 27, 1978. The Romanian delegation consisted of Messrs. Niculescu-Mizil, Rauţa, Eremia, and Mada. Mr. Ruding was present.

Mr. Niculescu began by saying that Romania's aim was not merely a simplification of the exchange system but its perfection. On January 1, 1979, it was intended to terminate the official rate. One aim was to make the exchange rate more directly connected to foreign exchange transactions, which would make it easier to judge the efficiency of export production. It had also been decided to increase the official international reserves, which currently included only a small amount of foreign exchange. One reason for wishing to increase the reserves was the much larger proportion of trade now undertaken with nonsocialist countries. The approach to a uniform exchange rate would be gradual.

Mr. Whittome said that he could understand the special situation of Romania. He believed that it would be of great benefit to have more indicators emenating from the market since this would make policy decision making easier. An exchange simplification would have an impact on domestic prices and he believed that it would be wise to study the effects of any moves carefully and to proceed gradually. He said that the Fund had some experience in these matters and would be happy to put it at Romania's disposal.

Mr. Niculescu said that in addition to advice, Romania would like financial assistance during the change and noted that the Managing Director had said that this proposal would be studied. He said that Romania would do what was needed irrespective of Fund support but the latter would make the change easier. Mr. Whittome replied that the Fund could look at simplification as a basis for financial support. Anything that increased Romania's economic efficiency and was compatible with international standards was desirable. If there were a simplification of the exchange system and there were also a foreign exchange risk at that time, it would be reasonable to give support to help with the risk. This could be looked at when Romania reached the stage of implementation combined with some risk to the balance of payments. Mr. Tyler commented that the mere elimination of the official rate, while a welcome simplification, would probably not be judged significant in terms of Fund support. Effectively, any significant simplification would involve the equalization system and changes in domestic prices. Mr. Whittome emphasized that it was necessary to have policies that carried an exchange risk if Fund resources were to be available. Mr. Niculescu said that he recognized this and that he would examine the situation further on his return to Romania. Mr. Rauţa added that Romania was considering more than just a termination of the official rate. What was being aimed at was a much narrower relation between domestic and foreign prices. Mr. Niculescu said that this was the objective but that the authorities did not want large shocks to the economy.

Mr. Whittome referred to the SDR decision, noting that it was a welcome change from the position that had obtained since Romania had joined the Fund. He said that on present calculations the first allocation would be equal to about 10 per cent of quota. He noted that when the next quota increase came into effect 25 per cent would be payable in SDRs.

Regarding the supply of information, Mr. Whittome was pleased to have the statement by Mr. Niculescu to the Managing Director regarding Romania's position. The staff also believed that it was helpful for Romania to publish more. He noted the continued difficulties the staff had when Romania provided less information that other countries. He offered to send Fund experts to Bucharest at any time convenient for Romania. Mr. Niculescu responded that Romania would accept experts at any time the Fund wished. His desire was to solve the problem as soon as possible.

Turning to the quota, Mr. Niculescu noted that the Managing Director had agreed to the commencement of discussions with Fund experts to find some way to proceed. He said that Romania was quite prepared to document its case but that the time had come to go beyond documentation to action and he hoped the Fund would provide a contact for the Romanian officials to talk to to decide what needs to be done. Mr. Whittome noted that the Managing Director had been referring to the 8th quota review, since the 7th review had been decided. The Managing Director had said that the Executive Directors would be examining a variety of methods since the present system can be criticized. Obviously any new system to be examined would favor some more than others. The staff and also Mr. Ruding would watch the implication of the discussions and try to ensure that any system is fair to everyone, including Romania.

The meeting ended at 12.50 p.m.

GT

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors · 1978 Annual Meetings · Washington, D.C.

September 27, 1978

MEMORANDUM FOR FILES

Subject: Romania

The Romanian Minister called on the Managing Director this morning. He said that they had taken a decision in principle to make more information available to the Fund and he seemed to say that they wished to have a page devoted to their economy in IFS. He said that they would want to discuss this matter with the staff at some later date.

The Minister went on to say that they were committed to the convertibility of the leu but that in the meantime they wished to simplify their foreign exchange system. They were thinking in terms of small adaptations over a period of some 3-4 years and they wanted to know whether the Fund would be prepared to lend in order to facilitate such changes. Lastly, the Minister added that they had decided that they should aim for a higher level of foreign exchange reserves.

In reply, the Managing Director said that we would certainly do all that we could to help them provide the data which would enable a page to be printed in IFS and we would get in contact with them on this matter. As regards the simplification of the system this was certainly in a direction of the Fund thinking and that we would be fully prepared to discuss what they had in mind with them. He was careful to give no commitment on the use of Fund resources.

As he was leaving, the Minister again raised the question of the quota but this seemed a pro forma business for he did not press in any way when the Managing Director said that it would have to be raised later at the next quota review. The Managing Director later asked him whether a reply had been sent to a letter from Romania that had been given to us through Mr. Ruding. I said that I was not sure of the answer and perhaps Mr. Tyler could check.

L.A. Whittome

cc: ED

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(RCA) 248331 IMF
(ITT) 440040 FUND UI
(WUI) 64111 INTERFUND

September 25, 1978

To: Managing Director

From: L. A. Whittome

Subject: Romania

Please mention that we appreciated the speed with which they (eventually) moved to eliminate broken cross rates and thus free the remaining tranche of the stand-by arrangement.

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler 97

SUBJECT : Romania

DATE: September 22, 1978

There is one matter that the Romanians may raise with you and even the Managing Director regarding the use of Fund resources. They have some substantial repurchases falling due before the end of the year and in 1979 resulting from purchases. It is quite possible that they will ask whether these can be rescheduled. I can see no reason why we should not agree to this. An amended brief for the Managing Director is attached.

On a housekeeping matter, Treasurers Department have asked us to raise a small matter regarding the establishment of procedures for exchange of Romanian lei in Fund transactions. An amended departmental brief is also attached.

Attachments

ROMANIA
(Article XIV Member)

Brief for the Thirty-Third Annual Meeting

Exchange rate: The noncommercial rate for the leu, which is the representative rate is pegged to the U.S. dollar and has been lei 12 per US$1 since October 1974. The basic rate for trade and most capital transactions was appreciated in March 1978 from lei 20 to lei 18 per US$1; there is a multiplicity of exchange rates for exports and imports in addition to this basic rate.

Quota: SDR 245 million.

SDRs: No allocations have been made since Romania's membership, but SDRs have been acquired to pay charges.

Use of Fund resources: Romania has made frequent use of Fund resources, the most recent being in September 1978 in connection with the March 1978 earthquake (a one-year stand-by arrangement equivalent to SDR 64.125 million, and a second purchase under the CFF of SDR 47.5 million). The final purchase under the recent stand-by arrangement was made only after the elimination of a new multiple currency practice, which had broken a performance criterion. At the end of August 1978, the Fund's holdings of lei amounted to 209 per cent of quota (150 per cent excluding CFF purchases).

Profits of gold sales: Romania has agreed to make a ten-year loan to the Trust Fund of 10 per cent of its share of the distribution of gold profits. US$850,000 of such profits are being held in the Trust Fund pending completion of the loan agreement.

Last consultation discussions: June-July 1978.

Political developments: Since the last Annual Meeting, Mr. Paul Niculescu-Mizil, has become Minister of Finance and Governor for the Fund, and Mr. Vasile Rauta has become Governor of the National Bank and Alternate Governor. Mr. Niculescu-Mizil, who is also a Deputy Prime Minister, is the more important and is well connected with President Ceaucescu.

Balance of payments and reserve position: Largely because of the earthquake, the trade and invisible accounts deteriorated in 1977, forcing the authorities to increase borrowing; the deterioration was predominantly with the convertible currency area. Overall, there was a deficit of SDR 98 million, financed through bilateral accounts in nonconvertible currencies, and a net use of Fund resources.

In 1978 a sharp improvement in the current account is expected, mostly as a result of a marked improvement in the trade account in convertible currencies. The projected improvement is based on a rise in convertible area exports of 11 per cent compared with 5 per cent for convertible area imports. On capital account, a projected smaller net inflow of SDR 90 million is mainly the result of repayment of the short-term convertible debt incurred in the previous year.

An overall surplus of SDR 71 million is forecast (SDR 83 million in convertible currencies), which will mostly be absorbed by net repurchases from the Fund. Reserves are low, amounting to less than a month's convertible imports, but external debt is manageable, and the debt service ratio is expected to decline to around 17 per cent in 1978.

Domestic developments: Real national income increased by about 8.6 per cent in 1977, despite the dislocations of the earthquake. Industrial production increased rapidly, but there was a small absolute decline in agricultural output compared with the previous year's excellent results.

September 1978

ROMANIA

Special Brief for the Managing Director's Meeting
with Minister Niculescu-Mizil

1. Romania's request for the final purchase of SDR 13 million under an existing stand-by arrangement could be approved only after the elimination of broken cross rates which had created a new multiple currency practice from March 1978. The practice was eliminated on the last day of the stand-by arrangement.

2. The new Minister of Finance is anxious to arrange borrowing from the Fund. In 1978 the balance of payments is strengthening, which does not suggest that there is any immediate case for a normal stand-by arrangement. It is possible that Romania is preparing an exchange reform involving a unification of the commercial exchange rate. If this is an economically significant move (one needs to be careful for lying behind exchange rates is an all-pervasive and complicated system of taxes and subsidies designed to produce "appropriate" exchange rates for each export and import) we could certainly offer technical assistance if it were useful and the change could be supported by financial assistance during the period when the new system is being introduced.

3. Romania has repurchases totaling SDR 180 million falling due in the remainder of the year and in 1979; they result from stand-by and compensatory finance purchases in 1975-76. The Romanians could ask about rescheduling. In principle, we should be sympathetic.

4. Progress is very slowly being made in expanding the data made available by Romania, but some series are now being received on a quarterly basis for the confidential use of Executive Directors. It should be stressed that it is important to continue and expand the data flow. The flow of information has been a constant problem and the new Minister may be in a position to change attitude.

5. The staff is discussing further with the Romanian delegation the content of a future IFS page for Romania. You might wish to stress Executive Directors' desire for an IFS page for Romania.

6. Romania has agreed to a voluntary loan to the Trust Fund of 10 per cent of its share of profits from gold sales, but the formal loan agreement has not yet been completed.

7. The Romanians remain anxious to have nationals on the staff, but have not been able to nominate qualified and available candidates. There are difficulties and dangers in this area and the best response is that we will look sympathetically at seemingly qualified candidates.

September 1978

Departmental Brief--Romania

1. Use of Fund resources

The Romanians indicated in the July Article IV consultation that they were interested in further use of Fund resources. Any assistance would presuppose a balance of payments problem. The problem of broken cross rates has been resolved but at the moment the staff has insufficient information about the 1979 balance of payments to assess the need. It might be explained to the Romanians, should they bring up the question, that the staff would need considerably more information about prospects and policies to assess Romania's case for further use of resources.

There is some evidence that the Romanians may be preparing for a substantial exchange reform involving unification of the commercial rate. In this context, they could ask for Fund technical assistance and for use of Fund resources to bolster their low convertible reserves.

Romania may be entitled to a compensatory finance purchase but they have not so far raised the subject.

2. Broken cross rates

The Romanians could be thanked for having adjusted their exchange system to eliminate the broken cross rates. It could be emphasized that it is necessary to inform the Fund when changes in the exchange system are made, as was the case in March 1978.

3. IFS page

The Romanians have said that they would like to discuss the content of a potential IFS page with the Bureau of Statistics and us. While they agree in principle that such a page is desirable, real progress seems unlikely until a greater variety of statistics is published within Romania. However, the continued interest of Executive Directors in an IFS page for Romania should be mentioned.

4. Supply of data

The need to continue and expand the quarterly flow of economic data might be stressed.

5. Exchange rate system

If the subject is raised, the Romanians could again be told that the staff is completely willing to cooperate in work designed to simplify the exchange systems and is in fact doing some research at present.

6. Romanians on the staff

If this subject is raised, we might continue to take the position that Romanian nationals put forward as prospective staff members will be judged on their individual qualifications.

7. Seventh Quota Review

The Minister is likely to raise the question of a special increase for Romania.

8. Rescheduling of purchases

Repurchase obligations totaling SDR 95 million, resulting from the 1975-76 stand-by and SDR 95 million under compensatory finance, will occur in the remainder of 1978 and in 1979, three years after they were made. If there is a request for rescheduling we could say that, unless there is an unexpected and large improvement in the balance of payments, we would support a request for rescheduling.

9. <u>Procedures for using lei</u>

Treasurer's have been trying to get Romania to establish procedures for the exchange of lei in Fund transactions. Under Article V, all members must agree on such procedures. Romania has not been forthcoming and Treasurer's would like to see what difficulties the Romanians have.

<u>September 1979</u>

MEMORANDUM FOR THE FILES

September 27, 1978

Subject: Romania--Discussion at Annual Meeting

Mr. Whittome and Mr. Tyler met with the Romanian delegation at 12.10 p.m. on September 27, 1978. The Romanian delegation consisted of Messrs. Niculescu-Mizil Rauța, Eremia, and Mada. Mr. Ruding was present.

Mr. Niculescu began by saying that Romania's aim was not merely a simplification of the exchange system but its perfection. On January 1, 1979, it was intended to terminate the official rate. One aim was to make the exchange rate more directly connected to foreign exchange transactions, which would make it easier to judge the efficiency of export production. It had also been decided to increase the official international reserves, which currently included only a small amount of foreign exchange. One reason for wishing to increase the reserves was the much larger proportion of trade now undertaken with nonsocialist countries. The approach to a uniform exchange rate would be gradual.

Mr. Whittome said that he could understand the special situation of Romania. He believed that it would be of great benefit to have more indicators emenating from the market since this would make policy decision making easier. An exchange simplification would have an impact on domestic prices and he believed that it would be wise to study the effects of any moves carefully and to proceed gradually. He said that the Fund had some experience in these matters and would be happy to put it at Romania's disposal.

Mr. Niculescu said that in addition to advice, Romania would like financial assistance during the change and noted that the Managing Director had said that this proposal would be studied. He said that Romania would do what was needed irrespective of Fund support but the latter would make the change easier. Mr. Whittome replied that the Fund could look at simplification as a basis for financial support. Anything that increased Romania's economic efficiency and was compatible with international standards was desirable. If there were a simplification of the exchange system and there were also a foreign exchange risk at that time, it would be reasonable to give support to help with the risk. This could be looked at when Romania reached the stage of implementation combined with some risk to the balance of payments. Mr. Tyler commented that the mere elimination of the official rate, while a welcome simplification, would probably not be judged significant in terms of Fund support. Effectively, any significant simplification would involve the equalization system and changes in domestic prices. Mr. Whittome emphasized that it was necessary to have policies that carried an exchange risk if Fund resources were to be available. Mr. Niculescu said that he recognized this and that he would examine the situation further on his return to Romania. Mr. Rauța added that Romania was considering more than just a termination of the official rate. What was being aimed at was a much narrower relation between domestic and foreign prices. Mr. Niculescu said that this was the objective but that the authorities did not want large shocks to the economy.

Mr. Whittome referred to the SDR decision, noting that it was a welcome change from the position that had obtained since Romania had joined the Fund. He said that on present calculations the first allocation would be equal to about 10 per cent of quota. He noted that when the next quota increase came into effect 25 per cent would be payable in SDRs.

Regarding the supply of information, Mr. Whittome was pleased to have the statement by Mr. Niculescu to the Managing Director regarding Romania's position. The staff also believed that it was helpful for Romania to publish more. He noted the continued difficulties the staff had when Romania provided less information that other countries. He offered to send Fund experts to Bucharest at any time convenient for Romania. Mr. Niculescu responded that Romania would accept experts at any time the Fund wished. His desire was to solve the problem as soon as possible.

Turning to the quota, Mr. Niculescu noted that the Managing Director had agreed to the commencement of discussions with Fund experts to find some way to proceed. He said that Romania was quite prepared to document its case but that the time had come to go beyond documentation to action and he hoped the Fund would provide a contact for the Romanian officials to talk to to decide what needs to be done. Mr. Whittome noted that the Managing Director had been referring to the 8th quota review, since the 7th review had been decided. The Managing Director had said that the Executive Directors would be examining a variety of methods since the present system can be criticized. Obviously any new system to be examined would favor some more than others. The staff and also Mr. Ruding would watch the implication of the discussions and try to ensure that any system is fair to everyone, including Romania.

The meeting ended at 12.50 p.m.

GT

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

For Romanian folder

ROMANIA

Departmental Brief--Romania

1. Use of Fund resources

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September 1979

248331 IMF UR

RCA SEP 12 1002

248331 IMF UR

248331 IMF UR

11703B EBANK R

12.09.1978 H 1605

CC: EED

RECEIVED
I.M.F.

1978 SEP 12 AM 11: 00

CABLE
ROOM

353195

ORIG: TRE
CC: MD
DMD
MR. RUDING
LEG
RES
EURO
ETR
SEC

TREASURER'S - INTERFUND

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF ROMANIA,
WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND
SDR 13 MILLION IN ACCORDANCE WITH TERMS OF ARTICLE V, SECTIONS
3 AND 4.

2. WE DO HEREBY REPRESENT THAT THIS PURCHASE IS
NEEDED IN ACCORDANCE WITH ARTICLE V, SECTION 3 (B (II).

3. PLEASE CREDIT ROMANIA'S SDR ACCOUNT WITH DSR
13 MIILION ON VALUE DATE OF PURCHASE.

4. THE EQUIVALENT OF DESIRED PURCHASE, NAMELY
ROMANIAN LEI 191, 270, 418. 12, WILL BE CREDITED TO FUND'S
NO.1 ACCOUNT WITH BANCA NATIONALA A REPUBLICII SOCIALISTE ROMANIA

The DMD

Office Memorandum

TO : The Managing Director
The Deputy Managing Director ✓

DATE: September 12, 1978

FROM : L. A. Whittome

SUBJECT : Romania

You will remember that Romania had breached a performance criterion in their stand-by arrangement by allowing badly broken cross rates to develop from March 1978, instituting the introduction of a new multiple currency practice. A staff mission was authorized to visit Bucharest earlier this month to discuss this and some smaller matters related to the stand-by arrangement. In his back-to-office report of September 6, 1978, Mr. Tyler told you that the authorities had said they did not expect to be able to have a decree signed that would eliminate the multiple rate practice prior to the termination of the stand-by arrangement on September 8, 1978. You agreed to the proposal to inform the Romanians that elimination of the practice was a necessary condition for the purchase of the final amount available under the stand-by arrangement, SDR 13 million.

The Romanians were informed of this and were able to have the decree signed on September 8, 1978 and to establish a set of consistent rates on the basis of the decree. We can therefore now authorize the purchase, which is presently being processed, and I consider that we should do so.

cc: EED
CED

Good! Strengthens us re Turkey.

cc: Mr. Tyler
Mr. Ware

The Managing Director
The Deputy Managing Director

September 12, 1978

L. A. Whittome

Romania

You will remember that Romania had breached a performance criterion in their stand-by arrangement by allowing badly broken cross rates to develop from March 1978, instituting the introduction of a new multiple currency practice. A staff mission was authorized to visit Bucharest earlier this month to discuss this and some smaller matters related to the stand-by arrangement. In his back-to-office report of September 6, 1978, Mr. Tyler told you that the authorities had said they did not expect to be able to have a decree signed that would eliminate the multiple rate practice prior to the termination of the stand-by arrangement on September 8, 1978. You agreed to the proposal to inform the Romanians that elimination of the practice was a necessary condition for the purchase of the final amount available under the stand-by arrangement, SDR 13 million.

The Romanians were informed of this and were able to have the decree signed on September 8, 1978 and to establish a set of consistent rates on the basis of the decree. We can therefore now authorize the purchase, which is presently being processed, and I consider that we should do so.

cc: Mr. Tyler
Mr. Ware

September 11, 1978

MEMORANDUM FOR FILES

Subject: Romania - Stand-by Arrangement

On Friday, September 8, 1978, Mr. Sturc, Mrs, Lachman, and myself met to discuss the request by Romania for the purchase of the SDR 13 million remaining under the stand-by arrangement which terminated on that day. We agree that if we had formal confirmation from Romania that the decree establishing a satisfactory rate structure had been passed and that this was reflected in a set of exchange rate quotationson the first subsequent working day, i.e., September 13, 1978, then the purchase could be approved. Treasurer's Department (Mr. De Gyor) said that it would be quite correct to treat the telex request of September 8, 1978 as "faulty" and to act on receipt of a correct form in a subsequent telex from Romania. Mrs. Lachman concurred that this procedure was legitimate.

The above position was cabled to the Deputy Minister of Finance, Mr. Bituleanu, in Bucharest. He replied to me today saying that the text of the decree had been despatched by airmail together with the newspaper containing the published set of new exchange rates. His telex also included these rates. Our calculations show that the broken cross rates have been removed. After describing the above situation to Mrs. Lachman, I authorized Treasurer's Department to prepare the appropriate cable for despatch to Bucharest.

Upon receipt of the text of the decree, we shall prepare supplements to the Article IV Consultation papers, including the staff proposal and the proposed decision to reflect the elimination of the discriminatory multiple currency practice.

Mr. De Vries has been informed by me of the above situation.

GT

Geoffrey Tyler

cc. Mr. Whittome
Mr. Rose
Mr.Wein

12 CC: EED

CHECK SERVICE

Telex ☐
Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

DISPATCHED 1978 SEP 11 PM 5:48

TIME RECEIVED

ADDRESS

MINISTERUL FINANTELOR
STR. DOAMNEI NR. 8
BUCHAREST, ROMANIA

Special Instructions

To be cleared with EUR Dept. BR

NO. 20

YOUR CABLE SEPTEMBER 8, 1978 REQUESTING PURCHASE.

WE ADVISE THAT PURCHASE BE MADE IN SDR 13 MILLION. CABLE REQUEST FOR PURCHASE, BEARING TEST NUMBER, SHOULD READ AS FOLLOWS:

QUOTE

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF ROMANIA, WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND SDR 13 MILLION IN ACCORDANCE WITH TERMS OF ARTICLE V, SECTIONS 3 AND 4.

2. WE DO HEREBY REPRESENT THAT THIS PURCHASE IS NEEDED IN ACCORDANCE WITH ARTICLE V, SECTION 3(B((II).

3. PLEASE CREDIT ROMANIA'S SDR ACCOUNT WITH SDR 13 MILLION ON VALUE DATE OF PURCHASE.

4. THE EQUIVALENT OF DESIRED PURCHASE, NAMELY ROMANIAN LEI 191,270,418.12, WILL BE CREDITED TO FUND'S NO. 1 ACCOUNT WITH BANCA NATIONALA A REPUBLICII SOCIALISTE ROMANIA, BUCHAREST, ON THE VALUE DATE TO BE /C

Distribution

CC: TRE
MD
DMD
MR. RUDING
LEG
RES
EURO
ETR
SEC

MESSAGE MUST END HERE

Drafted by: PGdeG:cs
Department: TRE
Date: September 11, 1978

Dhruba Gupta — NAME (TYPE) — SIGNATURE: Dhruba Gupta

NAME (TYPE) — SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 7 min. Log: 425988 Route: ITT Operator: PD

SEC-17/OCR
9-2-76

CHECK SERVICE

Telex ☐
Night Letter ☐
Full Rate ☐
Code ☐

12

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

DISPATCHED

TIME RECEIVED 1978 SEP 11 PM 5:48

ADDRESS

MINISTERUL FINANTELOR
ROMANIA

-2-

Special Instructions

BR

SPECIFIED BY YOU.

5. THIS REQUEST IS MADE IN ACCORDANCE WITH STAND-BY ARRANGEMENT EFFECTIVE SEPTEMBER 9, 1977, AS AMENDED.

6. REGARDING SERVICE CHARGE, PLEASE DEBIT ROMANIA'S SDR ACCOUNT WITH SDR 65,000 ON VALUE DATE OF PURCHASE.

UNQUOTE

Distribution

IF YOU WISH TO USE IMMEDIATELY PART OR ALL SDRS TO BE SOLD IN A TRANSACTION BY DESIGNATION, PLEASE ADD PARAGRAPH 7 AS FOLLOWS:

QUOTE

7. PLEASE ARRANGE TO CREDIT ACCOUNT OF ROMANIAN BANK FOR FOREIGN TRADE, BUCHAREST WITH MANUFACTURER'S HANOVER TRUST CO., NEW YORK, WITH U.S. DOLLAR EQUIVALENT OF SDR (INSERT AMOUNT). WE STATE THAT THIS INTENDED USE OF SDRS IS REQUESTED IN ACCORDANCE WITH ARTICLE XIX, SECTIONS 2(A) AND 3(A). ROMANIA WILL CONFIRM IMMEDIATELY BY CABLE ~~REEEIPT~~ RECEIPT OF THESE U.S. /C

MESSAGE MUST END HERE

Drafted by: PGdeG:cs
Department: TRE
Date: September 11, 1978

Dhruba Gupta — NAME (TYPE) — SIGNATURE: Dhruba Gupta

NAME (TYPE) — SIGNATURE

S

FOR CABLE ROOM USE ONLY

No. of words: Log: Route: Operator:

SEC-17/OCR
9-2-76

CHECK SERVICE

Telex ☐
Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

12

DISPATCHED IMF

TIME RECEIVED 1978 SEP 11 AM 5:48

ADDRESS

MINISTERUL FINANTELOR

ROMANIA

-3-

Special Instructions

BR

DOLLARS.

UNQUOTE

SINCE SDR

~~TEST NO.~~ HOLDINGS ARE PRESENTLY ZERO, ROMANIA SHOULD

RETAIN AT LEAST SDR 65,000

~~TREASURER'S~~ FOR PAYMENT OF SERVICE CHARGE.

TEST NO.

~~INTERFUND~~

TREASURER'S

INTERFUND

Distribution

MESSAGE MUST END HERE

Drafted by: PGdeG:cs
Department: TRE
Date: September 11, 1978

BJ

Dhruba Gupta
NAME (TYPE)

Dhruba Gupta
SIGNATURE

NAME (TYPE)

SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: Log: Route: Operator:

SEC-17/OCR
9-2-76

440040 FUND UI

440040 FUND UI

11235E EBANK R

11.9.1978 H1507

RECEIVED
I.M.F.
1978 SEP 11 AM 9:47
CABLE
ROOM

352975

ATTENTION MR.GEOFFREY XXTYLER, ASSISTANT DIRECTOR

CONCERNING THE COMMUNICATION WE SENT TO YOU ON SEPTEMBER 8,1978, WE FURTHER INFORM YOU:

(I) WE HAVE DISPATCHED BY AIR MAIL THE STATE COUNCIL DECREE NO.344 OF SEPTEMBER 8,1978 FOR THE AMENDMENT OF THE STATE COUNCIL DECREE NO.90 OF 1978, CONCERNING THE ESTABLISHMENT OF THE OFFICIAL EXCHANGE RATES IN LEI OF THE CURRENCIES OF NON SOCIALIST COUNTRIES AND YUGOSLAV DINAR AND THE CHANGE OF THE INTERNAL SETTLEMENT COEFFICIENT OF THE FOREIGN CURRENCIES USED IN CONNECTION WITH FOREIGN TRADE TRANSACTIONS PROVIDED FOR BY THE STATE COUNCIL DECREE NO.23 OF 1977, CONCERNING CERTAIN MEASURES FOR THE IMPROVEMENT OF THE FOREIGN TRADE ACTIVITY.

(II) ROMANIA LIBERA OF SELTEMBER 11, 1978 PUBLISHED THE ''LIST OF QUOTATIONS NO.2 FOR FOREIGN CURRENCIES ON BANK ACCOUNT IN OPERATION SINCE SEPTEMBER 11,1978'' A COPY OF THE ABOVE MENTIONED NEWSPAPER IS ALSO SENT TO YOU BY AIR MAIL.

(III) WE ARE CLASO TRANSMITTING THE TRANSLATION OF THE LIST OF QUOTATIONS:

QUOTE

NATIONAL BANK OF THE SOCIALIST REPUBLIC OF ROMANIA

LIST OF QUOTATIONS NO.2 FOR FOREIGN CURRENCIES ON

BANK ACCOUNT

IN FORCE SINCE SEPTEMBER 11,1978

QUOTED EXEHANGE RATES IN LEI

COUNTRY	MONETARY UNITS	OFFICIAL RATES	NONCOMMERCIAL TRANSACTIONS RATES
ALBANIA	100 LEKS	120,0	99,14
UNITED KINGDOM	1 STERLING POUND	8,67	23,28
AUSTRALIA	1 DOLLAR	5,14	13,80
AUSTRIA	100 SHILLINGS	30,96	83,12
BELGIUM	100 FRANCS	14,20	38,12
BULGARIA	100 LEVA	512,82	1,064,10
CANADA	1 DOLLAR	3,87	10,39
CZECHOSLOVAKIA	100 CORUNY	83,33	86,01
PEOPLE'S REPUBLIC OF CHINA	100 YUAN	300,00	643,41
PEOPLE'S DEMOCRATIC REPUBLIC OF KOREEA	100 WON	500,00	576,39
CUBA	100 PESOS	600,00	747,70
DENMARK	100 KRONER	81,08	217,67
EGYPT	1POUND	11,45	30,74
SZITZERLAND	100 FRANCS	274,23	736,20
FINLAND	100 MARKKAA	108,98	~~22~~ 292.57

DENMARK			
EGYPT	1POUND	11,45	30,74
SZITZERLAND	100 FRANCS	274,23	736,20
FINLAND	100 MARKKAA	108,98	292,57
FRANCE	100 FRANCS	102,35	274,77
DEMOCRATIC REPUBLIC OF GERMANY	100 MARKS	270,00	259,38
FEDERAL REPUBLIC OF GERMANY	100 MARKS	223,81	600,84
GHANA	1CEDI	1,63	4,38
GREECE	100 DRACHMAS	12,09	32,46
INDIA	100 RUPEES	55,05	147,79
ISRAEL	100 POUNDS	24,46	65,67
ITALY	100 LIRE	0,54	1,45
YUGOSLAVIA	100 DINARS	23.78	63.84

JAPAN	100 YEN	2,33	6,26
LUXEMBOURG	100 FRANCS	14,20	38,12
MONGOLIA	100 TUGRIK	150,00	198,56
NORWAY	100 KRONER	83,45	~~2XXXXX~~ 224,03
NETHERLANDS	100 GUILDERS	206,37	554,02
PAKISTAN	100 RUPEES	45,22	121,40
POLAND	100 ZLOTYCH	150,00	46,19
PORTUGAL	100 ESCUDOS	9,80	26,31
SPAIN	100 PESETAS	6,04	16,21
UNITED STATES	1 DOLLAR	4,47	12,00
SWEDEN	100 KRONOR	~~XXXXXX~~ 100,36	269,43
TURKEY	100 LIRAS	17,88	48,00
HUNGARY	100 FORINT	51,15	58,82
U.S.S.R.	1 ~~RO~~ RUBLE	6,67	8,30
VIET-NAM	100 DONGS	204,00	432,29

NOTE: 1. ON PURCHASING BANKNOTES THE SAME RATES AS FOR FOREIGN CURRENCIES ON BANK ACCOUNT ARE APPLIED EXCEPTFOR THE BANKNOTES OF THE FOLLOWING CURRENCIES FOR WHICH A DISAGIO OF 5 PER CENT IS APPLIED : AUSTRALIAN DOLLAR , BELGIAN FRANC, GREEK DRACHMA, ISRAEL POUND , ITALIAN LIRA, YUGOSLAV DINAR, JAPANESE YEN , LUXEMBOURG FRANC, PORTUGUESE ESCUDO , SPANISH PESETA AND TURKISH LIRA .

BANKNOTES OF THE FOLLOWING FOREIGN CURRENCIES ARE NOT ~~RO~~ PURCHASED : EGYPTIAN LIRA, CHANIAN CEDI, INDIAN RUPEE AND PAKISTAN RUPEE

2. ACCORDING TO THE LAW, THE IMPORT IN THE SOCIALIST REPUBLIC OF ROMANIA AND THE EXPORT FROM THE SOCIALIST REPUBLIC OF ROMANIA OF LEI ARE FORBIDDEN , EXCEPT FOR THE CASES PROVIDED BY SPECIAL LAWS . UNQUOTE

BEST REGARDS,

IULIAN BITULEANU

9-406

440040 FUND UI

11235A EBANK R

8.9.1978 H1332

RECEIVED
I.M.F.

1978 SEP -8 AM 9: 24

CABLE
ROOM

352677

THIS IS ROMANIAN BANK FOR FOREIGN TRADE AT THE REQUEST OF OUR MINISTRY OF FINANCE WE SEND YOU THE FOLLOWING MESSAGE:

QUOTE :

ATTENTION MR T Y L E R

ASSISTANT DIRECTOR

EUROPEAN DEPARTMENT

ACCORDING TO OUR UNDERSTANDING AT YOUR DEPARTURE FROM BUCHAREST, I INFORM YOU THAT THE PROBLEM WE DISCUSSED IS SOLVED FAVORABLY CONCRETE MEASURES SHALL BE TAKEN IN THE FOLLOWING DAYS FOR IMPLEMENTATION.

CONSEQUENTLY, SINCE ALL PROBLEMS CONSIDERED WITH YOU ARE O.K., I INFORM YOU THAT WE ASKED ~~XXX~~ TREASURER'S DEPARTMENT TODAY FOR PURCHASE OF THE LAST TRANCHE OF SDR 13 MILLION WITHIN STAND-BY ARRANGEMENT

BEST REGARDS,

I. BITULEANU

DEPUTY MINISTER OF FINANCE

BUCHAREST , ROMANIA

UNQUOTE

11235A EBANK R

440040 FUND UI

September 8, 1978

MEMORANDUM FOR FILES

Subject: Romania--Stand-By Arrangement

I spoke this afternoon to Mr. Besteliu. I told him that I was sending a telex to Mr. Bituleanu regarding the requested purchase under the stand-by arrangement. I explained that it was essential for us to know that the decree has been signed no later than today, and that we must have a new set of exchange rates on the Bucharest market on Monday. I said I thought it would be helpful for him to telephone Mr. Bituleanu to ensure that we received confirmation regarding the decree and the list of Monday's quotations.

GT

Geoffrey Tyler

cc: Mr. Rose
Mr. Wein

Office Memorandum

TO : Mr. Whittome

DATE: September 6, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Broken Cross Rates and Stand-by Arrangement

Following the visit to Bucharest, the position is that Romania has met all four quantitative performance criteria for end-June 1978. Moreover, we have agreed that the credit agreement with Turkey does not constitute a new bilateral payments agreement since it is not yet in effect and in any case does not contain any non-convertible clearing accounts. It is thus in this respect a different type of agreement than those between Turkey on one hand and Iran, Iraq and Libya.

The situation regarding the new discriminatory multiple currency practice arising from the nonadjustment of exchange rates since March 1978 has not changed since the consultation discussions. Moreover, we learned on this mission that the differential rates apply to all transactions in one way or another not merely noncommercial ones. Thus the break of the standard trade and payments performance criteria remains.

The reason why nothing was done to correct the position since the problem was explained in late June-early July during the consultation mission is almost certainly administrative. Perhaps the Romanians did not realize the fact that a purchase could not be made after September 8, 1978, the end of the stand-by year. In addition, the intervening period has been one of vacation for many of the senior officials directly concerned. Finally, the Ministries have probably been unwilling (or unable) to go to the President for his approval, which is necessary. Undoubtedly, his schedule, including the Chinese visit and preliminary preparations for the 1979 Plan, has left him little time for minor administrative matters.

The Deputy Minister, Mr. Bituleanu, stated that the Minister of Finance has categorically stated that the previous practice of adjusting exchange quotations as needed will be restored shortly. However, Mr. Bituleanu says that it is almost impossible to have the necessary decree signed by Friday, September 8, 1978.

Mr. Bituleanu spoke pleadingly for understanding and for some means by which the remaining purchase could be authorized. He explained the problems that a centrally planned economy like Romania faces in a world of floating rates and the delays inherent in the administration. He spoke of Romania's "sacrifices" in joining the Fund and its efforts to follow Fund principles. He said that currently Romania is in the process of coming to a decision to unify the commercial exchange rate. He also said that losing the SDR 13 million would probably reflect on the work of those in Romania who had most supported the Fund.

In reply I said that I had no brief whatsoever to lead him to hope that the Managing Director would change his mind. I pointed out the ample warning that had been given and the Fund's basic attitude applied to all members regarding discriminatory multiple currency practices. I said that I would, of course, convey his authorities' views and wishes to management but warned that in my view there was little hope that the management position would change.

These are the facts. Do you wish to discuss the subject before I write the back-to-office report to management?

TO: GRT

We talked. I would wish to ~~take~~ remain with the attitude of the Brief.

IAW 6/8

LAW. By now you will have seen the back to office report to management. It recommends strongly that we not consider any waiver.

GT 9/6

Office Memorandum

TO : Managing Director
Deputy Managing Director

DATE: September 6, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania - Standby Arrangement

A mission consisting of Mr. Wein (EUR) and myself was in Bucharest from September 3-5, 1978 to discuss adherence to performance criteria under the Standby Arrangement that terminates on September 8, 1978. SDR 13 million is still unpurchased.

There were three possible problems. The first related to the quantitative performance criteria for end-June 1978. The data were supplied to the mission and they showed that none of these criteria had been breached.

The second related to the possible introduction of a new bilateral payments agreement arising under a credit arrangement with Turkey. Credit arrangements between Turkey and Iran, Iraq and Libya suggested that the Romanian agreement might involve a bilateral payments agreement. In the mission's view, having seen the text of the proposed agreement, a bilateral payments arrangement does not arise; also the credit arrangement is not yet in force.

The third problem related to the introduction of a discriminatory multiple currency, since the non-commercial exchange rates quoted in Romania have not been changed since March 7, 1978 and broken cross rates of quite large dimensions have developed. Moreover, it emerged from the latest talks, that the same broken cross rates also occur in trade and trade related transactions, a fact that was not known previously. The authorities were warned during the Article IV Consultation discussions in early July 1978 that the broken rates precluded further purchases under the standby arrangement unless the exchange system was adjusted to assure consistently orderly cross rates. Following the return of the July mission, your reaction to the mission's report and discussions between EUR, ETR and LEG, the Romanians were reminded on several occasions of the need to adjust the exchange system.

No change has been made. I am convinced that the reason is administrative inefficiency, exacerbated by the absence of high officials during the vacation season and the difficulties of approaching President Ceaucescu at a time when he has been heavily occupied with the Chinese visit and the preparations for the draft 1979 Annual Plan. (The President must sign the authorizing decree.) We were told that the Minister of Finance (Mr. Niculescu-Mizil), who is also a Deputy Prime Minister, has categorically stated that the system will be adjusted shortly but that it is impossible to have the decree signed by September 8, 1978.

The Romanians asked the mission to search for a method that would permit the purchase of the SDR 13 million. We said that we had a clear brief that insisted on a return to the old, orderly rate system and we made it plain that we did not think you would change your position.

While I have some personal sympathy with the Romanians, there does not seem any sound basis for proposing a waiver. The multiple currency practice in question is not a small matter. It can be eliminated without any great economic or administrative difficulty (apart from that flowing from internal inefficiencies) and the Romanians have had ample warning of the problem and the deadline. I have discussed the matter with Mr. Whittome and we agree that a waiver should not be proposed. While there has yet not been time to discuss with ETR and LEG, they fully supported this attitude when the brief was prepared last week.

If you agree, we shall inform the Romanians that your position is unchanged.

cc. Mr. Gold
Mr. Sturc
Mr. Whittome
Mr. Ware

9-120
cc: EGD

440040 FUND UI

440040 FUND UI

11235B EBANK R

5.09.1978 H 1545

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I.M.F.

1978 SEP -5 AM 10:28

CABLE
ROOM

352104

FOR WHITTOME

RESOLUTION OF RATES NOT EXPECTED BY FRIDAY.

WEIN AND I RETURNING FROM PARIS, ARRIVING WASHINGTON

MIDDAY TOMORROW.

TYLER

BANK FOR FOREIGEN TRADE BUCHAREST ROUMANIE

440040 FUND UI

11235B EBANK R

Aldith:
Shouldn't we call
Mrs. Tyler & Mrs. Wein?

Yes, have already done so –
AB.

Aldith.
They have been warned of time of arrival?

September 5, 1978

MEMORANDUM FOR THE FILES

Subject: Romania

Mr. Tyler phoned me yesterday from Bucharest. He said that a further examination of the potential bilateral payments agreement with Turkey seemed to show that this was not a problem. All payments in both directions would be in convertible currencies. The agreement seemed, in effect, to represent a credit arrangement; moreover, the agreement had not yet been signed and was not yet operative. I told him that on this information I shared his opinion that at any rate as of now the agreement could hardly be regarded as an infringement to the drawing. On the question of the broken cross rates, he said that so far nothing had been done, though a draft decree had been prepared which will require the assent of the Council of Ministers and of the President. It was hoped that the decree would be completed by the end of this week, but this was uncertain. In the meantime, he and Mr. Wein would be examining the end-June credit figures which they had not yet seen, but they had been assured that these represented no trouble.

A later telex from Mr. Tyler suggests that the broken cross rates issue will not be solved in time, in which case the right to draw will be interrupted.

L. A. Whittome

cc: EED

September 5, 1978

MEMORANDUM FOR FILES

Subject: Romania

I spoke to Mr. Gold this morning about the possible bilateral payments arrangement between Romania and Turkey. He said that in principle a country should seek Board approval before any bilateral payments arrangements were concluded. He agreed, however, that in practice such a draft arrangement did not become effective from the point of Fund jurisdiction until such time as it was legally in force.

L. A. Whittome

cc: Mr. Woodward
Mr. Tyler

INTERNATIONAL MONETARY FUND

Romania--Stand-By

Minutes of Meeting No. 1
held at the Ministry of Finance at 10:00 a.m.
on Monday, September 4, 1978

PRESENT:

Romanian representatives	Fund representatives
Mr. Eremia, Ministry of Finance	Mr. G. Tyler
Mr. Ionescu-Lungu, Ministry of Finance	Mr. J. Wein
Mr. Tocitu, Ministry of Finance	
Mr. Stoenescu, Ministry of Finance	
Mr. Munteanu, Ministry of Finance	

After mutual greetings, Mr. Tyler gave to the Romanian representatives some copies of the recently circulated Staff Report and Recent Economic Developments for the 1978 Article IV consultation.

Performance criteria data

In answer to Mr. Tyler's question, Mr. Eremia said that all the quantitative performance criteria for end-June 1978 had been met, and that the relevant figures would be given the Fund team not later than the next day. Mr. Tyler emphasized it was necessary to have these data in written form.

Credit agreement with Turkey

Mr. Eremia emphasized that this agreement had only been signed, not ratified, and therefore at present was not in force. The agreement provided for payment in convertible currencies and did not imply special clearing accounts. No new system of settlement was involved. The agreement was for three years. Mr. Eremia agreed to give the text of the agreement to the Fund representatives later in the day, so that the staff team could inspect it in case it was necessary to seek advice from the Fund Legal Department. There was no chance, Mr. Eremia confirmed, that the agreement would be ratified this week. Mr. Tyler noted that if the credit agreement constituted a bilateral payments agreement according to the Fund's interpretation of its content, it might well be necessary to produce a paper for discussion in the Executive Board no later than Friday, so that the credit agreement would not be an obstacle to the final purchase under the stand-by arrangement.

Broken cross rates

Mr. Eremia said that exchange rates had not been changed since March 6, 1978, and that this applied to commercial rates as well as non-commercial rates. It has been proposed to the leadership in a draft decree that authority to maintain consistent cross rates be restored to the National Bank, and it was hoped that this draft decree would be acted on very shortly. At present, approval of the State Council is needed to make exchange rate changes and each change has to be approved separately. In the period from March 6 up to three weeks ago 55 such changes would have been necessary to maintain consistent cross rates, and each would have required a separate decree. Moreover, it was difficult to present draft decrees under the present system with correct rates, since the world market rates changed more or less continuously. The present system was adopted because enterprises and FTOs experienced problems because of currency rates fluctuations; nevertheless, at the Bank and Ministry it was generally recognized that the present system was administratively cumbersome, and could lead to losses. However, these were minimized because of the state's monopoly of foreign trade. At the Bank and Ministry of Finance there was the strong opinion that authority to maintain consistent cross rates should be returned to the National Bank.

Mr. Tyler said that broken cross rates for commercial transactions constituted a much more serious problem than for noncommercial ones, and that a supplement of the staff report would have to be prepared advising the Board of the situation. For purposes of the stand-by purchase, the staff team would need to see and verify a new list of exchange quotations for consistent cross rates; in addition, a statement would be necessary from the Romanian authorities to the effect that the new decree was in effect and that cross rates were being adjusted to within the allowed 2 per cent margin. However, even if this were not possible before the stand-by arrangement expired, it would be very desirable to rectify the problem of broken cross rates before the Romanian consultation papers (and the supplement shich would be issued) were discussed in the Board. A very unfavorable impression would be made if Romania was still maintaining broken cross rates for commercial as well as noncommercial transactions at the time of the Board discussion.

Mr. Eremia acknowledged the points which Mr. Tyler had made and said that he would consult as soon as possible with Minister Niculescu-Mizil about the possibilities for approving the new decree. He would advise Mr. Tyler further not later than the next morning.

CMEA noncommercial rates

Mr. Tyler noted that Scienteia of August 12 had referred to negotiations about changed noncommercial payments between CMEA members. Mr. Eremia explained that the coefficient for converting balances from noncommercial transactions expressed in domestic currencies of the respective CMEA members into transferable rubles had been changed. For example, for the ruble the coefficient since May was changed from rubles 2.3 = transferable ruble 1 to ruble 1.9 = transferable ruble 1.

These new coefficients were currently in force, and were being reflected in IBEC clearing accounts, which were expressed in transferable rubles. The changes, although implemented in May, were retroactive from January 1, 1978. The reason for the change was the different rates of inflation for goods and services in noncommercial transactions. For Romania, where the rate of inflation for such goods and services had been very low, the effect of the changed coefficient might be offset by appreciation of the noncommercial rate of the leu against currencies of countries with relatively higher inflation rates, primarily Poland and Hungary. The noncommercial rates with these countries had been adjusted in 1976 and negotiations were taking place regarding further possible adjustments.

Mr. Tyler stressed that while such adjustments vis-à-vis nonmembers caused no problems, it was important that the Fund be informed when they took place. Mr. Eremia said that he would try and see that the Fund was so informed.

It was agreed to meet again in the afternoon to discuss the text of the credit accord with Turkey, and to receive any further word about the possibility of eliminating the broken cross rates.

The meeting ended at 12:00.

INTERNATIONAL MONETARY FUND

Romania--Stand-By

Minutes of Meeting No. 2
held at the Ministry of Finance at 3:00 p.m.
on Monday, September 4, 1978

PRESENT:

Romanian representatives

Mr. Eremia, Ministry of Finance
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Tocitu, Ministry of Finance
Mr. Pucarciuc, Romanian Bank for Foreign Trade
Mr. Munteanu, Ministry of Finance

Fund representatives

Mr. G. Tyler
Mr. J. Wein

The meeting was conceived with an examination of the Romanian text of the credit agreement between Romania and Turkey. (The English text is the official one, but was not available.) Mr. Pucarciuc answered questions about the text, which has been signed by both parties but not yet ratified.

A summary of the relevant provisions in the credit agreement are given in Mr. Tyler's memorandum for files of September 4, attached.

The meeting adjourned at 3:45 p.m.

INTERNATIONAL MONETARY FUND

Romania--Stand-By

Minutes of Meeting No. 3
held at the Ministry of Finance at 10:00 a.m.
on Tuesday, September 5, 1978

PRESENT:

Romanian representatives

Mr. Eremia, Ministry of Finance
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Tocitu, Ministry of Finance
Mr. Stoenescu, Ministry of Finance
Mr. Munteanu, Ministry of Finance

Fund representatives

Mr. G. Tyler
Mr. J. Wein

Performance criteria

Mr. Tocitu turned over the June results for the quantitative performance criteria. All were met by narrow margins as had also been the case in March, and Mr. Tyler noted that this might result in comment in Washington, especially for the convertible trade result which was less under the day-to-day control of the authorities than the other variables used as performance criteria. However, Mr. Tocitu said that the narrow margin by which the results satisfied the performance targets was a coincidence, and was the net result of two large export and import figures.

Gold

Mr. Tocitu confirmed that Romania's gold holdings as recorded in international reserves did not include gold held by the Fund as part of Romania's subscription.

Reserves

Mr. Tyler explained that he had consulted with Mr. Bouter, Chief of the Balance of Payments Division at the Fund regarding the Romanian practice of excluding certain earmarked sums from international reserves. In fact, these should not be excluded. The method of recording reserves also had some implication for repurchase obligations, since calculation of the latter was based on gross convertible reserves. However, there was no immediate problem since Romanian reserves were less than 150 per cent of quota.

IBEC transactions

It had also emerged from the meeting with Mr. Bouter that IBEC transactions ought, in his opinion, to be recorded in the same place in the balance of payments as bilateral payments transaction; this was because the two kinds of transactions were essentially very similar. Mr. Tocitu argued that IBEC transactions were closer to short-term trade credits and so ought to be recorded above the line in the capital account. Mr. Tyler said that, indeed, there were arguments on both sides, but that it was felt that the automatic nature of the IBEC credits resulted in their being more akin to bilateral payments agreements on balance.

Broken cross rates

Mr. Tyler explained the various options before the Romanian authorities, but warned that management would very probably reject any suggestion that Romania be permitted to make its final purchase under the stand-by arrangement until consistent cross rates are obtained. A meeting to discuss this further with Mr. Bituleanu was arranged.

Unification of exchange rates

Mr. Eremia said that the possibility of moving to a unified exchange rate for commercial transactions was under active consideration, but that the intent was to introduce this as part of a package of measures, so as not to make a disruptive transition to the unified exchange rate.

Mr. Tyler noted the difficulties involved. Such a unification would be something of which the Fund would approve, and the Fund staff would be happy to discuss the ways in which elimination of the equalization system might best be accomplished. For other countries, the Fund in the past had sometimes provided financial resources as well as technical advice in aid of such a program.

The meeting adjourned at 11:45 a.m., for Mr. Tyler's meeting with Mr. Bituleanu.

ꟻR

CONFIDENTIAL

Bucharest, September 4, 1978

MEMORANDUM FOR FILES

Subject: Romania--Credit Agreement With Turkey

Today Mr. Wein and I were shown the draft credit agreement with Turkey. It had the following relevant features:

(a) Although signed by Ministers of the two countries, it does not come into effect until final ratification by both countries. No transactions have therefore taken place under it.

(b) The only bank account under the agreement is an account in the name of the National Bank of Turkey at the Romanian Bank for Foreign Trade. The proceeds of sales of Turkish exports are to be paid into this current account in freely convertible U.S. dollars, and can be freely used by Turkey for payments in Romania or in other countries.

(c) Payments by Turkey for imports from Romania under the agreement (an Annex contains a list of the goods covered and the maximum amount of each category) are to be made 15 per cent in freely convertible currency and 85 per cent is covered by a Romanian credit. Imports not covered by the agreement are paid for in the usual way 100 per cent in freely convertible currency.

I telephoned the above to Mr. Whittome. We agreed that this information, especially the fact that the agreement does not come into operation until both Governments have ratified, which is not yet the case, enables us to judge that the agreement has not established a bilateral payments agreement.

The above judgment has been conveyed to Mr. Eremia, of the Ministry of Finance.

GT

Geoffrey Tyler

cc: Mr. Whittome
Mr. Woodward
Mr. Wein

Mr. Whittome

Orig: TRE
cc: MD
DMD
EUR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

ALTERNATE
EXECUTIVE DIRECTOR
Dr. T. de Vries

September 1, 1978

Dear Mr. Managing Director:

Your Aide Mémoire of August 4, 1978 on the Seventh Review of Quotas has led to a request by Mr. Paul Niculescu-Mizil, Vice Prime Minister, Minister of Finance, and Governor of the International Monetary Fund for Romania, to draw your attention to the following.

You know that on the occasion of the Sixth General Review of Quotas, Romania asked that its share in total Fund quotas be maintained at 0.65 percent, and showed at that time that it was dissatisfied with the decision taken that reduced its share to 0.63 percent. The standpoint in this respect has been represented to the Fund Management and to the Executive Directors. It was pointed out that Romania, as a developing socialist country is making strenuous efforts to ensure a rapid economic and social progress aiming at reducing the gap which still separates it from the developed countries and to this end it allocates annually for development about 34 percent of its national income, and material and financial funds are particularly directed towards material production, increase in labor productivity, economic modernization.

Consequently, the Governor of the Fund for Romania has asked our office to inform you officially that Romania is keeping its point of view with respect to re-establishment of its share of 0.65 percent in total Fund quotas, on the occasion of the Seventh General Review of Quotas.

Sincerely yours,

T. de Vries

The Managing Director
Mr. J. de Larosiere
International Monetary
Fund
Washington, D.C. 20431

INTERNATIONAL MONETARY FUND

9/1/78

Note for Mr. Whittome

BR spoke to Tyler in New York on Friday evening, told him that the Romanian brief had been approved without comment and also that we had ascertained from the Legal Department that a Friday Board meeting would be possible as long as the request for a purchase was received no later than Friday.

BR

The Managing Director

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: September 1, 1978

FROM : Brian Rose , Acting Director BR

SUBJECT : Brief for Staff Visit to Romania

I am attaching a short brief for the staff mission which is leaving Washington early this afternoon to visit Romania. I have made arrangements with Mr. Tyler that should you have any comments or questions on this brief, he will be in touch with me either later this afternoon from New York or once he gets to Bucharest.

Attachment

cc: Mr. Ware

DMD's copy to EED

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: September 1, 1978

FROM : Brian Rose, Acting Director BR

SUBJECT : Romania - Stand-By Arrangement

Mr. Tyler and Mr. Wein are to visit Bucharest on September 3-4, 1978 to discuss performance under the current stand-by arrangement, which terminates on September 8, 1978. Romania is currently not able to make the purchase under its stand-by arrangement of the amount that became available on August 1 because it had introduced a discriminatory multiple currency practice (broken cross-rates).

Since March 1978, the exchange quotations for non-commercial transactions have not been changed and the cross rates for quoted currencies of Fund members have become far out of line. Romania has thus introduced a new discriminatory multiple currency practice. The staff can see no reason, other than some administrative inconvenience, why the system of establishing quotations could not be changed so as to eliminate the broken cross rates. In the discussions the mission will say that the broken rates must, as a condition of a purchase, be eliminated and arrangements for quoting rates changed so that the problem will not return.

It is possible that a credit arrangement with Turkey has been signed, and that the form of the agreement leads to a bilateral payments arrangement, which would be a breach of another performance criterion. The staff considers that we should be willing to agree to a waiver of the relevant provision in the stand-by arrangement if this is necessary to permit a purchase (~~or~~ we are proposing a similar waiver in the case of Turkey).

We do not know yet whether the final quantitative performance criteria (on the convertible trade balance, convertible short-term foreign debt, convertible international reserves, and short-term credit of the banking system) have been adhered to. The relevant data are those relating to end-June. If any of these have been breached to a minor extent, the mission is authorized to say that it will propose to the management that the necessary waiver be granted.

If the multiple currency practice has been removed, the bilateral payments agreement does not exist, and the end-June performance criteria have been adhered to, there is no problem. If there is a bilateral payments agreement with Turkey or a slight breach of the quantitative performance criteria, a Board decision to modify the stand-by arrangement would be needed. This would necessitate circulating a very brief paper on Tuesday next with a Board discussion on the following day.

The above approach has been agreed with ETR (Mr. Sturc) and LEG (Mr. Nicoletopoulos).

The Deputy Managing Director

EED

The Managing Director
The Deputy Managing Director ✓

September 1, 1978

Brian Rose , Acting Director

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cc: Mr. Ware

The Managing Director
The Deputy Managing Director

September 1, 1978

Brian Rose, Acting Director

Romania - Stand-By Arrangement

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The above approach has been agreed with ETR (Mr. Sturc) and LEG (Mr. Nicoletopoulos).

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: September 1, 1978

FROM : Brian Rose BR

SUBJECT : Romania

yes
JL
9/1/78

The current Romanian stand-by arrangement terminates on September 8, 1978. At present SDR 13 million remain to be purchased, but there are problems regarding the performance criteria since Romania has introduced a discriminatory multiple currency practice because the nonadjustment of the non-commercial exchange rates since March 1978 has led to badly broken cross rates.

In an effort to solve the problem, the Romanians have asked for a staff visit. We would propose that you approve a visit by Mr. Tyler and Mr. Wein of the European Department to Bucharest. They would need to leave tomorrow and return early next week. If you agree, we shall forward a short briefing paper for your consideration later today.

cc: Mr. Tyler
Mr. Ware

The Deputy Managing Director

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: September 1, 1978

FROM : Brian Rose BR

SUBJECT : Romania

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OK

cc: Mr. Tyler
Mr. Ware

Mr. Ruding

Brian Rose

Romania

September 1, 1978

As you know, Romania has a problem with the current stand-by arrangement in that one of the performance criteria has been breached, because the breaks in the cross rates for non-commercial transactions have become very large, the reason being that no changes have been made in quotations since March 1978. This results in the introduction of a discriminatory multiple currency practice.

In a last effort to solve the problem, the Romanians have asked that the staff visit Bucharest immediately. Would you have an objection to such a visit?

cc: Mr. Tyler

September 1, 1978

MEMORANDUM FOR FILES

Subject: Romania

I explained to Mr. de Vries the reason for the mission to Romania, in particular the problem of the multiple rates and the fact that management was not willing to ask for a waiver for this breach of a performance criterion. Mr. de Vries had no problem with this approach. I told him that it was possible that the Board might have to consider a waiver in unspecified other circumstances.

Geoffrey Tyler

cc: Mr. Rose

Mr. Hauvonen

August 21, 1978

L. A. Whittome

Romania

Please note that with Romania we are not permitting the final drawing under the current stand-by until broken cross rates, which have recently emerged, are corrected. Because the stand-by expires in early September and because no early decision is expected from Bucharest this in effect means that the Romanians will not be able to draw the small final tranche. You may like to be aware of this when in Ankara. If you need more information please contact Mr. Tyler

cc: Mr. Tyler

Office Memorandum

TO : Mr. Whittome

DATE: August 17, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Stand-By Arrangement

I attach copies of the cable I sent to Romania and the reply we received today. The way Mr. Wein and I read the reply, the broken cross rates still exist. In addition, the description of the Turkish agreement does not allow us to know whether bilateral payments agreement exist or not.

It may be that the Romanians have decided that the purchase of the remaining SDR 13 million is not worthwhile in the circumstances. It is also possible that they have not yet fully understood the implications for the purchase of the present state of affairs. I propose that I cable them along the lines of the attached draft. The final sentence, in square brackets, is tentatively included because my guess is that the only way to finalize negotiations in time--assuming they want and are willing to qualify for the purchase--is to talk to them across a table. This may particularly be the case for the Turkish element. On the one hand, I am strongly tempted to let them stew in their own juice; on the other hand, every attempt to appear to be helpful on this stand-by arrangement, makes our case stronger when we approached for the next one.

Could we please discuss urgently?

Attachments

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OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

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Special Instructions

ADDRESS

Mr. Eremia

Ministry of Finance

Bucharest, Romania

May we remind you that any further purchase under the stand-by arrangement must be made before September 9, 1978. Several factors are important. (i) We shall need data on end-June 1978 quantitative performance criteria; (ii) Regarding position on exchange rates discussed in July meetings, we would need a statement saying that position rectified and describing new arrangements, together with current list of exchange quotations; (iii) We understand that a credit agreement was recently signed with Turkey that may provide for channeling payments through clearing accounts. This could involve a bilateral payments agreement. If it does then any further purchase would require request from Romania for modification of stand-by arrangement and Board approval. Timetable is important. If modification is required then we must be in position to prepare necessary paper by August 25. First step will be to determine if there is a bilateral payments agreement. /C

Distribution

MESSAGE MUST END HERE

Drafted by: Euro
Department:
Date:

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CHECK SERVICE
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- Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Special Instructions

It is essential that we have full details of all financial arrangements and would therefore be grateful if you could immediately send text of agreement (Romanian satisfactory) by telex. We can then inform you if a bilateral payments agreement exists and next action needed by you.

On related matter would be grateful to know when end-June data for staff report requested by mission during visit will be available. Also can you tell me if breakdown of balance sheet for Romanian Bank for Foreign Trade can be provided.

Best regards,

Tyler

INTERFUND

Distribution

MESSAGE MUST END HERE

Drafted by: AGTyler/af

Department: European

Date: August 7, 1978

Geoffrey Tyler NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

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MR. GEOFFREY TYLER ASSISTANT DIRECTOR
EUROPEAN DEPARTMENT

FURTHER TO YOUR CABLE OF AUGUST 7, 1978, WE INFORM YOU AS FOLLOWS :

(I) DATA ON JUNE 30, REGARDING PERFORMANCE CRITERIA AS WELL AS THOSE FOR CONFIDENTIAL USE OF EXECUTIVE DIRECTORS WILL BE SENT TO YOU IN ABOUT TWO - THREE WEEKS ,

(II) AS TO EXCHANGE RATES, WE ARE ACTING ACCORDING TO THOSE YOU HAVE LEARNED ABOUT ON THE OCCASION OF DISCUSSIONS WE HAD AT MR. VICE PHIME MINISTER, MINISTER OF FINACE, PAUL NICULESCU-MIZIL ON THE END OF CONSULTATION.

(III) SINCE 1973, PAYMENTS FOR GOODS TRADED BETWEEN ROMANIA AND TURKEY ARE MADE IN CONVERTIBLE CURRENCIES. THE INTERGOVERNMENTAL AGREEMENT OF 1970, THAT PROVIDED CLEARING PAYMENTS, WAS AMENDED BY THE PROTOCOL, OF MARCH 14, 1973, ON LIQUIDATION OF ROMANIAN-TURKISH CLEARING AND PASSING TO SETTLEMENT IN CONVERTIBLE CURRENCIES. THIS AGREEMENT WILL BE IN FORCE UNTIL 1979.

FOR FURTHER DEVELOPMENT OF ROMANIAN-TURKISH COMMERCIAL EXCHANGES, AS WELL AS FOR PROMOTING ROMANIAN EXPORT, A CREDIT AGREEMENT HAY RECENTLY BEEN CONCLUDED, UNDER THE AGREEMENT IN FORCE, AIMING AT AGREEMENT MAY BE PUT AT YOUR DISPOSAL AFTER ITS RATIFICATION BY THE TWO PARTIES. WE WIHS TO STRESS THAT THE UNDERSTANDINGS WE CONCLUDED WITH TURKEY DO NOT

TURKEY ARE MADE IN CONVERTIBLE CURRENCIES. THE INTERGOVERNMENTAL AGREEMENT OF 1970, THAT PROVIDED CLEARING PAYMENTS, WAS AMENDED BY THE PROTOCOL, OF MARCH 14, 1973, ON LIQUIDATION OF ROMANIAN-TURKISH CLEARING AND PASSING TO SETTLEMENT IN CONVERTIBLE CURRENCIES. THIS AGREEMENT WILL BE IN FORCE UNTIL 1979.

FOR FURTHER DEVELOPMENT OF ROMANIAN-TURKISH COMMERCIAL EXCHANGES, AS WELL AS FOR PROMOTING ROMANIAN EXPORT, A CREDIT AGREEMENT HAY RECENTLY BEEN CONCLUDED, UNDER THE AGREEMENT IN FORCE, AIMING AT AGREEMENT MAY BE PUT AT YOUR DISPOSAL AFTER ITS RATIFICATION BY THE TWO PARTIES. WE WIHS TO STRESS THAT THE UNDERSTANDINGS WE CONCLUDED WITH TURKEY DO NOT HAVE IN VIEW SUBSTITUTION OF AGREEMENT IN FORCE, IN CONVERTIBLE CURRENCIES.

(IV) REGARDING BREAKDOWN OF BALANCE SHEET FOR ROMANIAN BANK FOR FOREIGN TRADE, WE ARE STILL DISCUSSING WITH THE BANK. WE WILL INFORM YOU LATER ON THE OUTCOME.-

BEST REGARDS,

IONESCU LUNGU

DEPUTY DIRECTOR

MINISTRY OF FINANCE

CHECK SERVICE

- Telex ☒
- Night Letter ☐
- Full Rate ☐
- Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Mr. Eremia
Ministry of Finance
Bucharest, Romania

Special Instructions

May we remind you that any further purchase under the stand-by arrangement must be made before September 9, 1978. Several factors are important. (i) We shall need data on end-June 1978 quantitative performance criteria; (ii) Regarding position on exchange rates discussed in July meetings, we would need a statement saying that position rectified and describing new arrangements, together with current list of exchange quotations; (iii) We understand that a credit agreement was recently signed with Turkey that may provide for channeling payments through clearing accounts. This could involve a bilateral payments agreement. If it does then any further purchase would require request from Romania for modification of stand-by arrangement and Board approval. Timetable is important. If modification is required then we must be in position to prepare necessary paper by August 25. First step will be to determine if there is a bilateral payments agreement. /C

Distribution

MESSAGE MUST END HERE

Drafted by:
Department:
Date:

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NAME (TYPE) SIGNATURE

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No. of words: Log: Route: Operator:

SEC-17/OCR
9-2-76

CHECK SERVICE

Telex ☐
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Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

- 2 -

Special Instructions

It is essential that we have full details of all financial arrangements and would therefore be grateful if you could immediately send text of agreement (Romanian satisfactory) by telex. We can then inform you if a bilateral payments agreement exists and next action needed by you.

On related matter would be grateful to know when end-June data for staff report requested by mission during visit will be available. Also can you tell me if breakdown of balance sheet for Romanian Bank for Foreign Trade can be provided.

Best regards,

Tyler

INTERFUND

Distribution

MESSAGE MUST END HERE

Drafted by: AGTyler/af
Department: European
Date: August 7, 1978

Geoffrey Tyler
NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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No. of words: Log: Route: Operator:

SEC-17/OCR
9-2-76

Office Memorandum

original returned to GT 7/26

GT — I have no difficulty with your suggested line though I think we must speak severely against the bilateral with Turkey even as we are approving it.

IMW 26/7

TO : Mr. Whittome

FROM : Geoffrey Tyler

DATE: July 25, 1978

SUBJECT : Romania--New Exchange Restrictions and the Current Stand-By Arrangement

While we were in Romania, we found that the arrangements for establishing noncommercial exchange rates had changed slightly. Since March 6, 1978, none of the quoted rates have been changed. Inevitably this has led to broken cross rates in excess of the maximum permitted 2 per cent, and there are, therefore, multiple exchange rates at times. Under the stand-by arrangement, the introduction of a new multiple currency practice is a breach of the relevant performance criterion. The mission took the position in Romania that we could see no reason why the authorities could not return to the system existing prior to March 6, 1978 and said that we would doubt management would support a request to the Executive Board for approval of the new multiple rates.

The returning Turkish mission has told us that the Romanians appear to have signed an agreement with the Turkish authorities providing for the repayment of existing arrears and the use of some additional credits that Romania will be providing. Similar arrangements seem to have been made with three other Fund members, Iran, Iraq, and one other, whose name I do not know yet. The form of the arrangement in the case of the latter three countries involves what the Fund would classify as a bilateral payments arrangement. Assuming that the Romanian agreement is similar (we will not have the text of the agreement for several weeks), Romania would again have breached the relevant performance criterion under the stand-by arrangement.

Regarding the bilateral payments arrangement, I would argue that, since it is now signed and since we could argue that Romania is merely trying to help a Fund member in particular difficulties and, in any case, probably did not realize that a bilateral payments arrrangement resulted, we should be willing to approve the arrangement in an appropriate way and not prejudice the right of Romania to purchase the remaining SDR 13 million. With respect to the multiple currency practice, however, I do not believe that can be so kind. It is not only a multiple currency practice but it seems clearly discriminatory as well. It is surely against Romania's interest to a small extent since those purchasing lei at the noncommercial rate are in a position to choose the foreign currencies which give the seller the best result and Romania a loss. Since it was possible to operate in a way that avoided broken cross rates previously, I see no reason for the Romanian authorities not to revert to that practice and our understanding is that it is administrative inertia and perhaps the difficulty of getting to the President that have caused the broken rates to emerge. In these circumstances, I would suggest that we tell the Romanians that they must get rid of the broken cross rates.

Since we will need to discuss this with other departments, it would help me to have a preliminary reaction from you at this stage. Moreover, we shall need to get in touch in some way with the Romanians regarding the apparent new bilateral payments arrangement and I would like to have an idea of your views before I do anything in this direction.

cc: Mr. Mountford
Mr. Wein

11239 IGFSMF RB

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NR.728/20.07.1978

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1978 JUL 20 AM 9: 16

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cc: EED

9-1208

I M F UR 248331 WASHINGTON DC

TREASURER'S DEPARTMENT

Orig: TRE
cc: Mr. Ruding
EUR

FOLLOWING OUR DISCUSSION WITH MR.TYLER FROM THE EUROPEAM DEAPRTMENT AND HAVING IN VIEW THE PROVISION IN ARTICLE V, SECTION 8, (E) OF THE ARTICLES OF AGREEMENT.

AS THE BALANCE OF OUR SPECIAL DRAWING ACCOUNT IS TOO SMALL TO COVER THE EQUIVALENT OF THE CHARGES DUE FOR THE PERIOD MAY -JULY 1978, PLEASE LET US KNOW :

(I) IF WE CAN MAKE THE PAYMENT IN ROMANIAN LEI OR IN THE CURRENCIES OF OTHER MEMBERS ,

(II) WHAT IS THE PROCEDURE IN THE RESPECTIVE CASES ,

(III) WHAT IS THE ~~WHEXXTHEX~~ DATE WHEN THE PAYMENT IS TO BE DONE.

MINISTRY OF FINANCE

EREMIA-DIRECTOR

AB

248331 IMF URX

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11239 IGFSMF R

Mr. Whittome

Office Memorandum

CONFIDENTIAL

TO : Mr. Dannemann

DATE: July 17, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--IFS and the Supply of Data

During the course of the Article IV consultation discussions, I raised the subject of an IFS page for Romania. Generally speaking, the authorities' attitude was rather more positive than on earlier occasions and they appear genuinely to want to have one published.

Having said that, I do not think we even expect to find an immediate or indeed even an early solution. They still seem to want to have us publish only what is published in Romania. While I was told that domestic publication of economic data is to be expanded, I am not at all sure that such expansion will include quickly the data you would need (reserves statistics, banking data, and balance of payments). Since additional publication in the Romanian year book was mentioned it may be that only additional annual data will be involved. Moreover, the authorities spoke in terms of tailoring the presentation to suit Romania's special type of economy. For my part, I warned the authorities that you would find it difficult to have a Romanian page with large gaps that would arise not because of the unavailability of data but for secrecy considerations. Naturally, I explained the Fund's desire to find a solution to the IFS question both in our own and Romania's interest.

Specifically, I was asked if it would be possible to arrange a session at the Annual Meeting to discuss the problem. I said I was sure you would welcome this and undertook to confirm the position after speaking to you. If you agree, I shall write the Deputy Minister of Finance saying that such a meeting would be acceptable to you. The Romanian who would probably be involved is a Mr. Nicolae Eremia, who is a Director in the Ministry of Finance, and whose people look after Fund matters. He is not a statistical expert but will, I am sure, be competent to discuss the policy side of the subject.

On a separate but related matter, the mission received balance sheets of each of the Romanian banks. With an exception, they appear to contain enough detail to allow the preparation (for confidential use in the consultation papers only) of a monetary survey, at least on a rough basis. However, data of the Romanian Bank for Foreign Trade does not distinguish between domestic and foreign assets and liabilities. I argued strongly that we must have this breakdown and there are hopes that we may get it. In a number of other areas, we obtained new data series, including agreement on a reconciliation of national income, on the Romanian material product basis and GNP on the SNA basis which we had prepared ourselves. While we may still have a long way to go to reach an IFS page, there is good evidence that the Romanians are now more willing to cooperate in the data field than has at times been the case.

cc: Mr. Whittome
Mr. Nose
Mr. Wein

F.O.

July 14, 1978

Dear Mr. Minister:

Following Mr. Tyler's return from Romania, he has discussed with me, in the absence of the Director, Mr. Whittome, the results of his mission. Obviously, there was a very great deal of cooperation between the mission and yourself and your colleagues, which we very much appreciate.

Mr. Tyler has explained that there are two areas in particular where some problems arose with respect to the supply of data. The first is the provision of details of the expenditure item in the budget "Financing of the economy." The second is an apparent problem in obtaining a division of those items in the balance sheet of the Romanian Bank for Foreign Trade that include both domestic currency and foreign exchange components. Our management and Executive Board attach particular weight to the Fund receiving such data, which we would of course use only in our usual confidential manner. We would, therefore, welcome any assistance you could give in resolving any difficulty that still exists. With respect to the aspects relating to the balance sheet of the Romanian Bank for Foreign Trade, I should emphasize that the data will not be used separately but will be combined with those of the other Romanian banks. Thus the position of any of the individual banks will not be revealed. I hope that the situation can be solved in time for us to use the data in our forthcoming report.

Yours sincerely,

A. Pfeifer
Acting Director
European Department

The Honorable
~~Mr.~~ Paul Niculescu-Mizil
Vice Prime Minister
Minister of Finance
Ministry of Finance
Str. Doamnei nr. 8
Bucharest, Romania

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: July 5, 1978

FROM : Brian Rose BR

SUBJECT : Romania

The attached EBS, which has a limited distribution to Executive Directors and Department Heads, contains economic data provided by Romania for the confidential use of Executive Directors. It is the third in what we expect will be a continuing series of quarterly data.

Please return initialled paper to the European Department.

Attachment

cc: Mr. Ware

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Romania--Recent Economic Data

Prepared by the European Department

Approved by Brian Rose BR

July 5, 1978

Romania--economic data

The attached data have been supplied by the Romanian authorities to the Executive Board for its confidential use. The data continue the series contained in EBS/77/336 (9/7/77) and in EBS/77/480 (12/28/78).

Table 1. Selected Economic Indicators, First Quarter 1978 1/

(In billions of lei at current prices)

	1978 First quarter
Gross industrial production 2/	194.7
Retail sales by socialist sector	40.0
Investment in the national economy from state funds	35.3
Revenue of the state budget	71.0
Expenditure of the state budget	61.1

Source: Information provided by the Romanian authorities.
1/ Preliminary.
2/ At prices of January 1, 1977.

Table 2. Monetary Aggregates

		Money supply	Cash in circulation	Savings deposits	Short-term bank credit outstanding
		(In millions of lei; end of period)			
1976		201,366	23,914	52,134	193,965
1977	1st qtr.	209,516	25,379	54,758	201,412
	2nd qtr.	211,789	26,570	56,019	202,270
	3rd qtr.	216,536	27,258	57,183	207,145
	4th qtr.	207,500	27,323	61,559	194,500
1978	1st qtr.	222,500	28,862	65,929	205,452
		(Percentage change on year earlier)			
1976		14.2	11.9	16.0	14.0
1977	1st qtr.	12.5	14.5	15.1	13.6
	2nd qtr.	8.3	11.0	15.3	8.4
	3rd qtr.	7.6	12.7	15.8	6.9
	4th qtr.	3.0	14.3	18.1	0.3
1978	1st qtr.	6.2	13.7	20.4	2.0

Source: Information provided by the Romanian authorities.

Table 3. Foreign Trade

(In millions of SDRs)[1/]

	Total			Convertible area			Nonconvertible area		
	Exports f.o.b.	Imports f.o.b.	Balance	Exports f.o.b.	Imports f.o.b.	Balance	Exports f.o.b.	Imports f.o.b.	Balance
1977 1st quarter	1,360	1,375	-15	737	758	-21	622	616	6
2nd quarter	1,174	1,360	-186	646	740	-94	529	621	-92
3rd quarter	1,506	1,500	6	786	800	-14	720	700	20
4th quarter	1,845	1,774	71	997	940	57	848	834	14
1978 1st quarter	1,540	1,619	-79	856	895	-39	684	724	-40

Source: Information provided by the Romanian authorities.
1/ Converted to SDRs at quarterly rates.

CONFIDNETIAL

Table 4. International Reserves

(In millions of SDRs; end of period)

	1976	1977				1978
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Gold	99.9	102.9	104.0	...	106.3	...
SDRs	12.6	10.1	8.2	5.0	6.9	3.5
Reserve position in the Fund	--	--	--	--	--	--
Convertible foreign exchange	81.2	83.7	85.9	...	102.2	...
Total	193.7	196.7	198.1	204.6	215.4	219.1

Source: Information provided by the Romanian authorities; and IMF data.

LAW

Ms. Williams
Mr. Mitra

June 13, 1978

Geoffrey Tyler

Romania--Quarterly Data

It is possible that economic data relating to the first quarter of 1978 will be delivered to us while Mr. Wein and I are away. If provided, the data will probably be handed to Mr. Whittome or Mr. Evensen.

If the data arrive, you should prepare an EBS similar to those circulated on previous occasions. When sending it to Secretary's Department you should remind them that the EBS has a limited circulation, going only to Executive Directors and to Department Heads.

cc: Mr. Whittome
Mr. Evensen

2

JUN 12 1978

Dear Mr. Minister:

On behalf of the Executive Directors and staff, I wish to welcome you into the International Monetary Fund as Governor for Romania.

Sincerely yours,

William B. Dale
Acting Managing Director

Honorable Paul Niculescu-Mizil
Governor of the International
Monetary Fund for Romania
Ministry of Finance
Bucharest, Romania

CC: MD
DMD
MR. RUDING
MR. DE VRIES
EUR
SEC

GEBishop:wtg
6-10-78

GEB

JUN 12 1978

Sir:

This will acknowledge and thank you for your telex of June 9, 1978 advising the Fund of the appointment of Mr. Paul Niculescu-Mizil as Governor of the International Monetary Fund for Romania effective March 8, 1978.

Very truly yours,

Joseph W. Lang, Jr.
Acting Secretary

Mr. Nicolae Eremia
Deputy Director
Ministry of Finance
Bucharest, Romania

CC: MD
DMD
MR. RUDING
MR. DE VRIES
EUR
SEC

GEBishop:wtg
6-10-78

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cc: EED

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MR. RUDING
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WASHINGTON DC

TREASURER'S DEPARTMENT

AS FISCAL AGENCY FOR THE ROMANIAN GOVERNMENT, HEREBY WE INFORM YOU THAT ROMANIA WISHES TO PURCHASE THE EQUIVALENT OF SDR 13 MILLION, ACCORDING TO THE REVIEWED STAND-BY ARRANGEMENT THE EXECUTIVE BOARD APPROVED ON APRIL 24, 1978.

PLEASE LET US KNOW THE CURRENCIES AND TERMS OF RXXMAX PURCHASE.-

TEST NUMBER [redacted]

MINISTER OF FINANCE

XBRUL NICULESCU-MIZIL

PAUL NICULESCU-MIZIL

⊕

248331 IMF UR

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TEST NUMBER CHECKS
Cable Room

INTERNATIONAL MONETARY FUND

June 8, 1978

Mr. Whittome:

Fred Deming would appreciate copies of your letters to the Governors in Belgrade and Bucharest.

Mr. Frederick L. Deming
President, National City
Bank Corp.
10th Floor
Fifth & Marquette
Minneapolis, Minn.

N.B. Not related to Walt Wriston's National City Bank.

Fwd [illegible]

Dear Fred,
Am enclosing copies of letters that I have to-day written to Romania & Yugoslavia. Hope that you have a good trip.
Yours sincerely

William B. Dale

June 9, 1978

Dear Fred:

I am enclosing copies of letters that I have today written to Romania and Yugoslavia. I hope that you have a good trip.

Yours sincerely,

L. A. Whittome

Encs.

Mr. Frederick L. Deming
President, National City Bank Corp.
10th Floor
Fiftha and Marquette
Minneapolis, Minn.

June 9, 1978

Dear Mr. Governor:

Mr. Frederick L. Deming, who was Under Secretary of the U.S. Treasury for Monetary Affairs from February 1965 to January 1969, and during that time became a good friend of ours in the Fund, is intending to visit Romania around the end of this month. He is now President of the National City Bank Corporation in Minneapolis and is, I know, desirous of exploring ways in which his bank might have closer relations with your country. I have taken the liberty of suggesting to him that he should at the start of his visit be certain to pay a call on the National Bank. I know that on the occasion of his previous visit Mr. Lieftinck wrote a letter to introduce him to Mr. Malinschi.

Yours sincerely,

L. A. Whittome
Director
European Department

cc: Mr. Deming

Mr. Vasile Rauta
Governor
National Bank of the Socialist
Republic of Romania
Bucharest, Romania

Mr. Whittome
G

MEMORANDUM FOR THE FILES

Subject: Romania--Stand-By Arrangement

June 5, 1978

Mr. Cora, of the Romanian Embassy, today brought me the data for March 31, 1978 covering the performance criteria of the current stand-by arrangement. All of these criteria were met on the above date. I suggested to Mr, Cora that it would be sensible for Romania to request a purchase of the SDR 13 million that became available when it was known by us that the performance criteria had been met so that the transaction could take place before June 30, 1978, the next operate date for the performance criteria. He said that he expected that the request would be made before the end of the month.

I pointed out to Mr. Cora that the data he had given me referred only to the performance criteria for the stand-by arrangement. They did not include the fuller range of data that the Romanian authorities had agreed to make available on a regular basis. I said that I very much hoped that the full quarterly data would be available very shortly. Mr. Cora undertook to telex Bucharest and inform them of the position.

GT

Geoffrey Tyler

cc: Mr. Whittome ✓
Mrs. Mitchell
Mr. Mountford
Mr. Wein

CONFIDENTIAL

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Performance Criteria and Statistics

DATE: June 5, 1978

The following are the performance criteria under the current stand-by arrangement for March 31, 1978 and the actuality.

	Target	Actual
Trade balance in convertible currency ($ million)	-48	-47
Outstanding convertible short-term foreign debt ($million)	290	287
Gross convertible industrial reserves ($ million) ?	270	271
Short-term credit of the banking system (lei billion)	206.0	205.5

The trade balance was given as +$47 million, but I have assumed that this is a mistake for -$47 million.

We must, of course, accept the data but it is noteworthy that each performance criterion is met by no more than a whisker. With respect to all except the trade balance, the authorities could no doubt have taken legitimate policy steps to ensure that targets were met. I would have thought the trade balance was much less under direct control and in the circumstances the thought must pass at least lightly across our minds about whether the data might have been manipulated. Obviously, any suspicion would be unwarranted if there was in fact a trade surplus of $47 million, not a deficit of that magnitude, as I have assumed.

LAW

Office Memorandum

TO : Mr. Tyler

FROM : A. P. Nose

DATE: May 31, 1978

SUBJECT : Romania -- Banking Statistics

Thank you for your note of May 30 to Mr. Dannemann keeping us abreast of developments on our joint project for assembling suitable balance sheet statistics for the Romanian banking sector.

May I take this occasion to convey assurance of the Bureau's continued cooperation.

cc: Mr. Dannemann

JW

file

Mr. Whittome
cc: EED

Office Memorandum

TO : The Managing Director

FROM : W.O. Habermeier

SUBJECT : Trust Fund--Loan by Romania

DATE: May 31, 1978

Following two discussions with Mr. Williams during March and April, Mr. Besteliu, Counselor (Economic) at the Embassy of Romania, informed Mr. Williams this morning that Romania would make an initial loan to the Trust Fund amounting to 10 per cent of Romania's share in the profits from gold sales. A further loan, also amounting to 10 per cent of their share in profits, would be forthcoming when the amount of profits accruing to Romania for the second period of gold sales had been determined (which will presumably be in early 1980).

Romania's share in the profits from gold sales in the first period amounts to US$8,487,796, and Mr. Besteliu indicated the initial loan would be US$850,000. A draft loan agreement will now be finalized by Treasurer's and the Legal Department and submitted to the Romanian authorities for comments and then sent to the Board for approval.

If you agree, we would inform the Executive Board of the foregoing when the paper on final payments of profits and loan disbursements is introduced on June 5, 1978.

cc: The Deputy Managing Director
Mr. Gold
Mr. Whittome ✓

hold for Mr. Whittome

MEMORANDUM FOR THE FILES

Subject: Romania--Supply of Information

May 30, 1978

I asked Mr. Besteliu to visit me today. I told him that we had not yet received the quarterly data for March 31, 1978 and that I very much hoped we would do so shortly. I reminded him of the understanding that had been established with the Minister of Finance regarding the need for the regular supply of quarterly data. Mr. Besteliu undertook to speak to Bucharest.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Mountford
Mr. Wein

hold for Mr. Whittome
2/ PT

Office Memorandum

TO : Mr. Dannemann

DATE: May 30, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Banking Statistics

For the forthcoming Article IV consultation discussions in Romania, we have asked the Romanian authorities to provide us with the end-year balance sheets of the Romanian banks in a form that would permit us to prepare a monetary survey on the IFS basis. The dummy tables were prepared with the cooperation of your department. When I transmitted them to the Romanian authorities, I said that if there were difficulties in providing the monetary data in the required form, it might be possible to have an expert from your Bureau on the mission.

I have received a telex from the authorities saying that they will do their best to respond as well as possible with our request but saying that they do not think that at this stage the presence of an expert from the Bureau of Statistics is necessary. It remains to be seen whether their optimism is justified but on this occasion we shall try to manage ourselves. We appreciate the fact that your department was willing to make a person available and if things do not turn out as well as the Romanians hope, we may approach you again on the subject.

cc: Mr. Whittome ✓
Mr. Nose
Mr. Mountford
Mr. Wein

hold for LAW

Office Memorandum

TO : Mr. Whittome

DATE: May 30, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Retail Price Increases

I attach copies of two memoranda by Mr. Wein giving the details we have of recently announced price increases in Romania. They are rather similar to price increases announced earlier in the year in the U.S.S.R. and Hungary.

Attachments (2)

Office Memorandum

TO : Mr. Tyler

FROM : J. Wein JW

DATE: May 26, 1978

SUBJECT : Romania--Fare Increases in Bucharest Urban Transport

Further to my memorandum to you of May 24, some detail of fare increases in Bucharest has now been published (Scinteia, May 19).

1. Effective June 1, regular ticket prices on trams, trolleys, and buses will be approximately doubled (see table below). The price of tickets valid for a month, of which there are various kinds, will be increased by a third to two thirds, and some new classes of fares will be added. A new half-price ticket good for a month will be established for students and military personnel.

2. Beginning in 1980, the cost of urban transport in Bucharest will be fully covered by fare receipts. To do this, another round of increases will be introduced at that time.

3. The two-stage fare increases coincide with planned remuneration increases for most workers.

4. State budget subsidies for Bucharest mass transport are given as: 1976, lei 739 million; 1977, lei 741 million; 1978 (allocation), lei 857 million. (A figure of lei 763 million was given in Scinteia of May 16, but without reference to the period to which it referred.) It has been necessary to subsidize mass transport in Bucharest since 1962.

Cost of Single Tickets in Bucharest

(In lei per ticket)

	Present price	Price beginning June 1, 1978	Price beginning 1980
Tram	0.30	0.65	1.00
Trolley	0.50	1.00	1.50
Bus	0.60	1.25	1.75

cc: Mrs. Mitchell
Mr. Mountford

Office Memorandum

TO : Mr. Tyler

DATE: May 24, 1978

FROM : James Wein JW

SUBJECT : Romania--Retail Price Increases

Scinteia of May 12 and May 16 carry a description of some recent retail price changes. These may be summarized as follows:

(a) Imported food

Coffee prices are to increase 65 per cent, having been unchanged since 1961. The prices of pepper and olives are to increase by 50 per cent and 70 per cent, respectively. Other imported food prices, e.g., oranges, remain unchanged.

(b) Transportation

Effective May 15, 1978, the price of transportation within Romania by rail, boat, and plane were increased on average by 22 per cent, 58 per cent, and 48 per cent, respectively. Railway fares had not changed for 20 years, and losses of the railway system now total about lei 129 million annually. For river transportation, losses are now lei 45.1 million, and for internal air transport about lei 60 million.

The price of urban transport is to rise, but because of the politically sensitive nature of these fares, the question has first been thrown open to "public debate." In Bucharest, receipts from bus and tram tickets cover only 45 per cent of costs, and losses amount to lei 763 million. Ticket prices have not changed for 30 years!

(c) Services to the population

Some 39 of the 250 kinds of services to the population are to be increased an average 13.1 per cent. For example, cleaning and laundering charges are to rise 8-10 per cent, and hairdressing charges by 10-30 per cent.

While the Romanians had previously indicated to us that deficits in the transportation sector were relatively large, assessment of the effect of these price increases on overall budget subsidies must await more detailed information on the expenditure side of the budget.

cc: Mr. Mountford
Mrs. Mitchell

Mr. Whittome

MEMORANDUM FOR THE FILES

Subject: Romania--Supply of Information   May 23, 1978

I rang Mr. Besteliu this morning. I said that if he were in touch with Bucharest, he might ask whether or not the quarterly data for March 31, 1978 was yet available. I told Mr. Besteliu that normally we had received it by this time and were able to circulate it to the Executive Board. Moreover, until we have the March 31 data it was not possible to authorize any further purchases under the stand-by arrangement. He said that he would look into the matter.

Although I did not mention this to Mr. Besteliu, it may well be that the data are not yet available because approval for transmitting them is perhaps being obtained concurrently with approval for all the data needed for the Article IV consultation discussions in June. In Addition, President Ceausescu has been out of the country visiting China and North Korea and this may have slowed things down.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

Office Memorandum

TO : Mr. Whittome
Mr. Pfeifer

DATE: April 26, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Supply of Information

You will remember that the three of us discussed the position that we should take with the Romanian authorities regarding an increase in the supply of information available to the Fund. In preparing the tables that we are sending to Bucharest ahead of the Article XIV consultation mission, we have included tables dealing with the areas in which we agreed that progress should be made. I have forwarded the tables under a covering letter to the Deputy Minister of Finance, Mr. Bituleanu. This is a rather more formal procedure than we have followed in the past but I think it is desirable to have our request clearly set out in advance.

cc: Mr. Wein

April 26, 1978

Dear Mr. Bituleanu:

As agreed with Mr. Eremia during our discussions in February 1978, I am attaching the tables that we would like completed for the purposes of the 1978 Article XIV consultation discussions commencing on June 21, 1978. I shall be forwarding draft text of the various chapters of Recent Economic Developments as we complete them.

You will note that there are a few new tables, which I refer to below. These have been included so that we can supply to the Executive Board a volume of information on the Romanian economy closer to the normal volume available from other member countries and so that we can improve our understanding and analysis of economic development in Romania. The new tables have been included following discussions between Mr. Whittome and myself regarding how best cooperation between the Fund and Romania in increasing the supply of information should proceed.

There is one table that deals with the use of total available resources on the U.N. system of national accounts (SNA). You have been supplying us with a reconciliation of national income on the Romanian basis and GNP on the SNA basis and we hope that a corresponding reconciliation is available on the expenditure side of the accounts.

Another table seeks a breakdown of the large expenditure item in the budget, "Financing of the national economy." We hope that it is possible to complete the classification we have proposed but if it is not, we would be grateful if you would fill out an alternative breakdown.

There is a table on the distribution of short-term credit of the banking system by sector. Also in the banking tables, we have asked for the balance sheets of the individual banks in a form that wuuld permit the preparation of a summary monetary survey for the Romanian banking system on the basis used in IFS. There are two points that I would like to make with respect to these tables. First, if any of the respective banks have difficulties in understanding the meaning of the various items or in transforming their data into this standard form, I would be happy to try to arrange for the presence of an expert from the Bureau of Statistics to come with the staff mission to assist the banks in the task. Second, if there were insuperable difficulties in agreeing to the inclusion of the data of the individual banks in the papers to the Executive Directors, then we could send to the Executive

Board only the summary monetary survey as shown in the standard IFS form, which does not, of course, permit a reader to know anything of the status of an individual bank.

Finally, we have included a table requesting data on the effective exchange rate, after allowing for the operations of the equalization fund, for the selected export and import commodities in trade with the convertible area. This would greatly facilitate our discussions regarding the exchange rate structure, a matter which is of particular interest to us both.

I look forward to seeing you again in June and to continuing our cooperation.

With warmest personal regards,

Yours sincerely,

Geoffrey Tyler
Assistant Director
European Department

Mr. I. Bituleanu
Deputy Minister
Ministry of Finance
Str. Doamnei nr. 8
Bucharest
Romania

cc: Mr. Whittome
Mr. Pfeifer

Office Memorandum

TO : Mr. Whittome

DATE: April 19, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Mr. Dumitrescu

Although it is not announced yet, Mr. Dumitrescu is to become the Romanian Ambassador to Peking. He has already moved to the Foreign Ministry and while I was in Romania was leading their delegation in discussions with a visiting Chinese delegation.

Obviously the earlier reports that Mr. Dumitrescu's removal from the Ministry of Finance was not a reflection on him were correct.

cc: Mr. Wein

Office Memorandum

TO : Mr. Whittome

DATE: April 18, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Repurchases

At a lunch, the Romanians raised with me the question of requesting rescheduling of repurchases that fall due in late 1978 and 1979 as a result of purchases under the stand-by arrangement agreed to in October 1975 and a purchase under the compensatory financing facility made in 1976. I told them that in my view they would be wise to repurchase if their balance of payments position permitted since it would create a favorable impression both to the staff and to the Board, given the continuous use they had made of Fund resources. I pointed out that it would increase their future potential access to Fund resources in the event of an unexpected balance of payments deterioration. I also explained that a rescheduling over eight quarterly payments meant on average one year's extension of the borrowing.

They took these points but responded by saying that repurchases would total SDR 190 million (SDR 95 million under the stand-by arrangement and an equal amount of compensatory finance).

They asked if a repurchase after three years of the first purchase (SDR 40 million) under the stand-by arrangement due in October 1978 would preclude a rescheduling of later purchases under that stand-by arrangement. I said I thought that it would not but undertook to find out what the position was and inform Mr. Besteliu.

Office Memorandum

TO : Mr. Whittome

DATE: April 18, 1978

FROM : Geoffrey Tyler

SUBJECT : Romania--Visit to Discuss the New Economic Mechanism

During the discussions from April 13-16, 1978, the Romanians were forthcoming in describing the new system as far as they know it. Currently there are several basic documents; the original speech of the President made in February 1978, and a second speech by him to the Plenary Meeting of the Central Committee of the Party on March 22, 1978. At the latter meeting, the two basic working documents were approved, one relating to profit sharing by workers and the other to proposals to improve economic and financial management and planning. While not of direct economic interest, it is worth noting that at the same time a law was passed which permits workers to put proposals, complaints, etc., directly to the appropriate authorities, who are obliged by the law to consider them promptly (at least in theory).

Improving the economic-financial mechanism

The new system, which will basically apply from the 1979 Annual Plan, includes the features set out below. In the discussions, it was emphasized that the proposals are only general at this stage and detailed laws and rules governing their application will take some time to work out.

(a) "The phenomenon of excessive centralism" is to be eliminated by giving a greater role in planning to enterprises and centrals and less to the central authorities and ministries.

(b) Planning both for the five-year periods and annually is in principle to be based on firm, concluded contracts both for domestic and export production, although in the discussions the Romanians agreed that the external sector cannot be treated so rigidly.

(c) The basic indicator of output is to be net not gross production. Starting in the second half of 1978, the net concept will be used in industry. In 1979 and later it will be extended to other branches.

(d) More emphasis is to be given to profit sharing by workers. In addition to the normal wage, a profit sharing fund will be established in enterprises with most of the funds transferred to it being calculated on the basis of overfulfillment of Plan targets.

(e) Enterprises will rely more on self-financing of both economic investments and expenditure on social investment (e.g., housing) and on bank credit and will have less access to budget transfers.

(f) All future investment financed from the budget must be repaid to the budget.

(g) Enterprises will have greater access to bank credits with corresondingly greater supervision of enterprises by the banking system.

(h) Enterprises will be obliged to improve and extend their income-expenditure budgets.

In the external sector:

(i) The official exchange rate (currently lei 4.47 per US$1) is to be abolished, perhaps from Jan. 1, 1979 but this date is not set and foreign trade plan targets will effectively be set in lei converted from the international price on the basis of the commercial rate (currently lei 18 per US$1).

(j) To encourage the overfulfillment of export plans, three incentive schemes, linked to export overfulfillment, are to operate.

(i) Up to 25 per cent of overfulfillment in the previous year will be available for additional imports to increase export production, introduce new technology and to retool.

(ii) Up to 2 per cent of overfulfillment in the previous year will be available, through a special fund, for collective trips abroad by workers.

(iii) A quota of extra plan profits (from all activities) can be transferred to the profit sharing fund proportionately to the overfulfillment of the export target, up to a maximum of 10 per cent of extra plan profits.

Implications of the external measures

It is not expected that the measures in j(i) and j(ii) above will operate before June 1, 1979 at the earliest, since they will need to be based on plan overfulfillment in a previous year and it is not proposed to use 1977 results. The introduction could be even later. Until the new scheme operates, existing procedures in the exchange and payments system will be unchanged. Therefore there presumably could not be any new restriction or new multiple currency practice arising from the new mechanism during the remaining period of the stand-by arrangement. I shall be preparing a more detailed description of the schemes, as far as I know them, as a basis for discussion with ETR and Legal. My personal guess, based on what I was told, is that the procedures envisaged would not constitute a restriction. However, I would not want to be too positive on this point.

Incidentally, the discussion turned up an exchange rate that I think is new to us. Tourist enterprises in Romania dealing with group tours make their exchange transactions at the commercial rate (lei 18 per US$1) not at the noncommercial rate (lei 12 per US$1), which governs personal tourist transactions. Missions in Romania are never without at least a small surprise.

Mr. Whittome

MEMORANDUM

To: Mr. Gold
Mr. Sturc
Mr. Whittome

April 18, 1978

From: Geoffrey Tyler GT

Subject: Romania--Funds for Overfulfillment of Export Plans

Romania is to introduce several incentive schemes designed to stimulate exports. None of the schemes operate at present and they are not expected to do so until 1979 at the earliest. Thus, at present, the trade and payments system operates as it has in the past. General details of the three proposed schemes are given below.

Foreign travel incentives

Productive enterprises that exceed their export target in a year will be entitled in the following year to receive up to 2 per cent of the overfulfillment in the form of foreign exchange to be used for collective trips abroad. My understanding is that all export proceeds are converted into lei or received at the rate of lei 18 per US$1. After that there will normally be a payment to or a receipt from the Equalization Fund. The 2 per cent is calculated on the lei value before the transaction with the Equalization Fund. At the beginning of the year the amount calculated on the basis of the previous year's results will be placed in a special fund from which the lei can be used to purchase foreign exchange at the rate of lei 18 per US$1. It is not yet known to what extent allocations to the Fund will be additional to what the foreign exchange allocation for tourism would otherwise be. This will presumably be decided at the time the scheme comes into operation and will depend on the absolute amount that the new incentive scheme involves.

Fund for additional imports

Up to 25 per cent of export overfulfillment in the previous year can be made available in the subsequent year for the purchase of imports meant to increase export production, improve quality of exports, for new technologies, and for retooling. Export proceeds will be surrendered for lei at the rate of lei 18 per US$1, and the calculation of the amount to be made available for imports will be made on this sum not on the amount of lei available to the exporter after his payment to or receipt from the Equalization Fund. The amount of foreign exchange available will be in turn calculated at the rate of lei 18 per US$1. As with the tourism scheme, it is not known at this stage what implications the new import proposal will have for the total import plan.

Transfers to profit sharing fund based on export performance

One of the general sources of funds for profit sharing is a quota of up to 10 per cent of extra plan profits (from all operations) but with this percentage being the same as the percentage of excess export proceeds. In addition up to 1.5 per cent of export overfulfillment will go to the profit sharing fund.

cc: Mrs. Mitchell
Mr. Wein

Mr. Whittome

MEMORANDUM

To: Mr. Gold
Mr. Sturc
Mr. Whittome

April 18, 1978

From: Geoffrey Tyler GT

Subject: Romania--Exchange Rate for Foreign Travel

In the course of discussions in Romania, it came out that there appear, at least to my nonlegal mind, to be two exchange rates governing tourism with the convertible area. For transactions by Romanian tourist enterprises dealing with group tours, the exchange rate is the commercial rate of lei 18 per US$1, which applies to trade and trade-related transactions. For transactions by private persons, the exchange rate is the noncommercial rate, i.e., lei 12 per US$1.

This distinction has always applied and is based on the fact that tourist enterprises are treated as if they were commercial enterprises engaged in foreign trade.

To me, it seems to involve a multiple rate of which we were previously unaware. However, since it is not a newly introduced system I presume it does not have any implications for the performance criteria in the current stand-by arrangement.

I am sure it shouldn't

Marginal to Tyler

cc: Mr. Hughes
Mrs. Mitchell
Mr. Wein

cc: LAU - Mexico

Office Memorandum

TO : Mr. Whittome

DATE: April 18, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--New Minister of Finance

On Saturday afternoon I had a meeting lasting 1 1/2 hours with the new Minister, Mr. Paul Nikolescu. In addition to the Ministry, he is a Vice-Prime Minister and a member of the 10-man committee chosen from the Central Committee of the Party. Everyone I spoke to was unanimous that his appointment was a deliberate step to strengthen the Ministry of Finance. The officials in the Ministry believe that they will benefit by having a Minister of such authority with much closer access to the President than Mr. Dumitrescu had.

He has a strong background in ideology, having worked in this area for a number of years at an earlier stage. However, based on my meeting with him, he seems to have a firm grasp of the economics of the Ministry and the ideology does not intrude.

Personally he seems a much quieter person than his predecessor. His personal interests include painting and for that reason I find that we have several nonofficial friends in common. One son is a painter by profession and another an engineer. (Both, it seems, are adopted.)

Apart from a lengthy discussion on the new economic system, the only subject I raised with him was the problem of the supply of information, and that only in a very general, noncontroversial way. He took a positive attitude but I guess we must wait to see what happens when we put in our next request.

The Managing Director
The Deputy Managing Director

April 18, 1978

L. A. Whittome

Romania--Mid-Term Review Under Stand-by Arrangement

The staff report (EBS/78/170) for the mid-term review was issued on April 7 and is scheduled to be discussed on April 24. The paper did not include the letter of intent, as this had not been received, although the Romanians had confirmed that it had been signed by the Minister of Finance. The letter has still not been received, but we would now like to issue it to the Executive Directors in view of the short time remaining before the Board discussion.

Compared to the letter you previously approved, a final sentence has been added to paragraph 2 which reads as follows:

> "In the light of the exchange rate changes discussed in paragraph 10 below, Romania wishes to consult with the Fund as provided for in paragraph 5 of the stand-by arrangement."

May I have your approval for circulating the letter?

Attachment

M.D's copy with his initials returned to us & passed to the Division

cc: Mr. Ware

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Audrey called Mr. Tyler.

Cc: ELSD

TLX NO 141153/E

FOR WHITTOME

COMPLETING DISCUSSIONS DURING WEEKEND.
ARRIVING WASHINGTON MONDAY APRIL 17 BY LH400 AND BN117.
INTRODUCTION OF NEW MEASURES DESCRIBED IN YOUR GEEEE TELEX NOT
UNTIL 1979 AT EARLIEST. REGARDING TELEX FROM HUGHES (T ETR)
EITHER MATERIAL WILL BE GIVEN TO ME OR TELEXED EARLY NEXT
WEEK WITH ONLY MONOEEE MINOR CHANGES
REGARDS

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SPECIAL DELIVERY
CABLE

The Managing Director April 7, 1978

L. A. Whittome

Romania

I attach a brief against your meeting with President Ceausescu at Blair House at 4:00 p.m. on April 13.

The dominant question is for how long the President will be able to maintain his extremely strict and personal rule. It may well be that economic policies are his Achilles heel.

cc: The Deputy Managing Director
Mr. Ware

Managing Director's Brief

Meeting with President Ceausescu

April 13, 1978

Introduction

President Ceausescu will be making an official visit to the United States during the week of April 12. At the request of the Romanians, you have agreed to meet with President Ceausescu at the Blair House on April 13 at 4:00 p.m. The meeting is scheduled to be relatively brief but you will recall that on the occasion of your last meeting with President Ceausescu the discussion lasted considerably longer than had been planned.

Relations with the Fund

Romania joined the Fund on December 15, 1972. Its quota of SDR 190 million is to be increased by 28.95 per cent to SDR 245 million under the Sixth Quota Review. Romania has accepted the Second Amendment, but has not yet consented to the new quota, the increase being considered by Romania to be too small. Romania is a participant in the Special Drawing Rights Department but has received no allocation of SDRs, although SDRs have been acquired from the General Account to pay charges.

Romania had purchased its gold tranche and the first three credit tranches, and made a purchase under the compensatory financing facility (in connection with severe floods) as of the end of 1976. In September 1977 the Fund approved a second request for a purchase (for an amount equivalent to SDR 47.5 million) under the compensatory financing facility in connection with an export shortfall caused by an earthquake and also granted Romania a stand-by arrangement for an amount equivalent to SDR 64.125 million, in the remainder of the then enlarged third credit tranche. The equivalent of SDR 25 million has been purchased under this stand-by arrangement. Romania has made repurchases equivalent to SDR 55 million in 1977 and the first quarter of 1978. Further repurchases of SDR 80 million are scheduled in 1978. On March 31, 1978 the Fund's holdings of Romanian lei were equivalent to 234.2 per cent of Romania's quota of SDR 190 million.

The quantified performance criteria under the present stand-by arrangement relate to the balance of trade in convertible currencies, outstanding short-term debt in convertible currencies, gross convertible international reserves, and short-term credit of the banking system. The letter of intent was signed on April 5, 1978, and the Executive Board discussion has been tentatively set for April 24. Until the stand-by review and consultation is completed and approved by the Fund and the March 31, 1978 performance targets have been met, Romania cannot make further purchases under the stand-by arrangement.

Since October 2, 1974 the rate of the lei for nontrade transactions with nonsocialist countries has been lei 12 per US$1, which is also the representative rate against the U.S. dollar.

Romania has indicated a willingness to loan, for the benefit of the Trust Fund, 10 per cent of its share of the direct distribution of gold sale profits to developing countries. The said amount is to be made available to the Trust Fund through a ten-year loan at the rate paid other lenders to the Trust Fund.

Information

We have long had difficulties over the supply of information. Most economic data are considered secret and their release requires special approval. Romania has gradually provided more information and has recently began to provide certain series on a quarterly basis. However, special approval (from the President himself we are told) is still required each time data are made available, a process which has often proved to be time consuming. The Romanians would regard any mention of this problem as inopportune at this meeting but if a suitable opportunity opened it would be helpful if you were to emphasize the difficulties which this present stance causes us. The difficulty is not only that our analysis is much weakened but also that their reluctance conveys the impression that there is something to hide. Moreover, there seems little chance for an analytically meaningful IFS page in the immediate future and this omission remains conspicuous.

Recent economic developments

Domestic developments

The economy recovered substantially in 1977 from the effects of the March 1977 earthquake. Gross industrial production increased 12.5 per cent, an overfulfillment of the Plan, but there was a slight decline in gross agricultural production after the record harvest of 1976. Mainly as a result of the agricultural outturn, national income increased by 8.6 per cent in real terms, compared with the 11 per cent planned.

National income in 1978 is planned to increase by 11.5 per cent in real terms, based on a continued high growth rate of industrial production and a recovery in the growth of agricultural output. Investment is planned to continue at a very high rate, about a third of national income, with continued stress on industrialization. Last year, the Western press reported riots over working conditions and pension rights by coal miners in the Jiu Valley, leading to speculation that the pace of investment might be relaxed to allow more consumption. However, judging from the 1978 plan, this does not appear to be the case. This year a program to reduce the working week from 48 hours to 46 hours and an eventual 44 hours, began to be implemented. However, the fulfillment of plan targets is a precondition for the reduced workweek.

In February 1978 President Ceausescu announced plans for a major restructuring of Romania's economic system. Although few details have yet been announced, the emphasis of the program is clearly aimed at relating income of enterprise workers more strongly to enterprise performance, even though this will make the distribution of incomes less even. A system of profit sharing for plan overfulfillment has recently been published in draft form, but is not yet in force. Moreover, in the future less reliance for investment resources is to be placed on the state budget and more on the banking system. The Plan remains the chief instrument of economic policy, but it appears that enterprises will have more flexibility in meeting plan targets and greater rewards for overfulfillment. You might well ask the President what was the motivation for this change and what he expects from it.

External sector developments

Outturn for 1977

The current account of the balance of payments weakened in 1977 mainly as a result of earthquake related disruptions and damage, though in general, the outturn on current account was more favorable than had been predicted. In convertible currencies, trends in 1977 were similar to those for the balance of payments in all currencies, with a marked deterioration in the current account more than offset by a strengthening of the capital account. On trade account, the deficit in convertible currencies was SDR 70 million with a sharp slowing of export growth more than offsetting some decline in import growth. There was also an increase in the invisibles account deficit, caused mostly by a poor tourist season and higher interest payments. The current account deficit in convertible currencies increased from about SDR 50 million in 1976 to SDR 235 million in 1977.

To cover the immediate effects of the earthquake on the current account, Romania undertook short-term borrowing in 1977, leading to a net short-term inflow in convertible currencies of SDR 145 million, compared with a net short-term outflow of SDR 70 million in 1976. There was also a moderate increase in the net long-term capital inflow in convertible currency, to nearly SDR 80 million. The overall convertible currency deficit of SDR 11 million was financed through use of Fund resources of SDR 32.5 million net of repurchases, and there was a small increase (of SDR 22 million) in gross convertible reserves. At the end of 1977 gross convertible reserves were SDR 215 million, equivalent to less than one month's imports of goods from the convertible area.

Forecast for 1978

For 1978 an overall surplus in all currencies is officially forecast, representing a net improvement of SDR 140 million over the 1977 outcome. The major change is expected to be in the development of the trade account, which is forecast to shift by almost SDR 240 million, from a deficit of SDR 120 million to a surplus of nearly the same amount. In convertible currencies an overall surplus of SDR 83 million is officially forecast compared with a small deficit in 1977. The trade account in convertible currencies is expected to shift from a deficit of SDR 70 million to a surplus of SDR 130 million, based on export growth of 11 per cent and import growth of 5 per cent. The staff consider the import projection as somewhat optimistic. The current account in convertible currencies is expected to show a slight surplus. Compared with

1977, net capital inflows are expected to be moderately less, especially in the short-term account, although gross borrowing will still be substantial. However, Romania's external debt remains moderate, and the debt service ratio is expected to decline in 1978.

Romania's domestic production of crude oil has levelled off, and by the mid-1980s imported energy costs are likely to form a significant balance of payments constraint.

Exchange system

Romania has an extremely complex exchange system encompassing a multiplicity of rates. In practice, because of a system which equalizes domestic and foreign prices for most trade thorugh an Equalization Fund, the exchange rate has only a limited impact on foreign trade. However, the authorities endeavor to set the rate so that on average prices in lei of exports and imports, converted at the trade rate, are equal to domestic prices of the same or similar products. Changes in the exchange rate for trade have been made when relative prices in Romania and world markets have markedly diverged. Such a change (from lei 20 to lei 18 per U.S. dollar) was last made on March 6, 1978. On the same date, the official rate of the leu, used mainly for internal accounting purposes was appreciated from lei 4.97 to lei 4.47 per U.S. dollar. The noncommercial rate and rates for currencies of socialist countries were unchanged.

Mr. Whittome 2

SOURCE Financial Times

FILE #

COMMENTS

DATE: April 4, 1978

ROMANIA'S ECONOMIC POLICY

Gearing output to demand

BY PAUL LENDVAI IN VIENNA

MR. NICOLAE CEAUSESCU, the Romanian party chief and President, has announced major changes of economic policy and personnel changes involving 26 key officials. In a speech to the central committee of the Romanian Communist Party, he raised grave accusations against some demoted top functionaries. They had for four years blocked measures intended to give enterprises more decision-making power and to replace the system of setting gross output targets, Mr. Ceausescu complained.

According to the President, economic experiments were begun as long ago as 1974 in a number of selected enterprises. The new system, gearing output to demand and offering bonuses to workers in line with the net profit, should have been introduced in 1976 at the beginning of the current five-year plan, he said. However officials in charge of the project had dragged their feet and as late as the end of last year were still reluctant to draw conclusions from the experiment. Mr. Ceausescu did not mention them by name, but it is evident that the three former Deputy Premiers, Mr. Ion Patan, in charge of foreign trade, Mr. Mihai Marinescu, the planning chief, and Mr. Emil Draganescu, the latter's predecessor at the planning committee, are the most prominent scapegoats.

President Ceausescu has almost overnight become a firm advocate of decentralisation, of workers' self-management, and of giving increased powers to enterprises and their management. He went as far as warning the plenary meeting of the central committee that there was a "certain contradiction" between the democratic organisational framework and the overcentralised, rigid, obsolete, and excessively complicated economic mechanism. The new measures, relaxing central control and promising more incentives to workers, will be introduced in the second half of this year. As from 1979 the entire economy should operate on the basis of net output calculations and related measures.

The plenary meeting issued detailed guidelines about profit-sharing, development and social funds in the enterprises. About 3 per cent. of the profit made will be allocated to these funds. That ratio can rise up to 8-14 per cent. if the net profits exceed the planned profit figures, and to as much as 25 per cent. of the additional net earnings if they are achieved by a reduction of material and production costs. Those producing for export are promised bonuses which could amount to 2 per cent. of foreign exchange revenues achieved beyond the planned targets.

The Romanian Parliament has enacted a new law which says that proposals, applications and complaints lodged by citizens must be answered within 20 to 40 days by the local or central authorities. No one may be harassed for making complaints. Local officials and even Cabinet Ministers should set aside one day every week to receive ordinary citizens to deal with their personal problems. Deputy Premiers should do so twice a month.

The measures announced and promised are undoubtedly the result of a long period of deliberation following a potentially explosive labour conflict last summer with some 30,000 striking miners in the Jiu valley. Many organisers of the strike were subjected to reprisals. Some were deported to other areas. But Mr. Ceausescu has evidently realised the ominous implications of the growing resentment against a heavy handed central bureaucracy.

One should not exaggerate the novelty of the much publicised policy change. To start with, all these measures were in principle approved as long ago as the national party conference at the end of 1967. After repeated postponements of the relevant legislation and a shift in favour of all-out quantitative growth, the former Premier, Mr. Ion Gheorghe Maurer, issued a public warning in a speech delivered in June 1972 at a party conference in Cluj, recalling the advice Lenin gave in his last article: "Better less quantity—but better quality." His speech was published in the local press only, and all those who like Mr. Maurer or the former Deputy Premier, Mr. Alexandru Birladeanu, raised their voices against preferring quantity to quality and against channelling over one-third of the gross national product into investment, have had to leave the political stage.

Mr. Ceausescu still insists on the priority of the investments and defends by far the highest investment ratio in eastern Europe as a means towards catching up with the highly developed industrialised West. Yet his latest speeches indirectly seem to confirm nagging doubts about the relevance of some of the statistical victories claimed.

The country was hit on March 4, 1977, by a severe earthquake which cost almost 1,600 lives, destroyed 3,300 flats, seriously damaged hundreds of factories, and caused, according to official figures, damages of at least $2bn. Yet at the end of that year of natural tragedy, the planning report proclaimed that Romania had, if anything, surpassed the original plan and that industry increased its output not by the projected 10.5 per cent. but by no less than 12.5 per cent. While still repeating these figures, Mr. Ceausescu has begun to warn that many factories have been using costly materials only to claim the fulfilment of the gross output targets as well as the bonuses that go with it. All this leads to an illusory increase of production, and the distortion of economic realities, he remarked.

In a political sense, Mr. Ceausescu is faced with the dilemma of how to combine economic efficiency and a modicum of autonomy in enterprises with the continuing dominance of the all-pervading party. It remains to be seen whether the economic spring-cleaning and the reform programme will produce more tangible dividends than long forgotten similar projects hailed with equal enthusiasm just over ten years ago.

Table Revenue and Expenditure of the State Budget

	1977 1/	1978 2/	1976	1977 1/	1978 2/
	(In millions of lei at current prices)		(Percentage change)		
Revenue, total	281,980	318,501	6.7	10.8	12.9
Turnover tax	32,481	36,000	6.7	-27.7	10.8
Regularization tax	--	--	-91.9	--	--
Profits tax on state economic units	115,944	139,479	20.5	111.3	20.3
Tax on production funds and other taxes on socialist units	3,937	4,559	11.1	-90.8	15.9
Other revenue from socialist units 3/	50,816	47,751	-9.3	5.6	-0.6
Duties and taxes on the population 4/	1,935	2,339	17.7	--	20.9
Taxes on agricultural cooperatives	1,078	1,306	--	--	21.2
Duties on the wage fund	24,357	30,000	--	--	23.2
Social insurance fees	24,929	29,183	25.8	15.2	17.1
Other	26,503	27,884	21.3	49.3	5.2
Expenditure, total	280,423	318,501	5.9	12.1	13.6
Financing of the national economy	191,129	214,300	6.3	15.3	12.1
Social welfare and cultural activities	58,524	63,203	8.5	5.9	8.0
Of which:					
Education	(15,291)	(16,064)	(12.2)	(5.7)	(5.1)
Culture and art	(1,061)	(1,104)	(9.7)	(4.1)	(4.1)
Health	(11,693)	(11,864)	(13.5)	(4.6)	(1.5)
Social assistance and pensions	(1,731)	(1,857)	(3.0)	(5.0)	(7.3)
Physical education and sport	(344)	(364)	(21.1)	(3.3)	(5.8)
Children's allowances	(7,745)	(9,480)	(0.5)	(4.6)	(22.4)
State social insurance	(20,659)	(22,470)	(6.7)	(7.6)	(8.8)
National defense	10,963	12,000	8.9	3.7	9.5
Administration and justice	3,036	3,208	12.3	1.1	5.7
Other	16,771	25,790 5/	-8.5	7.6	53.9 5/

Sources: Anuarul Statistic al Republicii Socialiste Romania; Law on Adoption of the State Budget for 1978; and information supplied by the Romanian authorities.

1/ Preliminary data.

2/ Planned.

3/ Includes customs duties revenues of lei 11.9 billion in 1975, lei 9.6 billion in 1976, lei 2.4 billion in 1977, and an estimated lei 2.5 billion in 1978. The decrease in 1977 and 1978 reflects a decrease in rates of customs duties.

4/ Income tax payments from individuals ended as of July 1, 1977.

5/ Includes a reserve fund of lei 3,198 million at the disposition of the Government and a reserve fund of lei 311 million at the disposition of local authorities.

Table . State Budget

(In millions of lei; at current prices)

	Revenue	Expenditure	Balance
1965	96,954	93,057	3,897
1970	133,342	130,900	2,442
1973	175,972	168,091	7,881
1974	210,111	207,322	2,789
1975	238,553	236,169	2,385
1976	254,528	250,148	4,380
1977 1/	281,980	280,423	1,557
	Annual average growth (in per cent)		
1971-75	12.3	12.5	...
1973	14.7	15.6	...
1974	19.4	23.3	...
1975	13.5	13.9	
1976	6.7	5.9	
1977 1/	10.8	12.1	

Sources: Anuarul Statistic al Republicii Socialiste Romania; Law on the Adoption of State Budget for 1977; and data provided by the Romanian authorities.

1/ Provisional data.

Table . Agricultural Production by Branches

	Per cent of total[1/] 1976	Average annual percentage increase 1971-75	Percentage increase 1976[1/]	1977[2/]	1978[2/]
Total production	100.0	6.5	17.2	-1.3	8.7
Crops		5.8	21.6		
Livestock[3/]		7.4	11.5		

Sources: Anuarul Statistic al Republicii Socialiste Romania; and data provided by the Romanian authorities.

1/ Calculated at prices of 1963.

2/ Prices of 1977.

3/ Production from livestock, e.g., meat, milk, eggs, and hides.

Table . Output of Major Crops and Yield Per Hectare

	Output 1975	1976	1977	1978[1/]	Average yield per hectare 1975	1976	1977
	(In thousands of tons)				(In quintals)		
Cereal, total	15,266	19,791	18,591	23,200	...	...	
Wheat and rye	4,912	6,773	6,540	7,385	20.6	27.9	
Maize	9,241	11,583	10,103	13,215	27.8	34.1	
Sunflower seed	728	799	807	1,133	14.3	15.3	
Sugarbeet	4,905	6,911	6,249	8,580	198.6	294.4	
Autumn potatoes	2,307	4,316	3,738	4,850	89.2	166.6	
Field vegetables	2,392	3,472	3,065	4,300	...	...	
Fruit	1,101	1,350	1,393	2,180	...	...	
Grapes	1,182	1,536	1,404	2,180	38.9	50.7	

Sources: Anuarul Statistic al Republicii Socialiste Romania; and data provided by the Romanian authorities.

1/ Planned.

Table . Social Product and National Income by Branches

(In per cent of total; at current prices)

	Social product				National income			
	1975	1976	1977 1/	1978 2/	1975	1976	1977 1/	1978 2/
Industry	64.7	64.7			56.2	55.9		
Agriculture and forestry	13.6	14.6			16.5	18.8		
Construction	8.6	8.2			7.6	7.2		
Transportation and telecommunications	4.2	4.0			5.8	5.2		
Trade	5.3	4.9			10.8	9.8		
Other	3.6	3.4			3.1	3.1		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Anuarul Statistic al Republicii Socialiste Romania; and data provided by the Romanian authorities.

1/ Provisional data.

2/ Planned.

Table . Principal Economic Indicators,
Outturn 1976-77 and Five-Year Plans 1971-75, 1976-80

(Average annual percentage increase at comparable prices)

	1971-75 Outturn	1976-77 Outturn	1976-80 Plan
Social product	10.5		8.5-9.5
National income	11.3		10.0-11.0
Gross industrial output	12.9		10.1-11.2
Gross agricultural output	6.5		5.1-7.6 1/
Investments in the national economy	11.5		12.9 1/
Retail sales in the socialist sector (current prices)	8.5		7.7-8.1

Sources: Anuarul Statistic al Republicii Socialiste Romania; and data provided by the Romanian authorities.

1/ Annual average for 1976-80 compared with annual average for 1971-75.

Table . Production, Domestic Consumption, Export, and Import of Oil and Oil Products

	Crude oil			Total refined products				
	Production[1/]	Import	Domestic Consumption	Production	Export	Domestic Consumption	Export	Import
	(In thousands of tons)						(In thousands of U.S. dollars)	
1970	13,759	2,291	16,050	15,835	5,370	10,465	123,083	24,000
1971	14,176	2,858	17,034	16,647	5,368	11,279	143,000	36,633
1972	14,483	2,873	17,356	17,059	5,096	11,963	137,811	47,920
1973	14,642	4,143	18,785	18,568	4,938	13,630	275,694	106,056
1974	14,839	4,538	19,377	18,866	6,502	12,364	535,271	434,668
1975	14,945	5,085	20,030	19,791	61,76	13,624	538,531	400,101
1976	15,052	8,475	23,527	23,133	7,842	15,291	735,150	717,102
1977								
1978[2/]								

Source: Data provided by the Romanian authorities.

1/ Includes a small amount of by-products from natural gas wells.

2/ Planned.

cc: LEED

REPUBLICA SOCIALISTĂ ROMÂNIA

MINISTERUL FINANȚELOR

446175

ORIG: EURO IAW
CC: MD
DMD
MR. RUDING
LEG
RES
TRE
ETR
SEC

April 5, 1978

Dear Mr. Witteveen :

1. In the letter to you dated July 27, 1977, the Minister of Finance requested on behalf of the Romanian Government a stand-by arrangement for one year in an amount equivalent to SDR 64.125 million, which the International Monetary Fund agreed to on September 9, 1977. In that letter it was explained the strong recovery that the economy had made in 1976 following the flood damage of 1975, including a sharp improvement in the balance of payments both in total and in respect of convertible currency. Unfortunately, this was interrupted in March 1977 by the severe earthquake that affected many parts of the country, resulting in the loss of many lives and substantial economic damage.

2. Despite the great impact of the earthquake, it was decided not to lower the domestic targets established in the 1977 Annual Plan. Our view was that sustained additional efforts by the whole population could largely overcome the effects of the disaster and in this way avoid significant shortfalls in planned performance in 1977-78. Because the earthquake adversely affected foreign trade and some invisible items in the balance of payments, particularly that in convertible currency, Romania requested the stand-by arrangement, which is providing temporary assistance while the economy recovers from the earthquake. As a part of the stabilization program that the stand-by arrangement supports, quantitative targets were set for some components of the balance of payments in convertible currencies and for domestic short-term credit of the banking system. These were specified in paragraphs 6, 9, and 10 of the letter of July 27, 1977. At that time, it was not possible to quantify the 1978 program and the quantified targets could be set only for September 30, 1977 and December 31, 1977. It was stated in paragraph 12 of the above letter that Romania would consult with the Fund in early 1978 to review implementation of the program and reach understandings on measures relating to implementation of the program during the remaining period of the stand-by arrangement. In the light of the exchange

rate changes discussed in paragraph 10 below, Romania wishes to consult with the Fund as provided for in paragraph 5 of the stand-by arrangement.

3. As a result of the great efforts made by the whole population, economic achievements in 1977 were in most sectors close to or in excess of the original plan targets. Notably, gross industrial production was 12.5 per cent higher than in 1976, compared with the Plan target of an increase of 10.5 per cent. National income rose by 8.6 per cent, compared with the original target of 11.3 per cent. A major factor in this result was a decline of 1.3 per cent in gross agricultural output, principally because of less favorable conditions for cereal crops than in the record year of 1976. Because performance in the first year of the 1976-80 Plan period was so good and because the recovery in 1977 from the earthquake was encouraging, the Romanian authorities have adopted a program of supplementary measures and raised the main targets for the 1976-80 Plan period as a whole. To achieve these aims, existing productive capacity will be utilized more fully, additional investment will be undertaken, and the general quality of output will be improved, thereby accelerating the average annual growth rates of industrial production, investment and foreign trade. Targets set for 1978 reflect the new tasks of the Five-Year Plan. National income will increase by at least 11 per cent as efforts are made to make up in the current year for production that could not be fully realized in 1977. Industrial production is to show a further substantial increase and agricultural output is planned to rise by about 9 per cent, assuming more favorable weather than last year. Net output is to increase faster than gross output as enterprises reduce material inputs per unit of output. Developments in the external sector are described in paragraphs 7 to 10 below.

4. In addition to the financial and external policies that are described in subsequent paragraphs, I would like to outline an important general improve ment of the Romanian economic-financial mechanism that has been announced by the President of our country. In particular the new mechanism will give greater responsibility for self management to enterprises. The latter will be obliged to increase their profitability so that they can generate more resources from their own efforts for investment and improve the incomes and general standard of living of their workers. An important change will be greater emphasis on the rate of growth of value added, that is on net rather than gross output. The strengthening of enterprise profits will allow more financial and social incentives, for example housing, to be made available to workers directly by the enterprises in which they work. Thus, enterprises will play an increasing role in meeting the needs of their workers and of society as a whole.

5. Turning to the financial and external outcome in 1977 and policies for 1978, in the fiscal area the budget result for 1977 was a surplus of lei 1,557 million, equal to 0.6 per cent of total budget revenue. Because of the earthquake, various payments from the budget had to be made to the economy beyond those originally forecast but these were more than compensated for by reductions in other forms of expenditure. Also, some damage that would otherwise have had to be financed through the budget was paid for by voluntary individual contributions of the population both financially to a reconstruction fund and by extra physical work. For 1978 the budget is to increase by 13 per cent. Expenditure is to be fully covered by revenue and the resource use proposed in the budget is compatible with the planned improvement in the balance of payments.

6. Under monetary policy in 1977 short-term credit of the banking system had been planned to rise by 6.6 per cent during the year; it in fact rose by only 0.3 per cent. Consequently, money supply also rose by only 3.0 per cent compared with a planned growth of 6.3 per cent. This difference is, however, the result of changes in prices and taxation that had the effect of reducing between the end of 1976 and the end of 1977, the value of stocks held by enterprises. As a counterpart of the reduced value of stocks, there was a reduction in short-term credit used to finance them. If the above change had not taken place, short-term credit would have risen by about 5 per cent, which is, however, less than the target specified in the letter of July 27, 1977. The small increase in credit in 1977 was an additional encouragement to enterprises to release stocks for export and for replacement of imported materials in domestic production. For 1978 the planned increase of 8.8 per cent in short-term credit is again much lower than the planned rise in national income. This is designed to continue to put pressure on enterprises not to hold excess stocks and also to implement the planned reduction in the value of material inputs per unit of output. Allowance has been made for a necessary increase in some imported raw materials, which will mainly occur in the first quarter. At the end of December 1977, short-term credit of the banking system totaled lei 194.5 billion and it is planned that it will not exceed lei 211.6 billion at the end of December 1978. Consistent with the normal seasonal pattern and with the financing of special raw material imports referred to above, it is planned that short-term credit of the banking system will not exceed lei 206.0 billion on March 31, 1978, lei 212.0 billion on June 30, 1978, and lei 222.0 billion on September 30, 1978.

7. Following the earthquake, it was estimated that the balance of payments would be adversely affected in 1977-78 by more than $ 500

million, principally in convertible currencies, despite all the efforts made to overcome the effects of the disaster by increasing export supplies and economizing on import usage. At that time a current account deficit of $ 546 million was forecast for the total balance of payments in 1977 and one of $ 350 million in respect of the current account in convertible currencies. The corresponding forecast deficit on trade accounts were $ 308 million and $ 90 million, respectively. For the balance of payments in all currencies, the trade result achieved for 1977 was a deficit of $ 141 million, less than half that originally forecast, principally because of improved export performance following efforts to maximize export production, to divert some products from the domestic to foreign markets, and to make export sales from existing stocks. As a result of the improved trade account and also because some invisible items, notably tourism and transportation, performed better than expected, the current deficit was $ 304 million, or $ 242 millionlessthan projected. For transactions in covertible currency, the trade deficit at $ 81 million was fractionally better than forecast and the current account deficit at $ 273 million was $ 77 million less than originally projected. The smaller deficits on current account permitted less than forecast net borrowing and a smaller overall deficit both for the total balance of payments and that in convertible currencies. In particular, net short-term borrowing in convertible currencies was $ 156 million compared with the original expectation of $ 169 million and the increase in gross convertible international reserves was $ 32 million compared with the target increase of $ 15 million.

8. It was indicated in the letter of July 27, 1977, that a further reduction in the balance of payments deficit would be planned for in 1978. Given the improvement that has already occurred, the authorities consider that it is appropriate not only to aim at reducing the size of the overall deficit but to achieve an overall surplus. To this end, the target is to increase the value of exports by more than 16 per cent both in total and to the convertible area, and to continue the policy of using imports more efficiently, thereby keeping the rate of import growth well below than of exports, namely increases of 12 per cent for all imports and of 10 per cent for convertible imports. We believe that these trends in merchandise trade combined with further favorable developments in service transactions could reduce the current account deficit in all currencies to about $ 36 million in 1978 and produce a small current account surplus of $ 8 million in convertible currencies. These marked improvements on current account would allow us to reduce net capital inflow, allowing, inter alia, a reduction in outstanding short term foreign debt in convertible

currency, while still leading to a balance of payments surplus of $ 51 million in all currencies and one of $ 101 million in convertible currencies. The latter would permit Romania to make net repurchases from the Fund equivalent to $ 68 million in 1978, while increasing gross convertible rezerves by $ 33 million.

9. The targets for the 1978 balance of payments are high and the success of the program will depend on intense domestic efforts to produce and market our exports efficiently and to reduce material inputs, as well as on an increase of activity in the world economy. The 1978 Plan places great emphasis on export production. Foreign trade targets will be closely monitored and, in particular, we have established, as we did in 1977, quarterly targets for the trade balance in convertible currencies. For the whole year, a surplus of $ 161 million is planned and, allowing for the normal seasonal pattern of convertible foreign trade, the cumulative trade deficit in convertible currencies should not exceed $ 48 million on March 31, 1978 or $ 59 million on June 30, 1978 while there should be a trade surplus in convertible currencies of at least $ 12 million by September 30, 1978. In view of our concern to keep short-term foreign debt at the lowest possible level, targets have been set so that outstanding convertible short-term debt, which stood at $ 238 million on December 31, 1977 will not exceed $ 290 million on March 31, 1978, $ 280 million on June 30, 1978, $ 250 million on September 30, 1978, and $ 185 million on December 31, 1978. Despite the increase in gross convertible international reserves in 1977 they still remain low relative to imports from the convertible area. The intention therefore is to increase them further in 1978 and quarterly targets have been set so that the gross convertible reserves will not be less than $ 270 million on March 31, 1978, $ 275 million on June 30, 1978, $ 280 million on September 30, 1978, and $ 295 million on December 31, 1978.

10. On March 6, 1978, as described in our communication of March 6, 1978, Romania appreciated both the official exchange rate of the leu in terms of the U. S. dollar, from lei 4.97 to lei 4.47 per U. S. dollar, and also the rate at which foreign exchange is made available for imports, at which export proceeds are purchased and at which trade related invisible and capital transactions take place, from lei 20 to lei 18 per U. S. dollar. These appreciations applied only to exchange transactions with non-socialist countries and Yugoslavia. The exchange rate for nontrade transactions (the noncommercial rate) with non-socialist countries and Yugoslavia was left unchanged at lei 12.000 per U. S. dollar. All exchange rates with socialist countries less Yugoslavia remain unchanged. The above changes in some exchange rates were made primarily for domestic purposes. Apart

from the above exchange rate changes, since September 9, 1977, Romania has not introduced any new multiple exchange practices or any new restrictions, nor intensified existing ones, on payments and transfers for current international transactions, nor concluded any new bilateral payments agreements with Fund members, nor introduced restrictions, nor intensified existing ones on imports.

11. The authorities believe that the policies set forth in the letter of July 27, 1977, and in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The authorities will consult the Fund, in accordance with the policies of the Fund on consultations under stand-by arrangements, on the adoption of any measures that may be appropriate.

Yours sincerely,

Paul Niculescu - Mizil
Vice-Prime Minister,
Minister of Finance

The Managing Director

Office Memorandum

TO : The Managing Director ✓
The Deputy Managing Director

DATE: March 8, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania - Mid-term Review Under Stand-By Arrangement

A mission consisting of Geoffrey Tyler, Alison Mitchell, James Wein, and Selma Symons, as secretary, was in Romania from February 10 to March 2, 1978 for discussions on the mid-term review of the stand-by arrangement, approved September 9, 1977 (SDR 64.125 million, basically covering the enlarged third credit tranche), including the negotiation of quantified performance criteria for the remainder of the stand-by period.

The economy recovered remarkedly well from the earthquake of March 1977 and results for 1977 were not far below original targets in the domestic sector. Industrial production was in fact 12.5 per cent higher than in 1976, exceeding the planned increase of 10.5 per cent. Gross agricultural output fell by 1.3 per cent from the record level of 1976 and mainly because of this, national income rose by only 8.6 per cent, compared with the original target of 11 per cent. Plans for 1978 are ambitious. National income is to increase by 11.5 per cent, assuming increases of 10.6 per cent in gross industrial output and 11.5 per cent in gross agricultural output. The latter figure is unlikely to be achieved but the former will probably be exceeded so that the national income forecast is reasonable.

Externally, the balance of payments did better in 1977 than forecast, and all the performance criteria were met in this area. (The trade balance in convertible currency, short-term convertible foreign debt, and gross convertible international reserves were all within the specified limits.) For the balance of payments in all currencies, the current account deficit was US$304 million compared with the original forecast of US$546 million and the overall deficit US$107 million compared with the original forecast of US$281 million. The improvement arose principally from better export performance. The balance of payments outcome with the convertible area was slightly better than expected with a current account deficit of US$273 million (US$350 million forecast) and an overall deficit of US$6 million (US$23 million forecast).

The balance of payments forecast for 1978 continues the improvement that occurred in the second half of 1977. For the balance of payments in all currencies there is to be a current account deficit of only US$36 million and an overall surplus of US$51 million. For convertible currencies, there is to be a current account surplus of US$8 million and an overall surplus of US$101 million. The latter will permit net repayments of US$68 million to the Fund and a modest increase of US$33 million in gross convertible reserves. On the basis of the convertible balance of payments forecast, allowing for seasonal patterns, targets have been set for March 31 and June 30, 1978 in the convertible balance of trade, convertible short-term foreign debt, and gross convertible international reserves. A summary of these performance criteria is attached.

The planned balance of payments results are ambitious, especially on the import side, with all imports rising by 12 per cent and convertible imports by only 10 per cent. The mission would probably have been willing to support a slightly slower improvement in the trade account but the Romanians believe that their targets are achievable and, as performance criteria, they may provide an additional incentive to increase export efforts and continue policies designed to increase the efficiency of import usage.

With respect to domestic financial policies, the authorities have continued to restrict the availability of financial resources to enterprises through tight fiscal and monetary policies. After allowing for a special factor, short-term bank credit rose by less than 6 per cent during 1977 and is planned to rise by only 8.8 per cent in 1978, in each case by much less than nominal output. The planned increase in 1978 should continue to put pressure on enterprises to meet export and import targets and not to buildup excess stocks. Performance criteria have been established for March 31 and June 30, 1978 on the basis of the planned annual credit increase and the seasonal pattern, and are shown in the attached table.

During the course of the discussions the authorities told the mission that changes in exchange rates were to be introduced shortly. (In the event they came into effect on March 6, 1978.) The authorities emphasized their desire to cooperate with the Fund and were open in answering all the questions we had. No changes were made in exchange rates with the other socialist countries having bilateral settling arrangements with Romania. For nonsocialist countries, including Yugoslavia, the official rate was changed from the equivalent of lei 4.97 per dollar to lei 4.47 per dollar; cross rates with the nonsocialist countries continue to be based on the relevant quotations between third currencies and the dollar. In practice, the official rate is used mainly for accounting purposes. The significant change was in the rate of lei 20 per dollar that is used for trade and trade related invisible and capital transactions. This was appreciated to lei 18 per dollar. At first sight an appreciation seems unusual for a country with low reserves, relatively high foreign debt, and a current stand-by arrangement with the Fund. The dichotomy is explained by the fact that the change in the trade rate is nullified for all export transactions and for many import transactions by the operation of an equalization system which equates the prices received for exports and paid for imports in lei with the corresponding domestic price. The exchange rate change for such transactions does not therefore change the relative prices in lei of domestic and foreign goods. For imports of investment goods, some industrial inputs, and consumer goods, the new rate of lei 18 per dollar (previously lei 20 per dollar) actually applies, since these imports do not go through the equalization system. For such goods, which basically are those not having a direct Romanian equivalent, the appreciation reduces the cost in lei of imports and thereby the costs of the importing enterprises. It also reduces the cost of such imports from the convertible area relative to those from the other socialist countries. The Romanian rationale is that prices of comparable domestic production have changed very little in recent years, those of goods from other socialist countries relatively little, but that prices in other markets have risen strongly. The exchange rate change therefore goes some way toward restoring the relative price structure obtaining some years ago. In principle, this should improve the competitive position of western exporters but in practice the division of imports between the socialist and western sources is probably not greatly dependent on price and the main reason for the move is domestic, i.e. to reduce the lei cost of investment in western equipment. The tourist rate of lei 12.00 per dollar is unchanged. The Romanians consider, and the figures support them, that their tourist industry could not stand an appreciation that would increase prices paid by tourists to Romania.

It seems likely that the exchange rate changes introduce a new multiple currency practice (or practices), in which case the relevant performance clause under the stand-by arrangement has been triggered. The question is being studied interdepartmentally and at a later stage you will receive recommendations on what action needs to be taken.

During the mission, the President made a major economic speech, which is intended to introduce important changes in the economic system. The speech dealt mainly in generalities and neither the Minister of Finance nor officials were able to add much, since implementing policies are still to be worked out. Basically, however, the aim is to place more obligations and rights upon enterprises in planning and carrying out their investment and production plans and in providing their own financing rather than receiving it from the budget. Enterprises will also partly replace the central authorities in providing some social services, e.g., housing, directly to their employees. Although the Romanians would probably not like to have it expressed directly, the message to enterprises seems to be that if they are not profitable then their workers' total "income" will be less and, conversely, better than planned results will bring commensurately higher "income." We were told privately that the Romanians have had discussions with Yugoslavia about the latter's system and there are parallels with the Hungarian changes in 1968. The Romanians, however, said that they would not like such comparisons to be made explicitly.

Agreed
G

As always, the Minister of Finance asks that we obtain your concurrence to the necessary letter to the Fund in connection with the mid-term review before he takes it to the President for his consideration. A copy of the draft is attached for your approval. If you can accept it--and the mission recommends that you do--and subject to there being no changes of substance needed as a result of departmental comments, we would cable the Minister that he should forward the final version to you (including any drafting changes that need to be made).

cc: Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Sturc
Mr. Whittome
Mr. Ware

Table 1. Quantitative Performance Criteria
Included in Proposed Stand-By Arrangement

((a) actual; (b) target; end of period)

		1977				1978			
		March 1/	June 1/	Sept.	Dec.	March	June	Sept. 1/	Dec. 1/
Trade balance in convertible currency 2/ (cumulative)	(a)	-24	-133	-149	-81	--	--	--	--
	(b)	...	...	-160	-90	-48	-59	+12	+161
Outstanding convertible short-term foreign debt 2/ (convertible)	(a)	...	236.0	218.5	238.0	--	--	--	--
	(b)	...	...	302.0	252.0	290	280	250	185
Gross convertible international reserves 2/	(a)	228.0	231.0	238.1	261.7	--	--	--	--
	(b)	...	...	233.0	240.0	270	275	280	295
Short-term credit of the banking system 3/	(a)	201.4	202.3	207.1	194.5	--	--	--	--
	(b)	...	...	214.5	207.0	206.0	212.0	222.0	211.6

Source: Data supplied by the Romanian authorities.
1/ Not performance criteria under stand-by arrangement.
2/ In millions of U.S. dollars; the trade balances are cumulative from January 1.
3/ In billions of lei.

Dear Mr. Witteveen:

1. In my letter to you dated July 27, 1977, I requested on behalf of the Romanian Government a stand-by arrangement for one year in an amount equivalent to SDR 64.125 million, which the International Monetary Fund agreed to on September 9, 1977. In that letter I explained the strong recovery that the economy had made in 1976 following the flood damage of 1975, including a sharp improvement in the balance of payments both in total and in respect of convertible currency. Unfortunately, this was interrupted in March 1977 by the severe earthquake that affected many parts of the country, resulting in the loss of many lives and substantial economic damage.

2. Despite the great impact of the earthquake, it was decided not to lower the domestic targets established in the 1977 Annual Plan. Our view was that sustained additional efforts by the whole population could largely overcome the effects of the disaster and in this way avoid significant shortfalls in planned performance in 1977-78. Because the earthquake adversely affected foreign trade and some invisible items in the balance of payments, particularly that in convertible currency, Romania requested the stand-by arrangement, which is providing temporary assistance while the economy recovers from the earthquake.

As part of the stabilization program that the stand-by arrangement supports, quantitative targets were set for some components of the balance of payments in convertible currencies and for domestic short-term credit of the banking system. These were specified in paragraphs 6, 9, and 10 of the letter of July 27, 1977. At that time, it was not possible to quantify the 1978 program and the quantified targets could be set only for September 31, 1977 and December 31, 1977. It was stated in paragraph 12 of the above letter that Romania would consult with the Fund in early 1978 to review implementation of the program and reach understandings on measures relating to implementation of the program during the remaining period of the stand-by arrangement.

3. As a result of the great efforts made by the whole population, economic achievements in 1977 were in most sectors close to or in excess of the original plan targets. Notably, gross industrial production was 12.5 per cent higher than in 1976, compared with the Plan target of an increase of 10.5 per cent. National income rose by 8.6 per cent, compared with the original target of 11.3 per cent. A major factor in this result was a decline of 1.3 per cent in gross agricultural output, principally because of less favorable conditions for cereal crops than in the record year of 1976. Because performance in the first year of the 1976-80 Plan period was so good and because the recovery in 1977 from the earthquake was encouraging, the Romanian authorities have adopted a program of supplementary measures and raised the main targets for the 1976-80 Plan period as a whole. To achieve these

aims, existing productive capacity will be utilized more fully, additional investment will be undertaken, and the general quality of output will be improved, thereby accelerating the average annual growth rates of industrial production, investment and foreign trade. Targets set for 1978 reflect these new tasks of the Five-Year Plan. National income will increase by at least 11 per cent as efforts are made to make up in the current year for production that could not be fully realized in 1977. Industrial production is to show a further substantial increase and agricultural output is planned to rise by about 9 per cent, assuming more favorable weather than last year. Net output is to increase faster than gross output as enterprises reduce material inputs per unit of output. Developments in the external sector are described in paragraphs 7 to 10 below.

4. In addition to the financial and external policies that are described in subsequent paragraphs, I would like to outline an important general improvement of the economic-financial mechanism that has been announced by the President of our country. In particular the new mechanism will give greater responsibility for self management to enterprises. The latter will be obliged to increase their profitability so that they can generate more resources from their own efforts for investment and improve the incomes and general standard of living of their workers. An important change will be greater emphasis on the rate of growth of value added, that is on net rather than gross output. The strengthening of enterprise profits will allow more financial and social incentives, for example housing, to be made available to workers directly by the enterprises in which they work. Thus, enterprises will play an increasing role in meeting the needs of their workers and of society as a whole.

5. Turning to the financial and external outcome in 1977 and policies for 1978, in the fiscal area the budget result for 1977 was a surplus of lei 1,557 million, equal to 0.6 per cent of total budget revenue. Because of the earthquake, various payments from the budget had to be made to the economy beyond those originally forecast but these were more than compensated for by reductions in other forms of expenditure. Also, some damage that would otherwise have had to be financed through the budget was paid for by voluntary individual contributions of the population both financially to a reconstruction fund and by extra physical work. For 1978 the budget is to increase by 13 per cent. Expenditure is to be fully covered by revenue and the resource use proposed in the budget is compatible with the planned improvement in the balance of payments.

6. Under monetary policy in 1977 short-term credit of the banking system had been planned to rise by 6.6 per cent during the year; it in fact rose by only 0.3 per cent. Consequently, money supply also rose by only 3.0 per cent compared with a planned growth of 6.3 per cent. This difference is, however, the result of changes in prices and taxation that had the effect of reducing between the end of 1976 and the end of 1977, the value of stocks held by enterprises. As a counterpart

of the reduced value of stocks, there was a reduction in short-term credit used to finance them. If the above change had not taken place, short-term credit would have risen by about 5 per cent, which is, however, less than the target specified in my letter of July 27, 1977. The small increase in credit in 1977 was an additional encouragement to enterprises to release stocks for export and for replacement of imported materials in domestic production. For 1978 the planned increase of 8.8 per cent in short-term credit is again much lower than the planned rise in national income. This is designed to continue to put pressure on enterprises not to hold excess stocks and also to implement the planned reduction in the value of material inputs per unit of output. Allowance has been made for a necessary increase in some imported raw materials, which will mainly occur in the first quarter. At the end of December 1977, short-term credit of the banking system totaled lei 194.5 billion and it is planned that it will not exceed lei 211.6 billion at the end of December 1978. Consistent with the normal seasonal pattern and with the financing of special raw material imports referred to above, it is planned that short-term credit of the banking system will not exceed lei 206.0 million on March 31, 1978, lei 212.0 million on June 30, 1978, and lei 222.0 million on September 30, 1978.

7. Following the earthquake, it was estimated that the balance of payments would be adversely affected in 1977-78 by more than $500 million, principally in convertible currencies, despite all the efforts made to overcome the effects of the disaster by increasing export supplies and economizing on import usage. At that time a current account deficit of $546 million was forecast for the total balance of payments in 1977 and one of $350 million in respect of the current account in convertible currencies. The corresponding forecast deficits on trade accounts were $308 million and $90 million, respectively. For the balance of payments in all currencies, the trade result achieved for 1977 was a deficit of $141 million, less than half that originally forecast, principally because of improved export performance following efforts to maximize export production, to divert some products from the domestic to foreign markets, and to make export sales from existing stocks. As a result of the improved trade account and also because some invisible items, notably tourism and transportation, performed better than expected, the current deficit was $304 million, or $242 million less than projected. For transactions in convertible currency, the trade deficit at $81 million was fractionally better than forecast and the current account deficit at $278 million was $77 million less than originally projected. The smaller deficits on

current account permitted less than forecast net borrowing and a smaller overall deficit both for the total balance of payments and that in convertible currencies. In particular, net short-term borrowing in convertible currencies was $156 million compared with the original expectation of $169 million and the increase in gross convertible international reserves was $32 million compared with the target increase of $15 million.

8. I indicated in my letter of July 27, 1977, that a further reduction in the balance of payments deficit would be planned for in 1978. Given the improvement that has already occurred, the authorities consider that it is appropriate not only to aim at reducing the size of the overall deficit but to achieve an overall surplus. To this end, the target is to increase the value of exports by more than 16 per cent both in total and to the convertible area, and to continue the policy of using imports more efficiently, thereby keeping the rate of import growth well below that of exports, namely increases of 12 per cent for all imports and of 10 per cent for convertible imports. We believe that these trends in merchandise trade combined with further favorable developments in service transactions could reduce the current account deficit in all currencies to about $36 million in 1978 and produce a small

current account surplus of \$8 million in convertible currencies. These marked improvements on current account would allow us to reduce net capital inflow, allowing, inter alia, a reduction in outstanding short-term foreign debt in convertible currency, while still leading to a balance of payments surplus of \$51 million in all currencies and one of \$101 million in convertible currencies. The latter would permit Romania to make net repurchases from the Fund equivalent to \$68 million in 1978, while increasing gross convertible reserves by \$33 million.

9. The targets for the 1978 balance of payments are high and the success of the program will depend on intense domestic efforts to produce and market our exports efficiently and to reduce material inputs, as well as on an increase of activity in the world economy. The 1978 Plan places great emphasis on export production. Foreign trade targets will be closely monitored and, in particular, we have established, as we did in 1977, quarterly targets for the trade balance in convertible currencies. For the whole year, a surplus of \$161 million is planned and, allowing for the normal seasonal pattern of convertible foreign trade, the cumulative trade deficit in convertible currencies should not exceed \$48 million on March 31, 1978 or \$59 million on June 30, 1978 while there should be a trade surplus in convertible currencies of at least

$12 million by September 30, 1978. In view of our concern to keep short-term foreign debt at the lowest possible level, targets have been set so that outstanding convertible short-term debt, which stood at $238 million on December 31, 1977 will not exceed $290 million on March 31, 1978, $280 million on June 30, 1978, $250 million on September 30, 1978, and $185 million on December 31, 1978. Despite the increase in gross convertible international reserves in 1977 they still remain low relative to imports from the convertible area. The intention therefore is to increase them further in 1978 and quarterly targets have been set so that the gross convertible reserves will not be less than $270 million on March 31, 1978, $275 million on June 30, 1978, $280 million on September 30, 1978, and $295 million on December 31, 1978.

10. /On March 6, 1978, as described in /the communication of , 1978/, Romania appreciated both the official exchange rate of the leu in terms of the U.S. dollar, from lei 4.97 to lei 4.47 per U.S. dollar, and also the rate at which foreign exchange is made available for imports, at which export proceeds are purchased and at which trade related invisible and capital transactions take place, from lei 20 to lei 18 per U.S. dollar. These appreciations applied only to exchange transactions with non-socialist countries. The exchange rate for nontrade transactions (the noncommercial rate) with non-socialist countries was left

unchanged at lei 12.00 per U.S. dollar. All exchange rates with socialist countries remain unchanged. The above changes in some exchange rates were made primarily for domestic purposes. /Apart from the above exchange rate changes/, since September 9, 1977, Romania has not introduced any new multiple exchange practices or any new restrictions, nor intensified existing ones, on payments and transfers for current international transactions, nor concluded any new bilateral payments agreements with Fund members, nor introduced restrictions, nor intensified existing ones on imports.

11. The authorities believe that the policies set forth in the letter of July 27, 1977, and in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The authorities will consult the Fund, in accordance with the policies of the Fund on consultations under stand-by arrangements, on the adoption of any measures that may be appropriate.

Yours sincerely,

Florea Dumitrescu
Minister of Finance

CC: EED.

RECEIVED
I.M.F.

1978 APR -5 AM 8:59

CABLE
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I M F UR WASHINGTON D.C.

MR.WHITTOME DIRECTOR EUROPEAN DEPARTMENT

FURTHER TO YOUR CABLE OF MARCH 28, 1978, PLEASE KNOW (1) WOEDING WE HAVE USED FOR FINAL SENTENCE OF PARAGRAPG 2 IN OUR LETTER IS AS FOLOWS QUOTE IN THE LOGHT OF THE EXCHANGE RATE CHANGES DISCUSSED IN PARAGRAPH 10 BELOW, ROMANIA WISHES TO CONSULT WITH THE FUND AS PROVIDED FOR IN PARAGRAPH 5 OG THE STAND-BY ARRANGEMENT UNQUOTE. (2) THE DATE OF THE LETTER IS ASPRIL 5, 1978.-

BEST REGARDS

N. EREMIA

DIRECTOR MINISTRY OF FINANCEX

XXXXX ..... IN THE LOGHT EEE Y ....LIGHT....

TKS.

11239IGFSMF R⊕

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The Managing Director

April 4, 1978

L. A. Whittome

Visit of President Ceausescu

The meeting with President Ceausescu has been arranged for 4:00 p.m., April 13, at Blair House. The Romanians have made arrangements for you and me to attend.

cc: The Deputy Managing Director
Mr. Ware
ECD

CHECK SERVICE

- Telex [x]
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- Full Rate [ ]
- Code [ ]

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Mr. N. Eremia

Deputy Director

Ministry of Finance

Bucharest, Romania

With reference to our cable of March 28, we would appreciate a reply at your earliest convenience.

Regards,

Whittome
Interfund

Special Instructions

Distribution

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Drafted by: JWein/vrb
Department: EUR
Date: 4/3/78

L. A. Whittome NAME (TYPE) — SIGNATURE: [signature]

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Deputy Managing Director

WBD

The Managing Director

March 31, 1978

L. A. Whittome

Proposed Visit of President Ceausescu

President Ceausescu is to visit Washington in the second week of April. The program has been agreed with the State Department. The Romanians have asked whether you would be prepared to meet with President Ceausescu at Blair House on the afternoon of April 13, between 4:00 and 7:00 p.m., the precise time to be arranged later. I said that I hoped you would be free on that day, but I would confirm this to them later.

Yes
WBD

cc: The Deputy Managing Director
Mr. Ware
EED

CHECK SERVICE

- Telex [x]
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- Code [ ]

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

DISPATCHED MAR 28 AM 11:00

TIME RECEIVED

ADDRESS

~~Mr. N. Eremia~~
~~Deputy Director~~
~~Ministry of Finance~~
~~Bucharest, Romania~~

Special Instructions

To facilitate circulation of our report, we would appreciate knowing (1) wording you have used for final sentence of paragraph 2 in your letter/ (2) the date of the letter. Report will be circulated after receipt of this information and text of letter when received.

Regards,

Whittome

Distribution

MESSAGE MUST END HERE

Drafted by: JWein/vrb
Department: EUR
Date: 3/28/78

L. A. Whittome
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The Managing Director
The Deputy Managing Director

March 27, 1978

L. A. Whittome

Romania--Review and Consultation Under Stand-By Arrangement

A draft on the above subject is attached for your consideration. The letter from the Minister of Finance describing policies for the remaining period of the stand-by arrangement has not yet been received. We propose circulating the paper as soon as we know the letter has been sent and will circulate the text of the letter as a supplement as soon as we receive the letter itself. The draft has been cleared with LEG (Mr. Nicoletopolous), RES (Mr. Rhomberg), and TRE (Mr. Cutler).

The paper should be returned to the European Department.

cc: Mr. Ware

draft not kept in file

Mr. Whittome

Office Memorandum

TO : Mr. Wein

DATE: March 24, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania

The stand-by paper is scheduled to go to managment on Monday, March 27, 1978. The paper itself must be initialled by Mr. Sturc and Mr. Whittome. The covering memorandum must be signed by the latter.

When the draft is received from the Managing Director and the Deputy Managing Director, it can be circulated provided the notification of the signing of the letter has been received. At this time, Secretary's Department and Mr. Ruding's office should be consulted regarding an agenda time. I would suggest no earlier than April 19. However, our Front Office will probably be the best people to handle the above discussions.

When the text of the letter is received it should be circulated immediately as a supplement.

Please cable me when you have the date of the Board discussion.

cc: Mr. Whittome
Mr. Mountford

CONFIDENTIAL

March 30, 1978

Romania: Exchange Rate Policies

In 1977 the current account of the balance of payments deteriorated sharply to a deficit of SDR 260 million, largely as the result of damage caused by an earthquake. After net capital inflows of SDR 161 million, in part the result of short-term borrowing, there was an overall deficit of SDR 98 million. Romania has an extremely complex exchange rate system, encompassing a multiplicity of rates. For transactions with the convertible area there are two rates of significance. The exchange rate for non-trade related transactions (chiefly tourism) is lei 12 per U.S. dollar, and it is pegged to the dollar. In principle, it is determined at irregular intervals on the basis of prices of a basket of tourist-related expenditures in Romania and in the industrial countries. For its purpose, and given the relative small volume of transactions to which it applies relative to the total balance of payments in convertible currencies there seems no reason to quarrel with the present rate.

The second rate of significance is the rate applying to trade and trade-related transactions, including capital transactions. This is currently lei 18 per U.S. dollar, and the rate is pegged to the latter currency. There is, however, an equalization system that applies to all exports and to some imports, principally raw materials. This system equates the price received or paid in lei with the price in lei of the equivalent domestically produced good. This leads to multiple rates. Also it means that the nominal exchange rate of lei 18 per U.S. dollar has no effect on the demand for relevant imports or the supply of exports. For other imports, principally investment goods, the rate of lei 18 per U.S. dollar operates and a customs tariff is applied but the demand for such imports is determined not only by relative prices but also by the allocation of import licenses to enterprises through the annual foreign trade plan.

In sum the exchange rate for trade has only a limited impact on exports and imports. However, the authorities endeavor to set the rate so that, on average, prices in lei of imports and exports, converted at the trade rate, are equal to domestic prices of the same or similar products. Changes in the exchange rate have been made at intervals several years apart when relative prices in Romania and world markets have diverged. Such a change (from lei 20 to lei 18 per U.S. dollar) was last made on March 6, 1978.

In the circumstances there seem no grounds for believing the present exchange rate is unreasonable.

Mr. Whittome
2

Office Memorandum

TO : Mr. Nose

DATE: March 24, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Monetary Survey

We hope that it will be possible to persuade the Romanians to provide data in June for the Article XIV consultation that will permit us to prepare a monetary survey for Romania. We presume that this will involve obtaining balance sheets of each of the Romanian banks in a form that will permit the aggregation of individual items in the standard IFS form. I would be grateful if one of your people could collaborate with Mr. Wein in preparing suitable dummy tables to be sent to Bucharest. I am myself leaving for a mission on March 26, 1978. Since I want to be able to send the tables to Romania soon after my return in mid-April, it would be helpful if you could assign someone to the task immediately. Mr. Wein will be dealing with the matter while I am away.

cc: Mr. Whittome
Mr. Wein

Mr. Whittome ✓
G

March 23, 1978

MEMORANDUM FOR THE FILES

Subject: Romania—Supply of Information

The following is a summary of the position reached on the above subject following a meeting between Messrs. Whittome, Pfeifer, and Tyler.

1. The Romanians should be asked to supply the data outlined in the concluding portion of the memorandum of March 21, 1978 by Mr. Tyler.

2. In conversations with the Romanians, it could be assumed that the request had the full support of management.

3. If the Romanians prove unreasonably unwilling to provide the data in June, the next step would be to discuss the subject with them at the Annual Meeting.

4. If all of the above avenues prove fruitless, then it would probably be appropriate for the Managing Director to make written representations to the Romanian authorities.

Geoffrey Tyler

cc: Mr. Whittome ✓

CC: AD.

Office Memorandum

TO : Mr. Whittome [handwritten initials] Discussed 23/3 [initials]

DATE: March 21, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Supply of Information

While the recent mission was in Romania, the then Minister of Finance, Mr. Dumitrescu, spoke in quite strong terms regarding the question of information. Mr. Bituleanu and other officials spoke in the same manner. Basically what Mr. Dumitrescu said was that he found it increasingly difficult to ask at frequent intervals for new categories of information to be made available to the Fund. He therefore wanted to combine the request to be made to the President in May for the March 31 quarterly data with the request for the information to be supplied to the consultation mission in June. Moreover, he said that to avoid the problem in the future he would like the Fund to furnish once and for all a list of the data that Romania must supply.

Equally strongly, I said that it would be, in my view, quite impossible for management and the Fund as an organization to accept such a proposal. I said that already we were under increasing pressure from the Board regarding the problems of obtaining the same amount of information from Romania that we receive from other members. I pointed out that we had been particularly cooperative in the past in terms of the amount of data that we had requested and that it was quite unreasonable to put now the kind of proposal implied by what the Minister said. I said that for no country could the Fund place itself in the position that it could not ask for new data that it felt was necessary for the proper carrying out of the obligations imposed in the Articles of Agreement. I said that the history of recent years was that member countries had put increasing requests upon the Fund staff to provide wider analyses of the world economy and this had been reflected in the greater variety of data asked for by the organization from members. Mr. Dumitrescu and the others obviously understood this point. Equally obvious, they must be under pressure from those above them and perhaps from other parts of the Administration to limit additional requests. One reason for this may be that it is often a very difficult and lengthy task to get other departments to provide data in the form needed. Indeed, I have been told that at times the Ministry of Finance has to send its own staff to other Ministries and enterprises to obtain data at the source level because the Ministries themselves say that they are unable to provide the material. Another factor is that all approvals for information must first be agreed to by the Minister of Finance, who must then convince the relevant vice premier that the latter should ask the President for his personal approval, which must be obtained. Presumably this is time consuming and potentially embarrassing for the Minister of Finance.

First, presumably we are all agreed that the proposal of Mr. Dumitrescu is unacceptable to the Fund and management. However, it would help me to have a formal confirmation. Second, I think we should be willing to cooperate to the extent of telling the Romanians in April what we need for the June mission so that one request for approval could cover the March quarter data and the consultation data. Third, I think we should decide what is the most useful area in which to try and obtain additional data for the consultation paper. My own preference would be to insist upon the following:

(a) the balance sheets of the banks in a form that will permit us to derive a monetary survey for a period of years up to 1977. I would argue for requesting the data from end-1971 to end-1977. We would need to have the assistance of the Bureau of Statistics in preparing dummy tables in adequate detail;

(b) a breakdown of the budget expenditures item "financing of the economy," which is about two thirds of total expenditures and for which we currently have no breakdown, despite the fact that we have been requesting one for several years past;

(c) if possible, a reconciliation of the Romanian social accounts with those prepared on the UN system on both the production and expenditure sides. It is not clear whether this exists but we should try to obtain whatever is available;

(d) more detail on the structure of multiple exchange rates in foreign commodity trade, including changes brought about by the recent appreciation.

While we do not have to take a decision on detail now, it would be helpful to me if we could decide now on the broad principles of our position.

Mr. Whittome

MEMORANDUM FOR THE FILES

March 21, 1978

Subject: Romania

I spoke to Mr. De Vries today and informed him of my proposed brief visit to Bucharest. He said that in his view it was a sensible proposal.

Geoffrey Tyler

cc: Mr. Whittome

CONFIDENTIAL

Office Memorandum

TO : Mr. Whit~~tome~~

DATE: March 21, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Ministerial Changes

At a lunch at the World Bank, I learnt from the Division Chief handling Romania that Mr. Bituleanu is alleged to have said that Mr. Dumitrescu's loss of office does not imply any official criticism of him, but a desire to put a more senior man in the Ministry. It is said that Mr. Dumitrescu is to be given a senior diplomatic appointment and Mr. Bituleanu was quoted as having said, under pressure, that it might be the ambassadorship in Moscow or Peking.

Obviously this is second hand but it matches up with what I heard earlier in a general way from Mr. Besteliu, at the Embassy.

Office Memorandum

TO : Mr. Whittome

FROM : H. Ungerer

SUBJECT : Romania - Stand-by Paper

DATE: March 21, 1978

It is the first time that I read with some thoroughness a paper on Romania. I feel the authors have been quite successful in explaining and clarifying for the reader the special problems of a planned economy.

On substance I have one point; I am not sure of its relevance since I am not familiar with the history of our relations with Romania. I am wondering why and to what extent Romania is needing further drawings under the stand-by. Sure, there is a gap of SDR 13 million in convertible currencies to be filled (p.11); otherwise purchases would be used to replenish the admittedly low reserves. The stabilization program which is the basis for the confirmation of the agreement presumably would have been anyhow undertaken by the authorities. If that is so, what is the contribution of the Fund to Romania's policies and where is the counterpart of their right to purchase?

It seems that the key lies in one sentence of the staff appraisal, on p.24, lines 8-11, which stresses the staff's view that reserves should be higher. However, I don't feel the paper argues Romania's case convincingly. Perhaps things could be helped if cuts were made in the fairly long descriptive parts (balance of payments, pp. 7-10; fiscal policy, p.13; monetary developments, p.15; history of Fund transactions, pp. 2 and 3 could be put in an appendix). Furthermore, the staff appraisal appears very long (nearly 4 1/2 pages without draft decision) and repetitive. If more concise, the message would be clearer. (After having read in the last months various papers on different countries, I got the impression that in our department there are sometimes widely differing approaches to drafting a staff appraisal.)

Otherwise, I have only some minor suggestions which I have noted in the margins.

Office Memorandum

TO : Mr. Whittome

DATE: March 20, 1978

FROM : Geoffrey Tyler

SUBJECT : Romania--Ministerial and Party Reshuffle

I attach a copy of a memorandum on the above subject prepared by Mr. Wein.

It is very difficult to be certain about the import of all the changes, especially since they are so wide-ranging. I am trying to arrange a lunch this week with Mr. Bestelieu, of the Romanian Embassy, in the hope that he may be able to give me some personal background.

Attachment

cc: Mr. Wein

Office Memorandum

TO : Mr. Tyler

DATE: March 17, 1978

FROM : James Wein JW

SUBJECT : Romania--Ministerial and Party Reshuffle

In announcing the recent reshuffle within the Government and Party, President Ceausescu referred to the plans for restructuring the economic system as a reason for the changes. In my opinion, the changes mainly reflect dissatisfaction with economic performance, and an attempt to bring in a politically trusted but different economic team to deal with the forthcoming new economic measures.

The new Minister of Finance is Paul Niculescu, who is already a member of the Political Executive Committee of the Party Central Committee (PEC) and a vice-premier of the Government. Mr. Niculescu was not dropped from any posts. This seems to me to be a significant upgrading of the Finance Minister's relative importance, since Mr. Dumitrescu was not a vice-premier, nor (more importantly) did he have an important position in the Party. It is also significant that Mr. Dumitrescu was the only one in the reshuffle to be dropped from a position with no indication of his future job.

The new Minister of Foreign Trade and International Economic Cooperation is Cornel Burtică, who was relieved of his job as one of the secretaries of the Party Central Committee. However, he remains a member of the PEC and a vice-premier. Ion Pațan, the former Minister of Foreign Trade is now Minister of Supply and Romania's permanent representative to COMECON. He remains a member of the PEC and a vice-premier.

The rank of first vice-premier has been established. Ilie Verdeț has been named to this post and as president of the State Planning Committee. He remains a member of the PEC, but has also (like Mr. Burtică) been relieved as a secretary of the Central Committee. Gheorghe Oprea, a member of the PEC, has also been named a first vice-premier.

MEMORANDUM

March 20, 1978

To: Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Sturc

From: Geoffrey Tyler GT

Subject: Romania--Draft Paper--Review and Consultation Under Stand-By Arrangement

I attach the above draft paper. I would appreciate having your comments by close of business on Wednesday, March 22, 1978, since I would like to clear the paper at the staff level before I leave on a mission at the weekend.

G.T.

A few comments. Probably because of time pressure it is a long report and inevitably ~~pr~~ almost wholly descriptive. I suspect you are at some risk on the 'need' question. Is the need really "too low" reserves?

JP
21/3

Attachment

cc: Mr. Whittome
Mrs. Mitchell
Mr. Wein

Cc: EED.

Office Memorandum

TO : The Acting Managing Director

DATE: March 20, 1978

FROM : L. A. Whittome

SUBJECT : Romania--Visit by Mr. Tyler

The Romanian authorities have asked if Mr. Tyler could visit Bucharest briefly on his way back from the mission that is to be in Yugoslavia to discuss the new trade and payments arrangements. If his schedule and the timing of the Board discussion of the Romanian mid-term review under the stand-by arrangement permit, I think it would be helpful for him to accept the invitation, since he may be able to clarify some major economic changes that were announced, but without much detail, when the recent staff mission was in Bucharest.

If you approve, we shall obtain the necessary clearance from Mr. Ruding's office.

OK.

cc: The Managing Director (on return)
Mr. Ware

Dale has returned paper with no comments

Mr. Whittome

Office Memorandum

TO : The Acting Managing Director

DATE: March 15, 1978

FROM : L. A. Whittome

SUBJECT : Romania--Draft Paper on Exchange Rates

The above paper deals with the appreciations of some exchange rates governing transactions with the nonsocialist countries (i.e., other than the communist countries of Europe and Asia and Cuba, but including Yugoslavia). It has been cleared with ETR (Mr. Sturc), LEG (Mr. Evans), RES (Mr. Rhomberg), and TRE (Mr. Cutler).

The changes involve a new multiple currency practice since exchange rates with Viet Nam are unchanged. This is noted in the paper on page 1. The relevant performance criteria under the current stand-by arrangement is thus triggered and will be dealt with in the mid-term review paper, which is being prepared. You might note that we are not proposing any decision in this paper. We have never officially approved the complex multiple exchange rate system of Romania and on the occasion of the only other change in the exchange system we followed the course proposed here, namely to say that the staff would discuss the changes at the time of the next consultation discussion, which are scheduled for June 1978.

Given the unusual character of the change, the paper has taken a little time to prepare and we should try to issue it as rapidly as possible. After it has been examined by you, it should be returned to the European Department.

cc: The Managing Director (on return)
Mr. Ware

Mr. Whittome
W

MEMORANDUM FOR THE FILES

Subject: Romania--Information

March 9, 1978

It was proposed that the technical statistical visit that Mr. Saunders, of the Bureau of Statistics, and I made to Romania in November 1977 should be reported to the Board in the context of a list of technical assistance visits. My own view was that in a sense it could not properly be described as such since we had asked to go and obtain information for our own purposes rather than to give advice to the Romanians. Also, there is the possibility that they might be upset at being described as a country that needed "technical assistance" in the statistical field.

After discussing the matter with Mr. Nose, of the Bureau of Statistics, we agreed that Romania's name should be deleted from the list.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

Mr. Whittome

Office Memorandum

TO : Mr. Tun Thin

DATE: March 8, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Exchange System

You may find some aspects of the attached memorandum of interest to your Department. If there is any further detail that I might be able to supply, I would, of course, be happy to do so.

Could I mention that the Romanians are extremely sensitive about the confidentiality of information they give to us?

cc: Mr. Whittome

MEMORANDUM

To: Mr. Sturc
Mr. Nicoletopoulos
Mr. Rose

March 7, 1978

From: Geoffrey Tyler GT

Subject: Romania--Exchange System

The changes in exchange rates introduced by Romania on March 6, 1978 do not affect exchange rates with socialist countries other than Yugoslavia.1/ They, therefore, do not affect rates with Cambodia, Laos, and Vietnam. With respect to Cambodia and Laos, no exchange rates are in fact quoted by Romania and any transactions that occur take place in U.S. dollars. For Vietnam, however, an official rate is quoted and is used in settlements between the two countries. The Romanians state that to change this rate would be impossible without upsetting the relationships that exist between the currencies of socialist countries and which govern bilateral and multilateral settlement arrangements. They also say that the rate used does not in practice affect the amount of trade that takes place between Romania and Vietnam, this being determined by bilateral agreements on the quantities and prices of goods to be traded, which are based on world prices, not on relative domestic prices and the two official exchange rates.

If only because the relation between the leu and the Vietnamese dong has not been changed in the same way as that between the leu and currencies of other Fund members, the change in the exchange system appears to involve a new multiple currency practice. If this is so, then a performance criteria under the current stand-by arrangement has been breached. It would be helpful if we could agree on what elements in the change in the exchange system constitute new multiple currency practices.

Assuming there are new multiple currency practices, I would hope that we would be willing to take whatever action is necessary to allow Romania to continue to make purchases under the stand-by arrangement. Discussions for a mid-term review have just been completed by a staff mission and a paper will be circulated later this month. A draft letter explaining policy and including quantified performance criteria has been agreed with the Romanians; a copy is attached. In addition to providing any general comments, you may wish to look at the proposed wording of paragraph 10 to judge whether it is sufficient to enable the staff to propose whatever action is needed under the consultation provisions of the stand-by arrangement to cover any new multiple currency practice.

The text of the Romanian message on exchange rates is being circulated to the Executive Board, with a brief statement that a Board paper will be circulated shortly. A first draft was circulated last week and initial comments have been received from Mr. Nicoletopoulos and from the European Department. Before finalizing a redraft, it would be helpful to have your reaction on the subject of what new multiple currency practices exist and how we should handle them.

1/ Listed by Romania as Albania, Bulgaria, Cuba, Czechoslovakia, Democratic Republic of Germany, Hungary, People's Republic of China, Mongolia, Democratic People's Republic of Korea, Socialist Republic of Vietnam, Poland, and the U.S.S.R.

cc: Mrs. Mitchell
Mr. Wein

Office Memorandum

TO : Mr. Whittome

DATE: March 9, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania--Dismissal of High Officials

Today's Washington Post has a small item saying that seven ministers and four of the ten secretaries of the Party's Central Committee have been dismissed in a sweeping purge described as an attempt to speed up the program of economic reform. I have learnt from Mr. Besteliu, at the Romanian Embassy, that the new Minister of Finance is a Mr. Nicolescu, who was formerly Vice-President of the Council of Ministers. Mr. Besteliu personally felt that Mr. Dumitrescu would be given another position, but he had no knowledge of what it might be.

The text of the item is attached.

SOURCE Washington Post

FILE #

COMMENTS

DATE: March 9, 1978

Dismissals in Romania

VIENNA—Romanian President Nicolae Ceausescu announced a sweeping purge of government and Communist Party ranks, describing the move as an attempt to speed up his program of economic reform.

According to a presidential decree distributed by the official agency Agerpress, seven ministers and four of the 10 secretaries of the party's Central Committee were dismissed from their jobs.

Political observers said one of the key changes was the demotion of Lernel Burtica, 66, the chief ideologist in the party leadership. He was fired from his post as a committee secretary and named minister of foreign trade.

Mr. Whittome

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: March 8, 1978

FROM : Geoffrey Tyler GT

SUBJECT : Romania - Mid-term Review Under Stand-By Arrangement

A mission consisting of Geoffrey Tyler, Alison Mitchell, James Wein, and Selma Symons, as secretary, was in Romania from February 10 to March 2, 1978 for discussions on the mid-term review of the stand-by arrangement, approved September 9, 1977 (SDR 64.125 million, basically covering the enlarged third credit tranche), including the negotiation of quantified performance criteria for the remainder of the stand-by period.

The economy recovered remarkedly well from the earthquake of March 1977 and results for 1977 were not far below original targets in the domestic sector. Industrial production was in fact 12.5 per cent higher than in 1976, exceeding the planned increase of 10.5 per cent. Gross agricultural output fell by 1.3 per cent from the record level of 1976 and mainly because of this, national income rose by only 8.6 per cent, compared with the original target of 11 per cent. Plans for 1978 are ambitious. National income is to increase by 11.5 per cent, assuming increases of 10.6 per cent in gross industrial output and 11.5 per cent in gross agricultural output. The latter figure is unlikely to be achieved but the former will probably be exceeded so that the national income forecast is reasonable.

Externally, the balance of payments did better in 1977 than forecast, and all the performance criteria were met in this area. (The trade balance in convertible currency, short-term convertible foreign debt, and gross convertible international reserves were all within the specified limits.) For the balance of payments in all currencies, the current account deficit was US$304 million compared with the original forecast of US$546 million and the overall deficit US$107 million compared with the original forecast of US$281 million. The improvement arose principally from better export performance. The balance of payments outcome with the convertible area was slightly better than expected with a current account deficit of US$273 million (US$350 million forecast) and an overall deficit of US$6 million (US$23 million forecast).

The balance of payments forecast for 1978 continues the improvement that occurred in the second half of 1977. For the balance of payments in all currencies there is to be a current account deficit of only US$36 million and an overall surplus of US$51 million. For convertible currencies, there is to be a current account surplus of US$8 million and an overall surplus of US$101 million. The latter will permit net repayments of US$68 million to the Fund and a modest increase of US$33 million in gross convertible reserves. On the basis of the convertible balance of payments forecast, allowing for seasonal patterns, targets have been set for March 31 and June 30, 1978 in the convertible balance of trade, convertible short-term foreign debt, and gross convertible international reserves. A summary of these performance criteria is attached.

The planned balance of payments results are ambitious, especially on the import side, with all imports rising by 12 per cent and convertible imports by only 10 per cent. The mission would probably have been willing to support a slightly slower improvement in the trade account but the Romanians believe that their targets are achievable and, as performance criteria, they may provide an additional incentive to increase export efforts and continue policies designed to increase the efficiency of import usage.

With respect to domestic financial policies, the authorities have continued to restrict the availability of financial resources to enterprises through tight fiscal and monetary policies. After allowing for a special factor, short-term bank credit rose by less than 6 per cent during 1977 and is planned to rise by only 8.8 per cent in 1978, in each case by much less than nominal output. The planned increase in 1978 should continue to put pressure on enterprises to meet export and import targets and not to buildup excess stocks. Performance criteria have been established for March 31 and June 30, 1978 on the basis of the planned annual credit increase and the seasonal pattern, and are shown in the attached table.

During the course of the discussions the authorities told the mission that changes in exchange rates were to be introduced shortly. (In the event they came into effect on March 6, 1978.) The authorities emphasized their desire to cooperate with the Fund and were open in answering all the questions we had. No changes were made in exchange rates with the other socialist countries having bilateral settling arrangements with Romania. For nonsocialist countries, including Yugoslavia, the official rate was changed from the equivalent of lei 4.97 per dollar to lei 4.47 per dollar; cross rates with the nonsocialist countries continue to be based on the relevant quotations between third currencies and the dollar. In practice, the official rate is used mainly for accounting purposes. The significant change was in the rate of lei 20 per dollar that is used for trade and trade related invisible and capital transactions. This was appreciated to lei 18 per dollar. At first sight an appreciation seems unusual for a country with low reserves, relatively high foreign debt, and a current stand-by arrangement with the Fund. The dichotomy is explained by the fact that the change in the trade rate is nullified for all export transactions and for many import transactions by the operation of an equalization system which equates the prices received for exports and paid for imports in lei with the corresponding domestic price. The exchange rate change for such transactions does not therefore change the relative prices in lei of domestic and foreign goods. For imports of investment goods, some industrial inputs, and consumer goods, the new rate of lei 18 per dollar (previously lei 20 per dollar) actually applies, since these imports do not go through the equalization system. For such goods, which basically are those not having a direct Romanian equivalent, the appreciation reduces the cost in lei of imports and thereby the costs of the importing enterprises. It also reduces the cost of such imports from the convertible area relative to those from the other socialist countries. The Romanian rationale is that prices of comparable domestic production have changed very little in recent years, those of goods from other socialist countries relatively little, but that prices in other markets have risen strongly. The exchange rate change therefore goes some way toward restoring the relative price structure obtaining some years ago. In principle, this should improve the competitive position of western exporters but in practice the division of imports between the socialist and western sources is probably not greatly dependent on price and the main reason for the move is domestic, i.e. to reduce the lei cost of investment in western equipment. The tourist rate of lei 12.00 per dollar is unchanged. The Romanians consider, and the figures support them, that their tourist industry could not stand an appreciation that would increase prices paid by tourists to Romania.

It seems likely that the exchange rate changes introduce a new multiple currency practice (or practices), in which case the relevant performance clause under the stand-by arrangement has been triggered. The question is being studied interdepartmentally and at a later stage you will receive recommendations on what action needs to be taken.

During the mission, the President made a major economic speech, which is intended to introduce important changes in the economic system. The speech dealt mainly in generalities and neither the Minister of Finance nor officials were able to add much, since implementing policies are still to be worked out. Basically, however, the aim is to place more obligations and rights upon enterprises in planning and carrying out their investment and production plans and in providing their own financing rather than receiving it from the budget. Enterprises will also partly replace the central authorities in providing some social services, e.g., housing, directly to their employees. Although the Romanians would probably not like to have it expressed directly, the message to enterprises seems to be that if they are not profitable then their workers' total "income" will be less and, conversely, better than planned results will bring commensurately higher "income." We were told privately that the Romanians have had discussions with Yugoslavia about the latter's system and there are parallels with the Hungarian changes in 1968. The Romanians, however, said that they would not like such comparisons to be made explicitly.

As always, the Minister of Finance asks that we obtain your concurrence to the necessary letter to the Fund in connection with the mid-term review before he takes it to the President for his consideration. A copy of the draft is attached for your approval. If you can accept it--and the mission recommends that you do--and subject to there being no changes of substance needed as a result of departmental comments, we would cable the Minister that he should forward the final version to you (including any drafting changes that need to be made).

cc: Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Sturc
Mr. Whittome
Mr. Ware

Table 1. Quantitative Performance Criteria
Included in Proposed Stand-By Arrangement

((a) actual; (b) target; end of period)

		1977				1978			
		March 1/	June 1/	Sept.	Dec.	March	June	Sept. 1/	Dec. 1/
Trade balance in convertible currency 2/ (cumulative)	(a)	-24	-133	-149	-81	--	--	--	--
	(b)	...	...	-160	-90	-48	-59	+12	+161
Outstanding convertible short-term foreign debt 2/ (convertible)	(a)	...	236.0	218.5	238.0	--	--	--	--
	(b)	...	...	302.0	252.0	290	280	250	185
Gross convertible international reserves 2/	(a)	228.0	231.0	238.1	261.7	--	--	--	--
	(b)	...	...	233.0	240.0	270	275	280	295
Short-term credit of the banking system 3/	(a)	201.4	202.3	207.1	194.5	--	--	--	--
	(b)	...	...	214.5	207.0	206.0	212.0	222.0	211.6

Source: Data supplied by the Romanian authorities.
1/ Not performance criteria under stand-by arrangement.
2/ In millions of U.S. dollars; the trade balances are cumulative from January 1.
3/ In billions of lei.

Dear Mr. Witteveen:

1. In my letter to you dated July 27, 1977, I requested on behalf of the Romanian Government a stand-by arrangement for one year in an amount equivalent to SDR 64.125 million, which the International Monetary Fund agreed to on September 9, 1977. In that letter I explained the strong recovery that the economy had made in 1976 following the flood damage of 1975, including a sharp improvement in the balance of payments both in total and in respect of convertible currency. Unfortunately, this was interrupted in March 1977 by the severe earthquake that affected many parts of the country, resulting in the loss of many lives and substantial economic damage.

2. Despite the great impact of the earthquake, it was decided not to lower the domestic targets established in the 1977 Annual Plan. Our view was that sustained additional efforts by the whole population could largely overcome the effects of the disaster and in this way avoid significant shortfalls in planned performance in 1977-78. Because the earthquake adversely affected foreign trade and some invisible items in the balance of payments, particularly that in convertible currency, Romania requested the stand-by arrangement, which is providing temporary assistance while the economy recovers from the earthquake.

As part of the stabilization program that the stand-by arrangement supports, quantitative targets were set for some components of the balance of payments in convertible currencies and for domestic short-term credit of the banking system. These were specified in paragraphs 6, 9, and 10 of the letter of July 27, 1977. At that time, it was not possible to quantify the 1978 program and the quantified targets could be set only for September 31, 1977 and December 31, 1977. It was stated in paragraph 12 of the above letter that Romania would consult with the Fund in early 1978 to review implementation of the program and reach understandings on measures relating to implementation of the program during the remaining period of the stand-by arrangement.

3. As a result of the great efforts made by the whole population, economic achievements in 1977 were in most sectors close to or in excess of the original plan targets. Notably, gross industrial production was 12.5 per cent higher than in 1976, compared with the Plan target of an increase of 10.5 per cent. National income rose by 8.6 per cent, compared with the original target of 11.3 per cent. A major factor in this result was a decline of 1.3 per cent in gross agricultural output, principally because of less favorable conditions for cereal crops than in the record year of 1976. Because performance in the first year of the 1976-80 Plan period was so good and because the recovery in 1977 from the earthquake was encouraging, the Romanian authorities have adopted a program of supplementary measures and raised the main targets for the 1976-80 Plan period as a whole. To achieve these

aims, existing productive capacity will be utilized more fully, additional investment will be undertaken, and the general quality of output will be improved, thereby accelerating the average annual growth rates of industrial production, investment and foreign trade. Targets set for 1978 reflect these new tasks of the Five-Year Plan. National income will increase by at least 11 per cent as efforts are made to make up in the current year for production that could not be fully realized in 1977. Industrial production is to show a further substantial increase and agricultural output is planned to rise by about 9 per cent, assuming more favorable weather than last year. Net output is to increase faster than gross output as enterprises reduce material inputs per unit of output. Developments in the external sector are described in paragraphs 7 to 10 below.

4. In addition to the financial and external policies that are described in subsequent paragraphs, I would like to outline an important general improvement of the economic-financial mechanism that has been announced by the President of our country. In particular the new mechanism will give greater responsibility for self management to enterprises. The latter will be obliged to increase their profitability so that they can generate more resources from their own efforts for investment and improve the incomes and general standard of living of their workers. An important change will be greater emphasis on the rate of growth of value added, that is on net rather than gross output. The strengthening of enterprise profits will allow more financial and social incentives, for example housing, to be made available to workers directly by the enterprises in which they work. Thus, enterprises will play an increasing role in meeting the needs of their workers and of society as a whole.

5. Turning to the financial and external outcome in 1977 and policies for 1978, in the fiscal area the budget result for 1977 was a surplus of lei 1,557 million, equal to 0.6 per cent of total budget revenue. Because of the earthquake, various payments from the budget had to be made to the economy beyond those originally forecast but these were more than compensated for by reductions in other forms of expenditure. Also, some damage that would otherwise have had to be financed through the budget was paid for by voluntary individual contributions of the population both financially to a reconstruction fund and by extra physical work. For 1978 the budget is to increase by 13 per cent. Expenditure is to be fully covered by revenue and the resource use proposed in the budget is compatible with the planned improvement in the balance of payments.

6. Under monetary policy in 1977 short-term credit of the banking system had been planned to rise by 3.6 per cent during the year; it in fact rose by only 0.3 per cent. Consequently, money supply also rose by only 3.0 per cent compared with a planned growth of 6.3 per cent. This difference is, however, the result of changes in prices and taxation that had the effect of reducing between the end of 1976 and the end of 1977, the value of stocks held by enterprises. As a counterpart

of the reduced value of stocks, there was a reduction in short-term credit used to finance them. If the above change had not taken place, short-term credit would have risen by about 5 per cent, which is, however, less than the target specified in my letter of July 27, 1977. The small increase in credit in 1977 was an additional encouragement to enterprises to release stocks for export and for replacement of imported materials in domestic production. For 1978 the planned increase of 8.8 per cent in short-term credit is again much lower than the planned rise in national income. This is designed to continue to put pressure on enterprises not to hold excess stocks and also to implement the planned reduction in the value of material inputs per unit of output. Allowance has been made for a necessary increase in some imported raw materials, which will mainly occur in the first quarter. At the end of December 1977, short-term credit of the banking system totaled lei 194.5 billion and it is planned that it will not exceed lei 211.6 billion at the end of December 1978. Consistent with the normal seasonal pattern and with the financing of special raw material imports referred to above, it is planned that short-term credit of the banking system will not exceed lei 203.0 million on March 31, 1978, lei 212.0 million on June 30, 1978, and lei 222.0 million on September 30, 1978.

7. Following the earthquake, it was estimated that the balance of payments would be adversely affected in 1977-78 by more than $500 million, principally in convertible currencies, despite all the efforts made to overcome the effects of the disaster by increasing export supplies and economizing on import usage. At that time a current account deficit of $546 million was forecast for the total balance of payments in 1977 and one of $350 million in respect of the current account in convertible currencies. The corresponding forecast deficits on trade accounts were $308 million and $90 million, respectively. For the balance of payments in all currencies, the trade result achieved for 1977 was a deficit of $141 million, less than half that originally forecast, principally because of improved export performance following efforts to maximize export production, to divert some products from the domestic to foreign markets, and to make export sales from existing stocks. As a result of the improved trade account and also because some invisible items, notably tourism and transportation, performed better than expected, the current deficit was $304 million, or $242 million less than projected. For transactions in convertible currency, the trade deficit at $81 million was fractionally better than forecast and the current account deficit at $278 million was $77 million less than originally projected. The smaller deficits on

current account permitted less than forecast net borrowing and a smaller overall deficit both for the total balance of payments and that in convertible currencies. In particular, net short-term borrowing in convertible currencies was $156 million compared with the original expectation of $169 million and the increase in gross convertible international reserves was $32 million compared with the target increase of $15 million.

8. I indicated in my letter of July 27, 1977, that a further reduction in the balance of payments deficit would be planned for in 1978. Given the improvement that has already occurred, the authorities consider that it is appropriate not only to aim at reducing the size of the overall deficit but to achieve an overall surplus. To this end, the target is to increase the value of exports by more than 16 per cent both in total and to the convertible area, and to continue the policy of using imports more efficiently, thereby keeping the rate of import growth well below that of exports, namely increases of 12 per cent for all imports and of 10 per cent for convertible imports. We believe that these trends in merchandise trade combined with further favorable developments in service transactions could reduce the current account deficit in all currencies to about $36 million in 1978 and produce a small

current account surplus of $8 million in convertible currencies. These marked improvements on current account would allow us to reduce net capital inflow, allowing, inter alia, a reduction in outstanding short-term foreign debt in convertible currency, while still leading to a balance of payments surplus of $51 million in all currencies and one of $101 million in convertible currencies. The latter would permit Romania to make net repurchases from the Fund equivalent to $68 million in 1978, while increasing gross convertible reserves by $33 million.

9. The targets for the 1978 balance of payments are high and the success of the program will depend on intense domestic efforts to produce and market our exports efficiently and to reduce material inputs, as well as on an increase of activity in the world economy. The 1978 Plan places great emphasis on export production. Foreign trade targets will be closely monitored and, in particular, we have established, as we did in 1977, quarterly targets for the trade balance in convertible currencies. For the whole year, a surplus of $161 million is planned and, allowing for the normal seasonal pattern of convertible foreign trade, the cumulative trade deficit in convertible currencies should not exceed $48 million on March 31, 1978 or $59 million on June 30, 1978 while there should be a trade surplus in convertible currencies of at least

$12 million by September 30, 1978. In view of our concern to keep short-term foreign debt at the lowest possible level, targets have been set so that outstanding convertible short-term debt, which stood at $238 million on December 31, 1977 will not exceed $290 million on March 31, 1978, $280 million on June 30, 1978, $250 million on September 30, 1978, and $185 million on December 31, 1978. Despite the increase in gross convertible international reserves in 1977 they still remain low relative to imports from the convertible area. The intention therefore is to increase them further in 1978 and quarterly targets have been set so that the gross convertible reserves will not be less than $270 million on March 31, 1978, $275 million on June 30, 1978, $280 million on September 30, 1978, and $295 million on December 31, 1978.

10. /On March 6, 1978, as described in /the communication of , 1978/, Romania appreciated both the official exchange rate of the leu in terms of the U.S. dollar, from lei 4.97 to lei 4.47 per U.S. dollar, and also the rate at which foreign exchange is made available for imports, at which export proceeds are purchased and at which trade related invisible and capital transactions take place, from lei 20 to lei 18 per U.S. dollar. These appreciations applied only to exchange transactions with non-socialist countries. The exchange rate for nontrade transactions (the noncommercial rate) with non-socialist countries was left

unchanged at lei 12.00 per U.S. dollar. All exchange rates with socialist countries remain unchanged. The above changes in some exchange rates were made primarily for domestic purposes. /Apart from the above exchange rate changes/, since September 9, 1977, Romania has not introduced any new multiple exchange practices or any new restrictions, nor intensified existing ones, on payments and transfers for current international transactions, nor concluded any new bilateral payments agreements with Fund members, nor introduced restrictions, nor intensified existing ones on imports.

11. The authorities believe that the policies set forth in the letter of July 27, 1977, and in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The authorities will consult the Fund, in accordance with the policies of the Fund on consultations under stand-by arrangements, on the adoption of any measures that may be appropriate.

Yours sincerely,

Florea Dumitrescu
Minister of Finance

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 1
held at the Ministry of Finance, at 10.00 a.m.
on Friday, February 10, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Ionescu-Lungu, Ministry of Finance	Mr. G. Tyler
Mr. Munteanu, Ministry of Finance	Mrs. A. Mitchell
Mr. Andreescu, National Bank	Mr. J. Wein
Mr. Dan, National Bank	
Mr. Custura, Central Directory of Statistics	
Mr. Mătescu, Central Directory of Statistics	

The meeting was used to plan the future course of work. Mr. Ionescu-Lungu said that the data requested by the staff team was nearly complete, though some approvals still needed to be secured. In the interim, the staff mission was given the Plan Fulfillment report for 1977. On Monday, it was proposed to discuss the 1977 Plan Fulfillment with Mr. Lazaride; on Tuesday and Wednesday, remuneration and the budget could be reviewed; and on Thursday and Friday, discussion on the balance of payments could take place.

Mr. Tyler thanked Mr. Ionescu-Lungu on behalf of the staff team for his welcome. He stressed the need to review data, especially the 1978 balance of payments forecast as soon as possible. He hoped both from the point of view of the Romanian economy, and in terms of presenting Romania's case to Executive Directors, that the expectation of an improvement in the balance of payments, particularly the trade balance in convertible currency was being met and that this would be reflected in the balance of payments forecast for 1978. He then explained that there would need to be another letter from the Romanian authorities, similar in format to that of July 1977 in connection with the stand-by arrangement. It would be necessary to negotiate quarterly performance targets on the same four quantitative performance criteria as in the stand-by request for end-March and end-June 1978. Assuming that the December 1977 targets had been met, SDR 13.125 million would become immediately available for purchase by Romania as soon as the Fund had approved the paper containing the 1978 targets. Mr. Tyler then reviewed the remaining phasing under the existing stand-by arrangement. Mr. Ionescu-Lungu said that there should be no difficulty with the December 1977 performance targets.

Mr. Tyler further noted that in the talks, the mission hoped to discuss in more specific terms than in the past, the way in which the Plan was adapted in the light of unforeseen circumstances, such as the recent earthquake. This subject continued to be of interest to Executive Directors. In this connection, he hoped that it would be possible to talk for example with representatives of the Planning Committee and an enterprise. The Planning Committee would probably have greater knowledge of the way the production possibilities of individual enterprises could be adapted so as to meet plan goals if unexpected events occurred, while at the enterprise level there would be detailed knowledge of actions taken to adjust production if it seemed that planned targets were not being met. Mr. Ionescu-Lungu noted that in recent years the main Plan targets had not been changed even when it seemed clear to the authorities that they could not be met. They were retained to "mobilize the people." This was true also for Foreign Trade enterprises, which had plan targets in value terms and were able to adjust more than individual production enterprises. Nevertheless, the latter also adjusted their production patterns and use of resources in the light of changed conditions. He would look into arranging discussions as proposed by Mr. Tyler.

Mr. Tyler then turned to the question of the supply of data to Executive Directors, who were now receiving data on a quarterly basis. He hoped that an informal discussion would be possible during this staff visit, to pave the way for more formal talks and further progress in the June consultation. Mr. Ionescu-Lungu agreed to this, noting that personally he also favored a page for Romania in IFS.

Mr. Tyler turned over to the Romanian team copies of the report by himself and Mr. Saunders on the statistical visit to Romania of last November. He noted that the report had been well received within the Fund staff. He also gave to Mr. Ionescu-Lungu a draft of an article on Romania for the IMF Survey, noting that all the numbers in the latter had been previously published. He would welcome any comments on the draft from the Romanian authorities; he stressed that it would be helpful that an article be published in the Survey to show that Romania was treated like other Fund members.

Finally, Mr. Tyler asked if it would be possible to arrange a courtesy call on Mr. Rauta, the new Governor of the National Bank, whom Fund missions had not yet met. Mr. Ionescu-Lungu said that Mr. Rauta had previously been a high ranking member in charge of external planning in the State Planning Committee and, before that, a Deputy Minister in the Foreign Trade Ministry. Mr. Ionescu-Lungu said that he would try and arrange the meeting requested.

It was agreed that the next meeting would be at 10. 30 on Monday morning. The meeting ended at 11.15.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 2
held at the Ministry of Finance, at 10.30 a.m.
on Monday, February 13, 1978

PRESENT:

Romanian representatives
Mr. Lazaride, State Planning Committee
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Munteanu, Ministry of Finance
Mr. Andreescu, National Bank
Mr. Dan, National Bank
Mr. Stoenescu, Ministry of Finance
Mr. Mătescu, Statistical Directorate
Mr. Custura, Statistical Directorate

IMF representatives
Mr. G. Tyler
Mrs. A. Mitchell
Mr. J. Wein

The meeting was concerned with the 1977 and 1978 Plans.

Plan presentation and methodological problems

Mr. Tyler noted that the range for agricultural output in the Plan inevitably raises questions from Executive Directors and the staff in Washington. He wondered if it would not be possible to use in Fund staff reports a single figure representing the most likely outturn, with a suitable footnote. Mr. Lazaride said that in calculating planned national income growth somewhere in the middle of the range was used. However, the outturn was seldom much over the minimum growth figure. It was agreed that the minimum growth target would be used in the Annual Plan table, but with a footnote indicating the officially planned range.

Mr. Lazaride then made some preliminary observations on the comparability of figures in the Plan table: (a) For 1977, the planned percentage changes given are in 1963 prices, but the absolute figures and outturn in per cent are in 1977 prices. However, foreign trade, retail sales, labor productivity, and remuneration figures are, as in the past, in current prices. For investment in the national economy, the planned growth for 1977 is in 1963 prices, but the other growth and absolute figures are in current prices. (b) 1977 prices are used for both absolute numbers and growth rates in the 1978 Plan. (c) The percentage changes given in Table 1 for 1978 differ from those in the published 1978 Plan because Table 1 uses revised data for the 1977 outturn. The published version of the 1978 Plan was completed in October 1977, when the outturn for 1977 was necessarily estimated. Nevertheless, the 1977 outturn is still provisional and may be further revised.

Regarding investment in industry, a figure for planned growth in 1978 had been omitted because of definitional changes which made 1978 difficult to compare with 1977. These changes chiefly involved the inclusion in industrial investment in the 1978 Plan of elements previously included in construction investment, i.e., using the new definition, the 1977 figures for industrial investment would have been higher.

Mr. Lazaride also noted that the growth figure for labor productivity in republican industry had not been given because of the transfer, effective in 1978, of local industry to the republican industry sector. The 1977 figures for this are on the old definition and the 1978 (absolute) figure on the new definition. As local industry had lower productivity than republican industry, the absorption of the former into the latter in the 1978 Plan had caused a lowering of productivity growth from what would have been the case on 1977 definitions.

Mr. Lazaride and Mr. Mătescu further explained that there were three ways of reckoning output which were used in compiling national accounting figures. The first of these, used in gross industrial output and gross agricultural output, was simply the sum of the gross value of all the outputs produced by units in the sector concerned. This is known as global production and includes the double-counting caused by including the intermediate outputs used within enterprises as well as between enterprises. For example, if an enterprise makes steel and uses the steel to make automobile parts the value of both the steel and the parts are added. However, in reckoning social product, double counting within but not between enterprises is eliminated. This measure is known as global product (as contrasted with global production). Finally, all double-counting is eliminated in the calculation of a unit's net product, used to calculate national income.

It was useful to keep these distinctions in mind when interpreting Plan indicators.

Mr. Tyler thanked Mr. Lazaride for these explanations.

The 1977 outturn and 1978 targets

Discussion then turned to interpretation of the 1977 outturn and Plan for 1978. Mr. Lazaride said that the planned growth in 1978 for all the main indicators in the Annual Plan was greater than for 1978 in the Five-Year Plan (FYP). National income was greater by lei 10 billion and gross industrial production by lei 20 billion. These supplementary tasks had been decided on at a National Party Conference in December 1977, at which time up to lei 120 billion of additional tasks during the 1976-80 FYP had been undertaken. Mr. Tyler said that in some respects, this seemed rather surprising in view of the earthquake, and by comparison with other socialist countries, where deceleration of growth was generally forecast. Mr. Lazaride said that the main source of the new growth targets was an analysis which suggested that considerably more efficient use could be made of raw materials and inputs. This would make possible greater productivity, particularly in industry and construction, and would allow greater output with originally planned capacities and inputs. The cost of investment was to be reduced by about lei 100 billion in the revised FYP, compared with the original one. In the first two years of the FYP there had been an overfulfillment in industrial production of lei 30-36 billion, suggesting that it might be possible to further overfulfill the original FYP without making consumption or labor force problems too great. Nevertheless, the revised FYP targets could be considered a mixture of realistic expectations and encouragement for the people to strive even harder. Mr. Lazaride thought it realistic to say anyway that the targets of the original FYP would be overfulfilled, but as usual there were imponderables, especially in the agricultural sector and in world markets, particularly in the convertible area. Mr. Ionescu-Lungu added that in 1972 there had also been a National Party Conference which set supplementary FYP targets. The outturn was that the original fYP had been overfulfilled but the supplementary targets had not been fully reached. One should also keep in mind that world prices had developed rather differently than had been assumed in the original FYP for 1976-80.

Mr. Tyler said that from a Fund viewpoint there might be problems in this situation. It was rather unusual to be asking the Fund for money to alleviate balance of payments difficulties while at the same time increasing the rate of domestic growth. In Washington, one would expect comments to the effect that domestic growth perhaps should be slowed to reduce import growth.

Mr. Lazaride said that on the contrary, it was thought by the Romanian authorities that overfulfillment should improve the balance of payments. For 1977, it was true that the main domestic Plan targets had not been reduced after the earthquake and that some strain had fallen on the external trade account, which had been planned before the earthquake to be in surplus. But in the current situation, the higher targets were based on more efficient use of the same resources. Regarding industrial production, about lei 40 billion of the lei 70 billion increase for 1978 is to be obtained through better use of existing capacities. The planned 1978 increase was to be achieved 20 per cent as the result of an increase in the industrial labor force and 80 per cent through greater labor productivity, including greater use of recycling of waste and restructuring and modernizing of products. Moreover, the efficiency of resource use was to be increased. It was planned that the value of production from a ton of crude oil would increase more than 3 per cent, from a ton of construction materials by 8 per cent, and from a cubic meter of wood by more than 3 per cent. Consumption of primary energy was to increase by 5 per cent compared with the increase of 9 per cent in industrial output.

For agriculture the planned increases were large because there was a decline in gross agricultural output in 1977 of 1.3 per cent. The 1978 Plan Target reflected some "catching up" from the 1977 decline, in the sense that the absolute figure for 1978 had not been lowered because of the 1977 underfulfillment. The 1978 target was also in the new (1977) prices, rather than in those of 1963. However, the 1978 target for agriculture was not greater than that stipulated for 1978 in the original FYP.

Mr. Tyler observed that a very large increase in investment was planned for 1978. Mr. Lazaride said that this also reflected the modest outturn for 1977. The underfulfillment of lei 10 billion was partly the results of the reconstruction effort, where lower productivity was obtained. In 1978, planned growth would have been about 15-16 per cent if the 1977 investment target had been reached. Relative to the 1978 target in the FYP, the volume of investment in the 1978 Annual Plan was higher but the value was about the same because of some lower costs.

There was also a large planned increase in the number of dwellings to be constructed. Once again, as with some other indicators, the 1978 target had been set in absolute terms and the present planned percentage growth reflected in part an underfulfillment in 1977. The 1978 target was the ambitious one of the FYP. In 1978 there would have to be better conditions to fulfill this target, and also a sharp reduction in reconstruction activities, which, however, are almost finished.

Regarding areas with irrigation facilities, the figure for 1978 was not comparable with that for 1977, because the 1978 figure included areas to be irrigated through April 1, 1979. The comparable absolute figure for 1977 is about 2,150 thousand hectares, which yields a planned increase of 14.4 per cent for 1978.

Mr. Tyler wondered why the planned increase in national income was 15.9 per cent, when the rise in industrial output, which accounted for about two thirds of the total, was only 9 per cent, and agricultural production was also planned to grow by well under the rate for national income. In the past there had not been so large a difference between the growth rate for national income and that for industrial production. Mr. Lazaride said that because of the planned reduction in material costs, the net rise in industrial production was planned to be much greater than the gross increase given in the Plan table. This was also true for agricultural production, where on a net basis an increase of 14 per cent was expected. Net construction was expected to increase by 20 per cent. All of these assumptions were reflected in the planned national income figure for 1978, but the most important single factor was the planned economies in the use of industrial inputs. Without this, the 1978 national income growth would probably be about 11 per cent. The 1978 Plan figures were in fact rather ambitious and based on FYP trends. A more probable figure for national income growth in 1978 was perhaps around 11 per cent. Gross industrial production might be expected to increase by 10-11 per cent; the outturn was usually about a percentage point more than planned. In any case consumption of inputs would not be forced in order to obtain the planned 16 per cent growth of national income. This meant, inter alia, that imports would not be increased as part of a drive to obtain the planned rate ofgrowth if anticipated reductions in material expenditure or other assumptions of the 1978 Plan were not met.

Mr. Tyler said that some planned growth figures for 1977 were necessary in order to be able to compare the 1977 Plan with the 1977 outturn. Mr. Lazaride said that a problem was that the planned growth rates for 1977 were in 1963 prices, except for foreign trade, retail sales, and labor productivity, which were in current prices. Mr. Lazaride provided 1977 planned growth rates for other main indicators in 1963 prices. The other planned rates for 1977 would be provided, and it was agreed that a footnote indicating the prices being used for these indicators would be included in the table. Mr. Lazaride also noted that as the index of prices with the new 1977 base was being used for the first time there might have been some errors. Planned investment for 1977 was 15.5 per cent in "nearly" 1977 prices. In general, the most important underfulfillments in 1977 were in industry and construction. In construction, the nonfulfillment resulted mostly from the efforts to repair earthquake damage, since productivity for this type of work is much lower than for new construction. Both the volume and value of construction were affected, and the underfulfillment in 1977 was about lei 10 billion. There was also an underfulfillment in retail sales, since remuneration was used more to repair buildings damaged in the earthquake than to buy consumer goods. Remuneration developed as planned.

Regarding net production, there was a reduction of 1.6 per cent in material expenditure in industrial production, but this was a significant underfulfillment. The underfulfillment was mainly the result of the diversion of some industrial capacity to help with reconstruction after the earthquake. On a net basis the growth of industrial production in 1977 was 10.2 per cent. This helped to explain some of the apparent disparity in the growth of national income as compared with gross industrial production. Moreover, in the agricultural sector nearly all the reduction in gross production was also a reduction of net production because material expenditures on seeds, fertilizer, etc., was not reduced. A further factor was certain changes in definitional scope, which in practice exerted a negative effect on net industrial production. These occurred in the transition from global (gross) industrial production to gross industrial product, and were carried over in the calculation of net industrial production from gross industrial products. Mr. Mătescu said that there were also definitional changes in the agricultural sector in going from global agricultural production to global product. In this case, it was necessary to add certain services for mechanization, animal breeding, etc. However, this had a negative effect on the gross product and net production growth. In other branches these types of definition changes were smaller.

Mr. Tyler then asked if reports of shortages of skilled labor in construction were correct. Mr. Mătescu said that the number of persons working in the construction sector was adequate, but that he did not have information regarding the adequacy of skills in the sector. Mr. Munteanu would try to learn more.

In answer to a question from Mr. Tyler, Mr. Mătescu said that an input-output table for the economy did not exist at present, but it was intended to solve such problems in the future.

Mr. Ionescu-Lungu concluded the meeting by stating that the balance of payments figures had already been seen by Minister Dumitrescu. He hoped they would be forthcoming at the end of the week.

The meeting ended at 12.45.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 3
held at the Ministry of Finance, at 10.30 a.m.
on Tuesday, February 14, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Ionescu-Lungu, Ministry of Finance	Mr. G. Tyler
Mr. Popescu, Ministry of Finance	Mrs. A. Mitchell
Mr. Nicolescu, Ministry of Finance	Mr. J. Wein
Mr. Stoenescu, Ministry of Finance	
Mr. Dan, National Bank	
Mr. Munteanu, Ministry of Finance	
Mr. Andreescu, National Bank	

This meeting dealt mainly with wage and price developments. At the beginning of the meeting Mr. Ionescu-Lungu said preparations were being made to seek official approval for release of the data requested by the Fund in connection with the stand-by review. He questioned the need to carry the quarterly foreign trade and credit data back to 1971. Mr. Tyler explained that the reason for the request was to calculate the normal seasonal pattern of these data by quarters, both for the information of Executive Directors of the Fund, and, more importantly, for purposes of agreeing on quarterly ceilings for the performance criteria during the remainder of the stand-by period. Mr. Ionescu-Lungu said the Romanian officials were considering asking now for approval of the data needed in June for the consultation, but he wondered if it was necessary to have data pre-dating Romania's membership in the Fund. Mr. Tyler said he did not wish to ask for data before the period of the previous FYP, but he regarded the data from 1971 as essential to obtain a satisfactory seasonal adjustment. He was not immediately prepared to provide a complete list of the data that would be requested in connection with the June Article XIV consultation, because he hoped that during the present mission there could be an informal discussion on how to make further progress in providing at least confidential information for the Fund Board. He would like to move toward providing the equivalent of an IFS page for the use of Executive Directors, even though it was understood that the page could not be published for the time being. As a first step, he would like to have (on a confidential basis) the data necessary for a monetary survey in June. The problems here would be technical rather than substantive since the necessary data existed, although not necessarily in the form of a monetary survey. It was agreed that there would be a preliminary discussion of this matter during the current mission and that a complete list of the data required for the June mission would be made available to the Romanian officials by early April, in time to submit it for approval along with the quarterly data for March which had already been promised for the use of Executive Directors. Mr. Tyler added that it would be most helpful if data for the use of the mission could be provided in advance of meetings so that the team could assimilate them and use them to make discussions in meetings as short and efficient as possible. He also asked that written answers to questions be provided where feasible, for the same reason.

Mr. Popescu then provided information on current policies regarding the reduction of working hours. At present the standard work week in Romania was 48 hours, except for jobs which were either very strenuous or dangerous (e.g., radiology). It had been decided to reduce the normal work week in two stages: between 1978 and 1980 it would be reduced from 48 hours to 46 hours, normally by allowing the first Saturday of each month to become a free day, and between 1981 and 1983 the work week would be further reduced from 46 hours to 44 hours, implying two free days per month. As a matter of policy, the reduction in hours was not to have any negative influence on the national income or on economic or financial targets. The decision taken by the Party and by the state stipulated that the reduction in hours was to be preceded in each unit by measures ensuring fulfillment of the labor productivity target in the Plan. The number of staff and the size of the remuneration fund was to remain as stipulated in the Plan. The reduction in hours could not be offset by an increase in personnel, and indeed all indicators specified in the Plan, including material expenditures, profits, and the accumulation fund, were to be adhered to. In addition, despite the reduction in hours, average remuneration was to remain at the level stipulated in the Plan. The implication of these decisions was that productivity per hour of work must increase in each unit where the reduction of hours was applied. If these conditions were not met, then hours would not be reduced.

With respect to priorities, Mr. Popescu explained that the first branches where reduced hours would be introduced would be those where women workers predominated and where conditions of work were most difficult. The order would be light industry, mining, metallurgy, machine building, the chemical industry, the cement industry, and the cellulose industry. In agriculture, only the state sector would be affected. Among the last branches to be affected would be administrative areas, for example the Ministry of Finance and other state agencies where work was thought to be easier.

Whereas at end 1977 the proportion of affected workers working a standard week of less than 48 hours was insignificant, by the end of 1978, 15 to 20 per cent would be working 46 hours per week, by the end of 1979 55 to 60 per cent, and by the end of 1980 100 per cent of workers would be on the reduced week.

Mr. Popescu emphasized that in the units where this change was beginning there had been meetings at all levels with external participants from the relevant ministries, centrals, unions, etc., in order to prepare specific programs to ensure that the reduction in hours would have no negative influence on efficiency. He explained that because of the earthquake in 1977 the whole program to reduce working hours had been postponed by one year.

Mr. Popescu then went on to discuss recent changes in wage policy (remuneration). Nominal net remuneration was planned to increase by 40.3 per cent in two stages. The first stage was from June 1, 1977 to June 1, 1978. Instead of being postponed, like the reduction of working hours, this action had been speeded up so that the first stage would be completed at the beginning of June 1978 instead of September 1978. For example, the change would be one month earlier in the leather industry and two months earlier in the electrical energy industry. Mr. Tyler inquired why the increase in remuneration had been accelerated. Mr. Popescu explained that the 1977 Plan for the whole economy had been fulfilled and the necessary resources generated. Nevertheless, all units were to analyze possibilities for covering at least part of the increased fund for remuneration by supplementary efforts to increase productivity, reduce material expenditures, and make better use of machinery, etc. It was necessary to ensure that the amounts needed for accelerated wage increases would not be added to the cost of production. At present it was not clear just how much of the additional remuneration would be covered by supplementary efforts and how much would be reflected in a reduction of the funds accumulated by units. This contrasted with the program for reducing the work week, where an absolute condition was that production and plan fulfillment targets had to continue to be met or the work week of an enterprise would not be reduced.

The branches to benefit first from increased remuneration were the leather industry, construction, electrical energy, printing, glass, telecommunications, cellulose, petroleum, products, and geological activities. It now appeared that the first stage might be completed by May 1 instead of September 1, 1978.

In contrast with net nominal remuneration (ex taxes, which, however, are now paid by units) average real remuneration (influenced by price changes) was to increase by 32.3 per cent by 1980 over the 1975 level, compared with the improvement of 18 to 22 per cent stipulated in the Five-Year Plan. A further increase will be included in the next FYP. For net nominal remuneration, where the total increase is to be 40.3 per cent, the first stage, from June 1, 1977 to June 1, 1978 will result in increases of 15.9 per cent to 19.2 per cent, differentiated by branches. The second stage will be completed by the end of 1980.

Mr. Nicolescu then spoke about price developments, which had not been substantial in the recent period. Some changes had been introduced as a reflection of external developments. For example, copper had been priced at $3,000 a ton in the FYP but the international price had subsequently dropped by half. In the construction sector price increases would be less than anticipated because of reduced consumption of cement, metal, and wood. In 1976, price increases were not applied in construction. From January 1, 1977 upward adjustments were made, but these were less than should have been made in 1976. The tax on funds, which used to be included in costs, had been abolished since January 1, 1977. This change had led to a decrease in costs and increase in profits for the first time. The tax on land, formerly included in costs, had been taken out and was now paid out of profits, i.e., it had been passed from a component of costs to a tax on profits.

Mr. Nicolescu agreed with Mr. Tyler that the effect of price changes in 1977 had not been substantial. There had been small corrections of errors in determining certain prices, and a few more such corrections would be introduced as of January 1, 1978, but, the net effect of such small increases or decreases had been negligible. Producer and delivery prices in 1977 were not higher on average than in 1976 and no further changes were expected on average in 1978. There would be no changes in producer prices, but there would be increases in the prices of certain products sold to the population, which entered into the retail price index. In most cases these products were ones for which losses were now registered, and the intention was to make them profitable. No food items would be affected, but some industrial products and particularly changes for certain services such as transportation. The timing and size of price changes were not yet known.

With respect to retail prices, Mr. Nicolescu said the 1977 changes were not completely implemented (fulfilled) so that the index was below the planned level. Changes had been made only for dairy products from sheep milk and carpets, because prices of wool and sheep milk had increased. There were also some increases in prices of dwellings sold to the population, resulting from some price changes introduced during 1976 but which had become effective part way through the year. Although all housing sold to the population enters the retail price index, this is true each year only for the proportion of the price paid during that year, whereas dwellings are normally paid for in installments over a period of 15 to 25 years. The original forecast for the retail price index in 1977 showed an increase of from 1.6 per cent to 2.3 per cent, but the final result was an increase of only about 0.5 per cent.

With regard to the forecast for 1978 Mr. Nicolescu said some suggestions had been made but there was no firm information on the products affected or the period for which price changes would be in effect. The present proposal was to stick to the minimum limit stipulated in the Plan, but it would be necessary to discuss the details further with Mr. Lazaride. One possible change in 1978 was that existing stocks of television sets might be offered for sale at price reductions of 10 to 25 per cent before new models using transistors were about to come on to the market.

Asked about pricing of illustrative products, Mr. Nicolescu mentioned a radio set with a producer price in 1973 of lei 1,436 and retail price of lei 1,900. From January 1, 1976 the producer price had been raised to lei 1,705 with no change in the retail price. This had been possible by reducing the turnover tax which in fact had almost disappeared during the process of price resetting. The increase in producer price had been necessary because of raised material costs, certain wage increases and the tax on land which had not been applied in 1973, as well as the need to ensure normal profitability.

With respect to the budget impact of such changes, Mr. Nicolescu explained that although the budget now received less turnover tax, it received higher profits taxes as well as the tax on land, so that there was no net change in budget revenue. The original retail price for a particular product would be set with reference to prices of comparable products already in existence.

Mr. Nicolescu explained that there had been a few cases in which retail prices were lower than producer prices. In particular, lignite coal had been sold below cost until June 14, 1975, when retail prices were increased. There had been certain other products in the same situation because of a policy to set low retail prices for goods purchased by people at low income levels. However, when wages w ere increased, prices had been increased correspondingly. Very few products were now sold below cost and prices of these would be raised when remuneration was increased. An important example was the price of public transport in large towns, which was very low but very hard to change.

Mr. Nicolescu explained that where products were sold to the population below cost there were normally no direct budget subsidies involved. A coal-producing enterprise, for example, would sell only a small quantity to the population, but a much larger quantity at a higher price to the state, so that it would receive full compensation to cover all of its activities. In the case of bus companies there were budget subsidies for Bucharest, but in other towns losses on bus transportation were offset by profits on water services, street cleaning, etc. Thus, the total amount of budget subsidies was very small.

Mr. Nicolescu added that starting from January 1, 1978 some elements formerly included as costs were now paid out of profits. The included amortization payments on hostels and worker canteens, etc. This was distinct from the measures of January 1, 1977 lengthening amortization schedules.

The meeting adjourned at 12 noon.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 4
held at the Ministry of Finance, at 10.30 a.m.
on Wednesday, February 15, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Crainiceanu, Foreign Trade Bank	Mr. G. Tyler
Mr. Ionescu-Lungu, Ministry of Finance	Mrs. A. Mitchell
Mr. Andreescu, National Bank	Mr. J. Wein
Mr. Dan, National Bank	
Mr. Stoenescu, Ministry of Finance	
Mr. Croitoru, Foreign Trade Ministry	
Dr. Enescu, Chemical Import-Export (Foreign Trade Organization)	
Mr. Varlam, Ministry of Finance	

Mr. Ionescu-Lungu began by saying that Governor Rauta would be able to see Mr. Tyler on Monday. There was an informal visit from Mr. Crainiceanu, and a general discussion in which it was agreed that a future visit to the Foreign Trade Bank would be mutually useful. The staff team would be able to understand more clearly the way in which the Foreign Trade Bank worked, and the members of the latter might benefit from the staff team's knowledge of economic adjustment techniques in other countries. Mr. Crainiceanu mentioned that talks had recently been held with the Yugoslavs at the request of Minister Dumitrescu on ways in which economic policy instruments were used in Yugoslavia.

The State Budget 1977-78

Mr. Lucian Varlam, Chief of Service in the Ministry of Finance dealing with the Budget was introduced, in the absence of Mr. Părvu, who was otherwise engaged. Mr. Varlam gave the staff team a completed Table 4 on revenue and expenditure of the State Budget. Regarding recent changes in types of taxation, he said that the tax on capital had been abolished from the beginning of 1977. During 1977, remuneration taxes paid by the population had been ended and as from July 1 a tax on the remuneration fund, paid by enterprises in the socialist sector, was introduced to replace it. A separate tax on agricultural cooperatives had also been introduced. Additionally, a new profits tax had been in effect from the beginning of 1977.

Referring to Table 4 on the State Budget, the line "duties and taxes from the population" for 1977 (lei 27.34 billion) included revenues from the tax on agricultural cooperatives, duties and taxes on the population until July 1, and the tax on enterprises' remuneration funds from July 1 to the end of the year. For 1978, these items can be given separately. The revenue item in the Table of lei 30 billion referred to the estimated yield of the tax on enterprises' remuneration funds; in addition taxes on agricultural cooperatives were estimated at lei 1.306 billion, and the remaining duties and taxes on the population, e.g., on self-employed persons, at lei 2.339 billion. It was agreed that a new table with additional lines for the new items would be prepared.

Generally, revenue and expenditure growth reflected normal expansion of the economy. Regarding individual items, Mr. Tyler remarked that while turnover tax revenues had varied in recent years because of price resetting, there seemed to have been a rather sharp decline in 1977. Mr. Varlam said that there had been a shift in tax yi elds from the turnover tax to the taxation of profits, i.e., that some revenues that had previously been taxed under the turnover tax now formed part of profits and were taxed as such. For 1978, the estimated increase of 11 per cent in turnover tax revenues represented a normal increase based on the planned growth in retail sales.

The large growth in revenues from enterprise profits in 1977 represented both the effect of the taxation of planned profits of over 15 per cent (the profits tax) and the share of profits turned over by enterprises to the State Budget. Profits had also been increased in 1977 by the lengthening of amortization schedules. In response to a question, Mr. Varlam said that he would try and obtain a breakdown showing revenues from the profits tax separately from the share of enterprise profits. He was at present unable to estimate the relative size of these items.

Revenues from the tax on capital and other taxes of the socialist units had declined by 91 per cent in 1977 because the tax on capital had been ended. Mr. Tyler wondered why in 1978 revenues from this source were estimated to increase somewhat faster than total revenues. Mr. Varlam said it might relate to revenues from the tax on land, but that he would make further inquiries. He also said that he would inquire into the development of other revenues from socialist units, which was a residual item, and provide an explanation later. Mr. Ionescu-Lungu said that a figure for customs duties, which are included in this item, would be obtained from the Foreign Trade Ministry, as in the past. An explanation would also be provided for the development of "other" revenues, particularly the 49 per cent increase in 1977. Regarding revenues from social insurance fees, Mr. Varlam said that their growth reflected the increasing size of the remuneration fund rather than an increase in rates. He also confirmed that there had been no changes in taxation rates generally since the beginning of July.

On the expenditure side, the increases in 1977 and planned for 1978 were normal given the growth in the economy. Expenditure on children's allowances were estimated to increase by 22 per cent in 1978 because of an increase in the maximum amount of such allowances and an extension of coverage of these payments. Regarding "other" expenditures, Mr. Varlam said that he would provide an explanation of the expected rise in 1978. Mr. Stoenescu said that written explanations could be supplied.

Mr. Ionescu-Lungu then introduced Mr. Ioan Croitoru, Counsellor in the Ministry of Foreign Trade, who was an expert on foreign trade planning, and Dr. Constantin Enescu, a Director in Chimimportexport, the Foreign Trade Organization for chemicals. Mr. Tyler explained that there was considerable interest on the part of Executive Directors and the staff concerning the way in which Romanian planners reacted to unexpected developments, particularly adverse ones on its balance of payments. Though the staff had received general explanations, it would be useful to refer to specific examples both concerning how the foreign trade plan was made during a normal year, and what the reaction was when it was found that exports were not going so well or that more imports were needed. Mr. Croitoru began by saying that the whole plan was established by law. A chapter in the plan law gave its methodology. There was also a foreign trade plan law which specified the foreign trade activity of the various units, and this was regarded as an integral part of the overall plan.

Regarding foreign trade planning, there were both Five-Year and Annual Plans. In the FYP, the amounts of main goods to be traded are stipulated in both value and volume terms, although for some heterogeneous goods such as ready-made clothes, a specification is possible only in value terms. In the FYP, constant prices in foreign exchange lei are used. These prices are the actual prices paid for each good in the last year of the previous FYP. For example, foreign trade in the 1976-80 FYP is expressed in constant prices of 1975.

Annual foreign trade plans were based on the targets for the year given in the FYP, but were adapted to take into account any change in activity or resources since the FYP was made that might require a change in export or import targets. For example, if new productive capacity had become available beyond what had been anticipated in the FYP, it might be possible to add to exports. On the other hand, delays in the implementation of investment projects might make additional imports necessary. Another factor in adapting Annual foreign trade plans to actual conditions was the use of "planning prices" in Annual plans. The planning price for each good was the average price over the last 12 months corrected for forecast changes in world prices based on marketing studies. The aim was to make the foreign trade plan figures as realistic as possible. Besides allowances for changes in market conditions, the average price of products could also be changed to alter the structure of products traded to achieve a more favorable trade balance. However, it was important to stress that these average prices were distinct from contract prices, where detailed specific characteristics were taken into account. With socialist countries, pricing worked somewhat differently. Prices did not automatically change each year. In practice, however, there was a methodology based on world prices for the last three years (previously five years) and this was established each year. Socialist trade was conducted on a bilateral basis, and prices for a particular good were not necessarily the same for different trading partners because of different transport costs, etc. There were contracts both with socialist and market-economy countries, but as the former were between governments, they were usually more tightly drawn and were, on average, more likely to be completely fulfilled. This was particularly true of long-term contracts. There were long-term contracts with market-economy countries, but the governmental role in the market economy was usually limited to issuing the requisite number of import licenses, while fulfillment rested chiefly in the hands of private enterprises. In dealing with market economies, there were also greater uncertainties of price, securing buyers, etc. Thus, planning foreign trade with the market economies was considered somewhat more difficult than with socialist partners. To give some idea of the timing of annual foreign trade contracts, at present negotiations were in progress for 1979 and 1980. The 1979 contracts would be concluded in November or December 1978. Once contracts were concluded or seemed reasonably certain, the first step taken was to reserve from producing units the necessary goods to fulfill the contracts.

Trade with socialist countries usually went on smoothly. From time to time there might be supplement requests for goods not contained in the bilateral agreements. These were filled at the world market prices when the contracts were signed and were settled in convertible currencies, but the amount of such trade was small. Dr. Enescu hazarded that the share was less than 5 per cent, but there did not seem to be any definite figure available as separate records were not kept.

Mr. Tyler inquired about the distribution of targets at the enterprise, central, and ministry levels once the plan was established. Mr. Croitoru said that the foreign trade plan was the general responsibility of the Ministry for Foreign Trade but that each producing ministry was responsible for production of goods within its own purvue. Responsibility then moved downward from the producing ministry to the level of the central and to the level of the producing unit. Moreover, attention was paid to the geographical distribution by county of export production. Each enterprise had quarterly import and export targets for a year by the beginning of that year, usually by the previous December. For imports, the degree of specification was perhaps not as great as for exports and there was considerable flexibility at the level of the central, which usually was the recipient of goods when they were imported. Dr. Enescu added that producing ministries usually divided their import and export plan requirements in two ways: (a) by centrals and producing units, and (b) by the Foreign Trade Organization (FTO) subordinated to the ministry. The Plan at the level of the central was also divided by FTO responsibility. In this way, the FTO knew which enterprises were going to produce which products, and thus what and where it would be necessary to secure the required imports. The FTO then proceeded to contract for exports and needed imports on a schedule consistent with the Plan. PlanFulfillment was monitored on a quarterly or monthly basis. If there were problems in plan fulfillment, the producing unit was not penalized if the problem arose from conditions out of its control, e.g., changes in world prices or demand. Similarly, if world market prices rose this was not considered a factor in overfulfillment by an enterprise. There was flexibility in Plan Fulfillment since there were usually a number of producers of a given product, and shortfalls in one unit could be balanced by additional production from another. Only in extreme situations would there by delays in filling orders. Mr. Croitoru noted that recently the quality of goods produced as well as the quantity were taken into account in assessing Plan fulfillment of the producing enterprises. If the price received was affected by bad quality, the Plan of the producing unit was not considered fulfilled even if the required physical production target had been met. If the specified quantity was sold at the planned foreign price, then the Plan of both the producing unit and FTO were considered fulfilled.

In the event of an important unexpected event, such as the earthquake, it was possible to change the plan, including the foreign trade plan, but changes could only be made in a plan by the organs which had approved it. For example, the overall foreign trade plan was approved by the Grand National Assembly, so only the latter could change it. Targets for certain products were established at ministry level, and, therefore, could be changed at this level. However, in this case it was expected that compensation in trade at the level concerned would be made, i.e., if a ministry asked for more imports of a good, it was expected to reduce other imports or increase exports so as not to have an adverse effect on the balance of payments. Changes in the mix of products produced to take advantage of world market conditions could also be made with the approval of the Ministry of Foreign Trade.

One of the most difficult problems was adapting to changing fashions and prices in the convertible area countries. The marketing institute studies were used, and sometimes it was also possible to sell a good for which demand had dropped in one country in a different one; Romania had the advantage of trading with a large number of countries. Such adaptation of production was done at the level of the central, which could redistribute production plans as between enterprises. When more serious difficulties were encountered, it was also possible to adjust the proportion of total production going to the export market relative to the domestic market. This had to be done above the level of central, although the latter could make suggestions on how to increase exports or otherwise adapt the Plans. After the earthquake, reallocation decisions were made at government level.

Mr. Ionescu-Lungu recalled that he had taken part in a Conference to assess the performance in the production of ready-made clothes. There had been overfulfillment of socialist trade but underfulfillment overall, and further production for export in the convertible area could not be undertaken without a contract or reasonably firm commitment that the production could be sold. Some additional production was absorbed by the domestic market, but eventually the workers had to be given a period of leave. Closing the factory as such was not an option.

Chemical fertilizers were another example: if the world market was weak, more might be absorbed domestically. But in this case, the export shortfall would be added to the next year's target. However, it was not right to think that production for exports always had priority over production for the home market. Exports generally had priority, but if exports would cause domestic shortages the most efficient decisions would be made. For example, if meeting export targets for chemical fertilizers would cause shortages in the domestic cereal crop, the domestic market might get priority. In this situation, there was an attempt to increase the export of other products to compensate. There was seldom the need to make this kind of decision, however, as there was usually enough capacity so that export and domestic supply could satisfy demand in both sectors. In the case of the earthquake, for example, problems were minimized by stepping up production in those areas of the country which had not been hard hit. In such a situation, too, a decision at state level to change production proportions could be implemented at lower levels even if they were different from the detailed plan targets.

With reference to the overall foreign trade plan, the State Planning Committee in collaboration with the Ministry of Foreign Trade, Ministry of Finance, and other interested organs looked at foreign trade in the context of the whole of the balance of payments. In particular, they could ask for a Plan involving foreign borrowing, if this was deemed necessary after attempts to equilibrate trade had been exhausted provided the amount of borrowing was consistent with past and future debt servicing capabilities.

Mr. Tyler thanked Mr. Ionescu-Lungu, Mr. Croitoru, and Dr. Enescu for these explanations, which had been most helpful.

The meeting ended at 1.45.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 5
held at the Ministry of Finance, at 11.30 a.m.
on Thursday, February 16, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Ionesci-Lungu, Ministry of Finance	Mr. G. Tyler
Mr. Lazaride, State Planning Committee	Mrs. A. Mitchell
Mr. Stoenescu, Ministry of Finance	Mr. J. Wein
Mr. Munteanu, Ministry of Finance	
Mr. Dan, National Bank	
Mr. Demian, Ministry of Finance	

Mr. Lazaride supplied provisional data on the fulfillment of the Plan in 1977. He said the accumulation of stocks at lei 30 billion to lei 35 billion was somewhat less than in 1976. Stocks of raw materials in particular had declined, but there had been some build-up of stocks of manufactured goods including machinery, equipment, and products of light industry at the end of 1977 because of problems of making sales in international markets. In 1978 increases in stocks should be in proportional to economic activity. It was intended to raise the level of stocks of raw materials and reduce stocks of finished goods.

With respect to the 9 per cent increase in gross industrial output planned for 1978, Mr. Lazaride said the shift from the local to the republican category industry had produced certain changes in the volume of activity. Local enterprises were often very large, because there would be only one branch of an industry in each district carrying out each kind of activity, such as machine building, textiles, clothing, or food processing. These large enterprises also supplied products to republican enterprises, especially in the case of machine building and chemicals, and that activity had accounted for a large proportion in recent years. This was one reason why local enterprises had been transferred to republican ones. They were then split by stations, with the machine building activities going to the Ministry of machine building, the chemical section to the Ministry responsible for production of chemicals, etc. This meant that the split sections were too small to remain independent units: they joined existing republican enterprises as independent sections but had no juridical personality. What these units formerly sold to republican enterprises had been added to gross industrial output. Now, however, these transactions were part of the inner circulation and were no longer reported as global production. In this sense part of the value of gross industrial output was "lost." This was one of the explanations for the low target set for 1978: the 1977 figure was on the old system of organization and the 1978 figure on the new system. Asked what the 9 per cent figure would represent on the old system, Mr. Lazaride thought about 10.1 per cent. Given the customary overfulfillment of this target, one might expect gross industrial output to grow by 10 per cent or 11 per cent on the old system in 1978, or at about the same rate as in 1977.

Asked about the assumptions for retail prices in 1978, Mr. Lazaride said the assumed rate of increase was somewhere between 1.5 per cent and just under 1 per cent. In previous years the price increases had been less than those allowed for by the Five-Year Plan. The price increases assumed for 1978 were mainly in charges for services, especially transportation in and between urban centers. Mr. Lazaride explained that the rationale for the very low charges for public transportation reflected the desire of the Government to maintain price stability. Salaries could not be increased in recent years and transportation was often a substantial proportion of family expenditure, especially at low income levels.

Asked to comment on the relationship between economic planning and foreign trade, Mr. Lazaride said that in fact there was a close connection. The level of imports depended on the volume of production planned, as well as on planned investment, its volume and structure. Some investment projects had more import content than others. Exports also depended on the balance. Physical possibilities were calculated first, these depended on the level of production and the size of domestic demand. Less attention was given to foreign demand. Productive capacity could not be increased very rapidly, and it was necessary to find an equilibrium between domestic and foreign demand. Of course the balance of payments was an important consideration: the Plan could not be finalized without an external balance, achieved with or without foreign borrowing. This was a critical problem each year. The balance of payments with the socialist countries had to be equilibrated through the clearing system and the balance vis-a-vis the convertible area was equilibrated separately. The Ministry of Foreign Trade had the responsibility for switching and adjusting transactions within the planned total volume.

Mr. Lazaride went on to explain that the Plan fulfillment was always compared with the original Plan, even if circumstances changed during the year. The annual Plan did not change very much year-by-year. Mr. Tyler asked what would happen if planned exports of food could not be achieved, but copper could be exported in excess of Plan targets. Mr. Lazaride replied that it was possible to deviate from the Plan to some extent. Planned imports could be exceeded if the means of payment were available. It was possible either to find such resources or to increase external debt, although that was not a desired solution. Such efforts were part of the execution of the Plan, not changes in the Plan itself. Mr. Tyler said he understood that the Plan contained targets for both exports and imports. If market conditions were to change some alterations might be possible, but he assumed that it would be difficult to shift from one productive sector to another. Mr. Lazaride repeated that the Plan itself was not changed. He explained, however, that the balance of payments was analyzed each quarter, and a draft was prepared for the next quarter. Within this analysis an enterprise might be given tasks involving additional exports to compensate for shortfalls elsewhere. If the Plan specified a certain target for textile exports but no orders were forthcoming, then imports of raw cotton would be scaled down for the following quarter. The Plan itself, however, could be changed only at the level at which it was approved--by the Council of Ministers, the State Council, etc.

Mr. Tyler asked about the possibility of unexpected changes in stocks. Mr. Lazaride said these could occur in two ways. If planned exports did not find orders, the domestic market might or might not absorb the goods, with consequences for the balance of payments. Alternatively, producers would have to be encouraged to reduce output. No enterprise could produce goods, even within the framework of the Plan, if there were no contracts. There were some exceptions to this rule, however. Approval could be given to produce goods for stock-building if it was anticipated that these goods would be absorbed later by either the domestic or the foreign market. Specific approval was needed to product goods for inventory rather than sale. An enterprise which produced goods for inventory was considered not to have fulfilled its Plan target, but no penalty would be imposed in such a case.

Mr. Tyler noted that decision regarding products directed to international markets must be very difficult. In the case of basic products such as copper bars it was possible to forecast world demand, but this was more difficult in the case of complex manufactured consumer goods. In such cases it would be difficult to wait for a contract before embarking on production. Most other countries produced goods first and then tried to find a demand for them. Mr. Lazaride responded that the situation in Romania was indeed different. In simple cases such as meat, the demand was known in advance and production could proceed even without orders. For cereals, stocks could be held and sold when prices were favorable, and the same was true for petroleum products. However, for products which depended on the decision of the client, it was necessary to wait for evidence of demand before producing--at least an arrangement or a framework for sales even if not a formal contract in advance. In the case of light industry, fashion changes were a serious complication. For the domestic market, Romanian industry did not produce until the domestic trade expressed interest in buying, through some form of documentation, even if not a firm order. The same was true vis-a-vis big enterprises abroad, but there were always certain risks in these situations and stocks sometimes increased unintentionally.

Mr. Tyler suggested that over the past decade, as production became more sophisticated and more targets were set in value terms, planning decisions and the achievement of targets had probably become more difficult. Mr. Lazaride agreed. The economy was expanding and diversifying very rapidly and dependence on foreign trade was increasing. This complicated the task of planning and added to the risk of nonfulfillment.

Asked whether a problem of unexpected stock accumulation would be tackled by seeking alternative foreign markets, selling additional goods on the domestic market, or reducing production of the goods in question, Mr. Lazaride said it was very rare not to use the full capacity of a given industry. Enterprises very rarely produced less in one year than in the previous one. If stocks became too high, the first response would be to find new markets.

The meeting adjourned at 1 p.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 6
held at the Ministry of Finance, at 10.30 a.m.
on Monday, February 20, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Ionescu-Lungu, Ministry of Finance	Mr. G. Tyler
Mr. Tocitu, Ministry of Finance	Mrs. A. Mitchell
Mr. Munteanu, Ministry of Finance	Mr. J. Wein
Mr. Stoenescu, Ministry of Finance	
Mr. Dan, National Bank	
Mr. Demian, Ministry of Finance	
Mr. Andreescu, National Bank	

The meeting dealt mainly with the balance of payments. Before beginning this discussion Mr. Tyler asked for some explanation of the President's speech, which had appeared in the Press over the weekend. Mr. Ionescu-Lungu said the Ministry had been somewhat surprised by the extent of the changes being considered. For the time being he was not prepared to discuss the speech. It was not clear when the changes would be applied or what new measures would be needed for their implementation. It was clear that the President was proposing a change in the structure of the economy to make enterprises more autonomous, but it was not clear what changes would follow in the planning and financial mechanism.

Mr. Tyler explained that the Fund Board would be expected to ask questions about the significance of the speech and he would be expected to comment. He wondered whether the President was proposing a change similar to what had taken place in 1968 in Hungary when there was a big shift of authority to enterprises. Mr. Ionescu-Lungu thought the President was thinking of something closer to the Yugoslav position where enterprises had considerable independence to respond to all economic and financial developments. They were expected to deal directly with exports and imports and to digest price and currency changes in the world market. This would mean abandoning the principle of domestic price stability. A key issue was how fast the President wanted to move. The necessary laws could be drafted and passed overnight if necessary. It was clear that important changes in the mechanism of the economy were implied by the speech.

Mr. Tyler wondered what should be included in the Letter of Intent with respect to policies in 1978. Should it refer to a gradual impact of new policies or was an immediate measurable effect in prospect? The use of Fund resources must be based on a described program signed by the Minister on behalf of the Government of Romania. For the time being the Letter could be drafted with a blank left for a paragraph of explanation, but this would have to be supplied before the Letter could be finalized. He noted that the Board was keenly interested in foreign trade and balance of payments developments in Yugoslavia.

Mr. Tocitu presented balance of payments estimates for 1977 and forecasts for 1978. He noted that in 1977 exports had risen by 12 per cent (convertible 9 per cent) and imports by 15.2 per cent (convertible 16.7 per cent). In 1978 exports were targeted to rise by 16.4 per cent (convertible 16.3 per cent) and imports by 12 per cent (convertible 9.6 per cent). Turning to the services account Mr. Tocitu noted that receipts from tourism had dropped substantially in 1977, but that an expert on tourism would provide further comments on this item. He summarized the data on the capital account. With respect to monetary movements he noted that the increase of $9 million in gold holdings did not include gold received from the Fund. SDR holdings had declined because of the payment of Fund charges. The debit of $101 million in bilateral agreements was fully accounted for by the nonconvertible area. The use of Fund credit at $38 million represented drawings under the current stand-by and compensatory financing. There was a reimbursement to the Fund in two installments of the gold tranche and the first credit tranche.

Mr. Tyler asked Mr. Tocitu to provide a breakdown of "Other services" to show interest of payments separately. Mr. Tocitu agreed to try to do this within two or three days. Mr. Tyler said he would also like separate figures for volume and price of exports and imports. He would like estimates of the impact of the earthquake on trade, tourism and transportation. On the capital account he would like a summary of the amounts and terms of foreign borrowing which had been discussed in the Press.

Turning to the forecasts for 1978, Mr. Tyler asked what were the underlying assumptions. The export target seemed high, while imports were expected to grow less in 1978 than in 1977 and more slowly than either national income or gross industrial output. He asked for comments on the developments of external debt in 1978. Mr. Tocitu noted that debt figures included borrowing from the Fund.

Romania was now financing some purchases of equipment through buyers rather than suppliers' credits. Suppliers' credits were relatively expensive because they included charges for installment payments and refinancing, as well as premiums for coverage of foreign exchange risks and export credit insurance. In these circumstances the RBFT in cooperation with correspondent banks abroad and state organizations for credit insurance had begun to obtain financing for imports by credits obtained directly either from a state organization or a bank with a government guarantee. This was a fairly recent policy developed over the last two or three years for financing equipment imports. A number of big projects were now being financed by the IBRD.

Mr. Tyler referred to the BIS data which showed that Romania's gross assets deposited in European banks were larger than stated official reserves. This matter would need to be discussed either with the Ministry or with the RBFT. Mr. Tocitu said it had been explained that certain balances were held abroad temporarily for specific purposes. This was in keeping with Romanian methodology and not in violation of the Articles of Agreement. These deposits were recorded in the name of the RBFT. Mr. Tyler noted that the RBFT was part of the monetary system and the foreign exchange components of official reserves were also owned by the RBFT so that there was a question as to whether the different assets could be considered separately. It was agreed that this problem would be discussed at the RBFT. Mr. Tyler asked for a representative from the Ministry of Foreign Trade to discuss export and import figures, including the significance of Press reports on the practice of counter trade, and an explanation of Romanian policy in this regard. Mr. Tocitu noted that counter trade was a means of equilibrating the balance of trade, especially in cases where Romania faced difficulties in selling export products. At the level of the enterprise it was not possible to force a connection between imports and exports unless the client also had goods which could be exported to Romania. For example, if Romania imported minerals from India, the Government would be dealing with state enterprises which could not be obliged to buy equipment or consumer goods from Romania.

Mr. Tyler acknowledged that the subject was a difficult one but asked for a fuller explanation of Romanian policy in case of criticism by the Fund Board. There had been sharp criticism of Yugoslavia which had been trying to insist that imports be tied to acceptance of corresponding Yugoslav exports. The Board had asked the staff to go into this matter because it raised the possibility of increasing bilateralism and discrimination in world trade, against the basic aims of the Fund.

Mr. Tocitu mentioned that in some cases cooperative agreements specified that certain equipment might be paid for in products of the project concerned. This was the case under at least one agreement with France.

Mr. Tyler then asked whether if the Foreign Trade Plan was law, it was published? He was told that the methodological framework was published, but not the figures. Mr. Tyler said the Board wanted a quantitative picture of the Romanian economy. The general description of the Foreign Trade Plan provided by Mr. Croitoru had been useful, but it needed to be supplemented by figures on the export and import targets of ministries, branches, and enterprises. If such figures were available they would be very helpful. Without them it was hard to tell whether the 1978 balance of payments totals were reasonable. For example, the high export target implied that Romania must increase its share of world markets but it was not clear what kind of products would achieve this aim.

The meeting adjourned at 12.30 p.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 7
held at the Ministry of Finance, at 10.30 a.m.
on Tuesday, February 21, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Bituleanu, Deputy Minister of Finance	Mr. G. Tyler
Mr. Ionescu-Lungu, Ministry of Finance	Mrs. A. Mitchell
Mr. Tocitu, Ministry of Finance	Mr. J. Wein
Mr. Munteanu, Ministry of Finance	
Mr. Andreescu, National Bank	
Mr. Dan, National Bank	
Mr. Stoenescu, Ministry of Finance	
Mr. Demian, Ministry of Finance	

Miscellaneous matters

Mr. Ionescu-Lungu said that the monetary data requested would be ready later in the day. Mr. Andre Şerban of the Foreign Trade Ministry would also attend a future meeting to discuss imports and export developments in detail. A copy of the last Recent Economic Developments containing revisions and corrections would also be given to the staff team. Mr. Tyler said that some outstanding matters of importance were a discussion of the new policies announced by the President, a discussion about earthquake damage; and the need for a quarterly breakdown of short-term debt outstanding in 1978. Mr. Tyler confirmed that no additional types of performance criteria would be proposed.

Balance of payments: convertible area

Mr. Tyler said that many of the staff team's questions were about the trade account forecast for 1978. The export forecast was broadly consistent with past growth and, though ambitious, did not seem too far out of line with expected growth of world market prices and volumes. For imports, however, the forecast 9.6 per cent growth implied very little growth in volume, which seemed difficult to understand in light of the projected growth in industrial production. Mr. Ionescu-Lungu said that Mr. Şerban of the Foreign Trade Ministry would undertake to explain the details of the trade forecasts at a future meeting.

Regarding tourism, Mr. Tocitu said that he thought the big forecast increase in receipts for 1978 compared with 1977 was the result of a forecast large increase in the number of tourists, after a slack year for tourism in 1977 because of the earthquake. He did not think that increased expenditure per head or length of average stay was a significant factor. It was decided to ask a representative of the Ministry of Tourism to attend a future meeting and provide details of the 1977 outturn and 1978 forecast.

On transportation account, Mr. Tyler noted, the deficit achieved in 1977 was more than $50 million less than forecast in June of last year because of bigger receipts and smaller payments. Mr. Tocitu said that one reason was that damage from the earthquake had been less than previously indicated. In addition, Romanian ships were used to a greater extent during the year as a result of a build-up in the merchant marine fleet. This had the effect of reducing transport costs, especially on Romanian exports. In 1978, expansion of the merchant marine would continue. The merchant fleet was planned to expand from 1879 thousand tons deadweight at the beginning of 1978 to 2162 thousand tons at year's end as the result of the commissioning of six new ships. In the same period the number of trucks used in international transport was expected to increase from 875 to 1100. Greater reliance would also be placed on use of transport in the nonconvertible area in 1978. In general, the increase in the merchant marine would be used mostly to transport Romanian exports rather than imports. The large rise in payments on transportation account forecast for 1978 mostly reflected longer transportation routes rather than price movements. The payments were mostly for the import of ores, cotton, bauxite, etc., from developing countries with which trade was expanding. A further factor was an increased volume of oil imports.

Regarding the item "Other Services," Mr. Tyler noted that the 1977 result was significantly better than forecast in June. Interest paid to Romania had been estimated very well, but payments had been overestimated by about $25 million. Mr. Tocitu said that the chief reason was that there had been a decline in short-term rates, especially for the deutsche mark, French franc, and dollar. For 1978, the forecasts assumed a size compared with 1977 of 0.5 percentage point to a 6 per cent average rate of interest for short-term borrowing, and an unchanged average interest rate of 8 per cent for medium- and long-term borrowing (excluding borrowing from the Fund).

Turning to the capital account in the convertible area, Mr. Tyler noted that medium- and long-term borrowing in 1977 was a bit less than had been forecast. Mr. Tocitu said that in general, such borrowing was strictly linked to imports needed for investment projects, and was less influenced by developments in the current account. The 1978 forecast for medium- and long-term borrowing in convertible currencies was for new investment projects and the extension of existing ones. More than half the cost of such investment in 1978 was to be financed by the borrowing, which generally had maturities of 5 - 6 years, except for World Bank credits, which had much longer maturities. In 1978 suppliers' credits for imports continue to be used, as well as lines of credit from commercial banks.

Regarding medium- and long-term credits extended, the rise in new credits extended by Romania was closely related to forecast exports of machinery and equipment. Part of the contracts for these had already been concluded, and contract fulfillment sometimes was over two or three years. Payment was often in installments, and depending on the structure of machinery and equipment exports, the maturity of credits extended could be up to ten years, although for the current structure maturities were usually from 2 - 5 years. The basis for the extension of these credits for exports of machinery and equipment by Romania was contracts between governments or between the Romanian Government and foreign enterprises. The countries concerned were generally developing countries. Reimbursement was usually in the form of raw materials, and such repayment of credits extended was duly recorded as a receipt in the capital account, as well as being recorded in the trade account. Repayments of credits extended were growing slowly at present, because there were often grace periods until the equipment exported was commissioned, i.e., was readied for use. Thus, repayments of credits extended ought to accelerate in the next few years. The interest on medium- and short-term credits extended by Romania was 6 - 8 per cent, whereas for suppliers' credits used by Romania 6 - 7.5 per cent was being paid.

Concerning the short-term capital account, Mr. Tocitu said that short-term borrowing basically depended on the rest of the balance of payments. The general policy was to reduce the level of short-term debt. The amount of short-term credit received in one year was the same as the amount paid in the next, because credits received and paid within the same year were netted out. However, in reporting the stock of short-term debt, all short-term debt outstanding was included, no matter how short the maturity.

Mr. Tyler noted that in 1976 convertible short-term credits extended by Romania had amounted to \$52 million but that repayments in 1977 were \$80 million. In the nonconvertible area, short-term credits received in 1976 were \$67 million, but repayments in 1977 only \$8 million. He wondered what methodology had been used in these cases. Mr. Tocitu said that the turnover of short-term credits was rather difficult to handle. He would look into questions raised by Mr. Tyler.

Mr. Bituleanu then joined the discussions. Mr. Tyler explained to Mr. Bituleanu that it would be necessary for the mission to be given some idea of the major implications as well as the timing of the changes in the economic system mentioned in President Ceausescu's recent speech. It would be necessary this week to have enough general information to prepare a paragraph in the new Letter of Intent. If necessary Mr. Tyler could collect more detailed information on his way back from Yugoslavia to Washington.

Mr. Bituleanu said he wanted to make a statement on another matter. Romania was intending to change the official rate for the leu and wished to so inform the Fund in accordance with the requirements of the Articles of Agreement. The changes were related to recent weakness in the U.S. dollar. The official rate would be revalued by 10 per cent (11.2 per cent in terms of dollars per leu) from lei 4.97 - US$1 to lei 4.47 - US$1. However, the foreign trade Plan, which is expressed in foreign exchange lei, would remain unchanged. Thus, the value of the Plan would be 10 per cent higher than originally set and enterprises would have to achieve an overfulfillment of this amount. In other words an enterprise which would originally have had an export target of $100 in foreign exchange lei or lei 497, would reach only lei 447 with the same amount of dollar sales. Mr. Bituleanu emphasized that there would be no effect on foreign contracts or other external relations because contracts are negotiated in dollars. The consequences of the changes would be domestic: they would force enterprises to find new exports and better prices.

The uniform settlement coefficient would be reduced from lei 20 per US$1 to lei 18 per US$1. The representative rate for Fund transactions would remain at lei 12 per US$1, as would the rate for noncommercial transactions, the rationale for this being to stimulate foreign tourism. Thus, there would be no impact on Romania's economic relations abroad whether commercial or noncommercial. Mr. Bituleanu said it was not yet possible to inform Mr. Tyler of the date of these changes but he would like Mr. Tyler to notify the Fund officially, preferably through a confidential communication. He wanted this notification to be a positive example of Romania's cooperation with the Fund.

Mr. Tyler explained that it would be necessary to inform the Managing Director by cable at the appropriate time, and Mr. Bituleanu said the information would be provided in time for cabling.

Mr. Tyler commented that a reduction from lei 20 to lei 18 in the uniform settlement coefficient would have a real effect on commercial relations with the rest of the world in that, for example, imports of machinery and equipment which are paid at the uniform settlement coefficient would become cheaper in domestic terms. On the export side the effect would be less because exports were settled through the equalization system. Mr. Bituleanu said that the equalization system was now under review in connection with the basic changes proposed for the economic system, which were intended primarily to increase the role of enterprises. He said he was prepared to have a special discussion on the new proposals. The decision to implement them was a fundamental one based on long-term concepts. At present, the Government was working on the practical measures which must be submitted and approved to implement the proposals. Some actions would not be decided until a later stage.

Mr. Bituleanu emphasized that it would be inappropriate to compare the Romanian measures with those taken in Yugoslavia or Hungary. They were viewed as specific to the needs of Romania. The economy now had many very large enterprises with research and technical facilities. Romania had passed through a stage of confrontation with the foreign market. Measures had been introduced within the economy to facilitate cooperation with foreign firms--as in the case of Citroen--both vertically and horizontally. Joint ventures had been established with foreign banks. A technical staff was in existence and prepared for measures to increase the role of enterprises. While not many details had been published, these measures were all in the planning stage.

Mr. Bituleanu explained that under the new system enterprises would have to cover all expenditures from their own income. They would have to build relationships in such a way that all profits would be kept for their own use--for incentives to staff in the form of houses, vacation hostels, canteens, or travel abroad in cases where exports were overfulfilled. This system presupposed new thinking regarding the role of the Plan. On this subject more would be known within a couple of weeks, but the changes should be regarded as a fundamental reorientation for the long run.

Another aspect of the new system, Mr. Bituleanu added, was related to exports and imports. Enterprises should know what to export and import and should maintain a balance. If they were importing equipment on credit terms they must earn the resources to pay. For example, an increase in the price of imported raw cotton must be covered by increased foreign exchange resources. Enterprises must expand their economic awareness and consider all the relevant problems. It was clear from Western technical literature that all economic agents must think in terms of economic factors such as efficiency and profitability. The Plan would remain the fundamental decision of the economy, but enterprises would be responsible for finding the best ways to implement it. A given factory with 10,000 workers must know what to do given the situation of other products of the same type as it was making, and make decisions regarding diversification and the use of research and design. There were various approaches under consideration but it was not yet clear which decisions would actually be approved. The important point was that Romania was moving from an economic and financial system which had been highly dogmatic and bureaucratic, to a much more pragmatic approach. Mr. Bituleanu would provide as much information as possible during the mission's stay and he officially requested Mr. Tyler to return for more information after the Yugoslavia mission, emphasizing that Romania was interested in cooperating with the Fund and not just in borrowing money.

Mr. Tyler explained the need for a Board paper to explain and analyze the exchange rate changes. Such a paper would need to be prepared quickly, but could not easily be written in Washington before the mission returned. Mr. Bituleanu proposed that a confidential communication be made to the Managing Director and that the Board paper be prepared of time to be issued with one or two days notice. He stated that there was no chance of the changes referred to being introduced during the current week; he would know by Saturday, February 25, what were the prospects for the following week.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 8
held at the Ministry of Finance, at 10.30 a.m.
on Wednesday, February 22, 1978

PRESENT:

Romanian representatives
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Petrescu, National Bank
Mr. Mirescu, National Bank
Mr. Andreescu, National Bank
Mr. Dan, National Bank
Mr. Stoenescu, Ministry of Finance
Mr. Demian, Ministry of Finance
Mr. Pasculescu, Ministry of Finance

IMF representatives
Mr. G. Tyler
Mrs. A. Mitchell
Mr. J. Wein

Most of the meeting was concerned with money and credit. Mr. Petrescu began with a discussion of the development of short-term credit. He said that in 1976 a number of taxes which increased enterprise costs of production had been introduced in connection with the price resetting which had begun earlier. The increased costs which had been reflected in producer prices, increased the value of stocks, and the assets and liabilities of enterprises. Enterprises covered their increased costs for stocks (which reduced their profits) partly by an increase in funds from the state budget and partly by an increase in short-term bank credit. At the end of 1976, the amount of credit outstanding as a result of the stock revaluation was lei 9.4 billion, out of total short-term credit outstanding of lei 194.0 billion.

In 1977, the authorities reversed some of the measures taken in the previous year, because they felt that the effect on enterprise profitability of the earlier measures had gone too far. As a result, profits rose, stock prices fell because of lower costs, and the amount of credit outstanding to finance stocks was correspondingly reduced. If put on the same basis as obtained at the end of 1976, the increase in credits at the end of 1977 compared with a year earlier was not lei 0.5 billion, but lei 9.4 billion plus lei 0.5 billion; i.e., on a comparable basis the percentage increase in short-term credit comparing end-1976 with end-1977 was not 0.3 per cent given in the table but 5.2 per cent. (Similarly the comparison of 1976 with 1975 was affected by the measures taken in 1976, having the effect of increasing the percentage growth.)

The effect of the 1977 changes on foreign trade was to reduce imported inputs, especially of metals and certain additional materials used in the last stages of production. Imports of spare parts were also reduced and there was some import substitution. On the export side, some supplementary exports, especially consumer products from light industry were achieved. These were mostly of ready-made clothes, textile, etc., that were in surplus in the domestic market and were reallocated for export. In domestic prices the value of these reallocated stocks was about lei 3 billion. The decision to reallocate goods had in part been made as the result of high savings by the population in 1977, itself partly the result of the earthquake, which led to excess supplies of some goods. Moreover, agricultural stocks, which had been high owing to the excellent 1976 harvest, also declined as a result of the more normal harvest in 1977. By comparison with Mr. Lazaride, Mr. Petrescu was unable to say generally that finished stocks had increased in 1977. His comments and figures suggested the reverse.

In 1978, Mr. Petrescu continued, there would be further pressure on stocks as the growth of credit to lei 211.6 billion would again be exceeded by the growth of national income. The recent speech of the President reinforced this, because enterprises will have to rely on their own resources as much as possible. Interest payments on credits obtained to hold stocks would reduce profits, and thus the funds available to this enterprise to pay salaries, make improvements, etc. At the same time, the role of bank credit in the economy would increase very much as a result of the program announced by the President. Efficiency of economic activity, i.e., profitability and management still would be factors in the decision whether or not to grant credits, including credits in convertible foreign exchange for the import of raw materials. The state budget would become less important as a source of finance.

The forecast growth of 8.8 per cent in short-term credit during 1978 was considered rational given the growth targets elsewhere in the economy. The planned growth conformed with certain principals established in the Budget Law.

In 1978, profits were expected to rise as a result of a reduction in costs through more efficient use of funds and a reduction in expenditures, with consequently less use of credit. However, if the crop was exceptional, it might be necessary for credits to be higher. One special factor was that in the first quarter of 1978, credits were expected to grow a bit faster than usual compared with the previous quarter. Of the increase of lei 11.5 billion, at least lei 5 billion was the result of special imports of raw materials necessitated by the low stock levels at the end of 1977. Fourth quarter credits were lower after the harvest, and a run down of industrial stocks. It was not expected now that the sectoral structure of credit would change very much, but some changes might be made in view of the President's speech. The interest rate structure was also unchanged at present, but was being re-examined in view of the President's speech.

There was then a brief discussion of the assets side of the National Bank balance sheet. Mr. Petrescu said that credits of the National Bank to other banks in 1977 included credits to the Investment Bank as well as the Agricultural Bank, but that he did not know the distribution as the total between these two. As a rule they were the only banks which received credits from the National Bank. Credits to the Agricultural Bank had increased despite a lower harvest because enterprises' deposits in the Agricultural Bank had decreased causing the latter to seek credits from the National Bank.

Mr. Mirescu then began with a disquisition on cash in circulation. He said that payment of salaries and wages for the 3-4 January, 1976 had been made in December 1975, with the effect of increasing cash in circulation by lei 350 million at the end of 1975. This made the growth in cash in circulation smaller comparing 1976 with 1975, and larger comparing 1977 with 1976. This also made the growth of cash in circulation in the first quarter of 1977 larger compared with the first quarter of 1976. The figure for the first quarter of 1977 was also influenced by the earthquake, but it was difficult to say by how much. The Fund for Reconstruction (to repair earthquake damage) had received donations by the population of lei 3.186 billion, or about 1.5 per cent of the population's disposable income.

As a whole, the cash incomes of the population had increased by 8.2 per cent in 1977, or more slowly than national income. On June 1, 1977 there were pay increases in some branches of the economy, and increases are being applied gradually in other branches. The program of pay increases had been instituted somewhat earlier than originally planned, i.e., on June 1, rather than September 1. Turning to the use of disposable income of the population, 78.1 per cent was spent on goods and services in 1977, compared with 78.6 per cent in 1976 and 1975. The contributions to the Reconstruction Fund accounted for the reduction in 1977 compared with the previous two years. Other uses of disposable income in 1977 were for direct services to the population (13.1 per cent), payments for the purchase of apartments and houses (1.6 per cent), miscellaneous other expenditures (1 per cent), and cash and savings deposits (6.2 per cent). Of the latter item 30.6 per cent had been in the form of cash in 1977, and 69.4 per cent in the form of deposits in the CEC (Savings Bank). This compared with cash holdings on the same basis of 31.4 per cent in 1976, 31.6 per cent in 1975, and 34.5 per cent in 1971. The tendency toward a reduced cash share was seen as a favorable development, and one which stimulated the CEC. It did not represent any pressure on the supply of goods. Taken together cash and savings growth represented an indicator of growth in purchasing power.

Mr. Tyler said that compared with the growth of cash in circulation, retail sales in the socialist sector had risen more slowly in recent years, although as mentioned above, there was a special factor that had increased the growth of cash in circulation in 1975, the disparity in that year was still striking. Cash in circulation had increased by 13.3 per cent after eliminating the effect of the "extra" lei 350 million. This compared with growth of retail sales in the socialist sector of 8.7 per cent in the same year. Similarly, the growth of cash in circulation in 1977 was greater than that of retail sales, even after adjustment for the low base year of 1976. Although the growth rate seemed high, the development of cash in circulation was considered satisfactory in 1977. One indicator of this was that retail prices were within planned limits, having risen 0.5 per cent from the previous year. Compared with 1970, retail prices were 4.3 per cent higher in 1970.

Mr. Mirescu noted that there was a difference between retail sales in the socialist sector and expenditures of the population on goods. The latter included some items not in the Plan for retail sales in the socialist sector such as sales in enterprise canteens and sales of waste materials by enterprises to the population. It also included certain goods bought outside the socialist sector. On the other hand, the Plan for retail sales included some sales not to the population but to enterprises; however, this share was small. In 1977, retail sales in the socialist sector had increased by 6.7 per cent, but on the wider indicator, expenditures of the population for buying goods, the increase had been only 6 per cent. The latter indicator seemed to him the better one for comparison with the growth of cash in circulation and savings.

It was true that in 1977 the growth of expenditures on goods lagged somewhat relative to cash incomes, although the smaller increase in expenditures in 1977 (6 per cent) in part reflected the higher growth of 9.8 per cent in 1976. Savings in 1977 had increased by 18 per cent. Nevertheless, the reason was not a shortage in the supply of goods. In volume terms, the stock of foodstuffs for retail sale increased by 13 per cent during 1977. Nevertheless, the volume of deliveries of foodstuffs to domestic trade units in 1977 increased by only 3.6 per cent compared with 11.5 per cent in 1976, while sales of foodstuffs to the population by domestic trade units increased by 3.9 per cent in 1977 compared with 10.7 per cent in 1976. For nonfood retail goods, on the other hand, a high growth rate of sales was maintained in 1977, i.e., 9.9 per cent compared with 8.9 per cent in 1976.

Regarding stocks, the policy of reducing them had been applied in 1977, sometimes by reallocating excess supplies for export, e.g., some textiles and some chemical products. But a number of goods, especially in the mechanical and chemical industries, as well as certain technical goods and construction materials were in short supply. Part of the reason for the shortage of the latter was the large demand caused by rebuilding after the earthquake, and maintaining a high rate of new construction.

In 1978, it was planned that money incomes of the population would increase by 14.3 per cent, a rather high rate. The earlier pay rises would add about lei 2 billion to incomes. The increase also reflected an increase in the number of persons employed. At the same time, the 1978 Plans provided for certain increases in prices and tariffs, within the limits for 1978 in the Five-Year Plan. These had not been applied yet, and their effect in 1978 might be limited if they were not applied soon, but it was important to introduce such measures at the right time. The planned increase in prices had been taken into account in the planned monetary series provided for 1978. The latter would also be a year of high savings, planned to be 4.2 per cent of net incomes, i.e., the value of total savings deposits at the CEC planned for 1978, was expected to be 4.2 per cent of net incomes in 1978.

It was planned to follow the Five-Year Plan in setting the growth target for cash in circulation in 1978 at 9.5 per cent. But in practical terms, the FYP had not allowed for some increases in remuneration which had taken place. It was in fact expected that the growth of cash in circulation would exceed 9.5 per cent, and be closer to the growth of net incomes of the population. It was also expected that the growth rate of expenditures by the population would increase. Part of the reason was to recoup some of the planned increase in expenditure by the population which had not taken place in 1977. These supplementary tasks were not in the original 1978 Plan, but were added during the process of Plan approval.

Continuation of Meeting No. 8 held at the Ministry of Finance, on Wednesday, February 22, 1978 at 12.45 p.m.

PRESENT:

Romanian representatives	IMF representatives
Mr. Ionescu-Lungu, Ministry of Finance	Mr. G. Tyler
Mr. Petrescu, National Bank	Mrs. A. Mitchell
Mr. Mirescu, National Bank	Mr. J. Wein
Mr. Andreescu, National Bank	
Mr. Dan, National Bank	
Mr. Stoenescu, Ministry of Finance	
Mr. Demian, Ministryof Finance	
Mr. Pasculescu, Ministry of Finance	

Mr. Tyler asked Mr. Pasculescu to comment on developments in tourism in 1977, when receipts were well below target, and the forecast for 1978. Mr. Pasculescu said that the number of tourists coming to Romania from the convertible area declined from 546,000 in 1976 to 471,000. The major cause was the earthquake, which followed by reports in the Press that a second earthquake was expected imminently. These reports appeared during the season when tourist bookings are usually made. On April 21, 1977 bookings from the convertible area amounted to 145,000 compared with 213,000 at the same data a year earlier. From March 4 to April 21 the 1977 figure was 19,000 compared with 59,000 a year earlier. In addition to the loss of bookings, many travel firms cancelled existing contracts amounting to about $10 million, of which Germany accounted for $3 million and the United States $3.5 million.

Apart from the earthquake, Mr. Pasculescu mentioned that tourists had sometimes been discouraged by the quality of facilities and services available, especially at the Black Sea coast. Moreover, there was still an effect from an unfavorable transportation situation which developed in 1975 when there were substantial numbers of tourists TAROM could not transport them all at convenient times. This situation had been covered extensively in the foreign press, radio, and television.

For tourist receipts from the nonconvertible area these had been no problem in 1977: indeed, receipts were 25 per cent over target.

On the basis of data supplied by Romanian tourist offices abroad, it appeared that 1978 bookings from the convertible area were currently 22 per cent higher than in the comparable (pre-quake) period of 1977. The main increase was from Germany, where bookings were 58,500 compared with 32,300. Germany accounts for 35 per cent of total convertible tourist receipts. There was no increase in bookings from the United Kingdom and the reasons for this were not yet clear. Besides the increase projected for the number of tourists, fulfillment of the 1978 Plan would require some increase in charges for group tours. For most countries these charges would rise from 3 per cent to 5 per cent over 1977 levels, except for Germany, Austria, and Norway, where the share of this kind of tourism was not large.

Mr. Pasculescu agreed with Mr. Tyler that the projected increase in tourist receipts for 1978 at close to 40 per cent also implied an increase in the average amount spent per tourist. The average stay in Romania for group tours was expected to be 10 days, but it was not clear what was the trend of the length of stay in general.

With respect to tourist receipts from the nonconvertible area in 1978, Mr. Tyler noted that a small decline was expected. Mr. Pasculescu said tourist traffic from the socialist countries was not contracted but certain ceilings were established each year in the interests of Romania. The reason why the number of Romanian tourists visiting the nonconvertible area had dropped in 1977 was the earthquake; it would rise again in 1978. Mr. Pasculescu noted that in the case of tourism from the convertible area, about 35 per cent was individual and 65 per cent group tourism. These proportions were reversed in the case of the nonconvertible area.

Mr. Ionescu-Lungu answered some further questions with regard to the prospective exchange rate changes. The uniform settlement coefficient would be changed equally for exports and imports. The Equalization Fund would be maintained for the time being and would not be much affected. Later on, however, after the changes in the economic system proposed by the President, it would probably cease to have a significant role, and the results of foreign trade would be directly reflected in the profits of producing units. With respect to the range of coefficients, it was unlikely that there would be further major changes in 1978 although the leaders might insist on some changes as early as the second half of the year. The application of the new mechanism would be important and complex, and might be introduced in stages. The rates of customs duties would be unchanged, but would be applied to lower customs values of imports under the new system of exchange rates. The planned import target would remain in both volume and foreign exchange terms, but the importer would pay less for imports in terms of lei. Although in theory imported goods should become more attractive to enterprises, the quantitative targets of the Plan would remain fixed and the Ministry of Foreign Trade would exercise strict supervision through the import licensing system. The balance of payments forecasts would not be affected and enterprises would have to try harder to achieve another 10 per cent of exports.

Mr. Ionescu-Lungu said that exchange rates for the socialist countries would also be revalued. He thought official rates would no longer be defined in terms of gold but in dollars.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 9
held at the Ministry of Finance, at 10.30 a.m.
on Thursday, February 23, 1978

PRESENT:

Romanian representatives
Mr. Bituleanu, Deputy Ministery of Finance
Mr. Şerban
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Stoenescu, Ministry of Finance
Mr. Munteanu, Ministry of Finance
Mr. Demian, Ministry of Finance

IMF representatives
Mr. G. Tyler
Mrs. A. Mitchell
Mr. J. Wein

The meeting dealt mainly with foreign trade. Mr. Tyler asked Mr. Şerban to comment on the 1977 performance, which was better than expected, and on the forecast for 1978, which showed a large increase in exports, but a much smaller increase in imports, especially from the convertible area, although there was to be a relatively large increase in imports of certain raw materials in the first quarter.

Mr. Şerban said that trade forecasts made soon after the earthquake, in June 1977, were very cautious because it was not clear how soon normal production for exports could be resumed. Great efforts were made by the population to put capacity back into use by repairing factories, dwellings, and other buildings, by making better use of existing capacity and finding unused reserves through an inventory and analysis of available equipment, and by better use of working time to produce goods for export. Nevertheless the export plan was not fulfilled, because of the earthquake, unfavorable foreign market conditions, and a shortfall in agricultural crops below the 1976 level. Mr. Şerban did not consider the export increase of 16.4 per cent projected for 1978 to be high, despite the Fund's pessimistic view of world market trends. The projection was based on a number of assumptions. The increase in exports must be accelerated to help cover past shortfalls and external debt payments, partly by expanding Romania's share in the world market for particular products. Domestic reserves of unused capacity would be exploited, the structure of exports would be shifted to provide further increases and labor productivity would be improved. There would be further gains in exports of machinery and equipment, petroleum products, furniture and even some building materials. In 1977 some of these products had been used for domestic consumption but new capacity would be commissioned this year through joint ventures in which the contracts stipulated assured markets for the products concerned. Joint ventures in Romania would help to develop and extend exports while joint ventures abroad were expected to improve price performance. Substantial amounts of intermediate goods, particularly steel products and textiles, were currently sold through commercial marketing firms, but Romania was now starting to sell directly to final consumers. The charges paid to importing companies amounted to 30 per cent, wholesalers in the importing country would take a profit of 20 per cent and retailers another 20 per cent to 30 per cent. This meant that Romania was getting only half the proceeds that could be realized by dealing with big retail outlets or at least wholesalers. It was planned to eliminate at least one step of the chain of middlemen wherever possible.

With respect to the structure of exports, Mr. Şerban said the planned shift to emphasize machinery and equipment and petrochemical products would increase the share of goods with a high added value. This would also increase exports. Romania would be selling metal products such as rolled steel, tractors, trucks, with computer technology and increasing automation. In the steel industry the IBRD had helped Romania to build a plant for special steels as well as one for aluminum in Slatina. Nonferrous metals had been developed to produce steel alloys which would improve the quality of machinery.

In textile production, Romania still had reserves of two kinds. It was intended to make a qualitative jump in improving the structure of exports of ready-made clothes. In previous years the clothes sold were mainly made of synthetic fibers, but this year it was intended to change the composition and use more wool and cotton, and, among the synthetic fibers, better quality polyesters which were now fashionable. The decision to make this change would require increasing stocks of cotton and wool, but Romania could double the average price of ready-made clothes sold abroad. Textile prices would be increased only 10 per cent over the 1977 level. There were still problems in the world market but Romania had at least achieved a juridical framework for the export of textiles in the main Western countries. Agreement had been reached with the United States on wool and synthetics and toward the end of 1977 on cotton textiles. In December 1977 there had been an agreement with the EEC. All these agreements established the possibility of long-run access to major markets. Romania was currently negotiating with Canada (meeting would resume March 13) and negotiations were expected to start with Scandinavia. There were no problems in the remaining European countries--Austria, Switzerland, and the Mediterranean area.

Mr. Şerban said prospects for some export products were considered favorable for 1978 in terms of both volume and price. For example, chemical fertilizers had faced a weak market in 1977 and the price had been only $22 a ton. Some contracts for this year had already been signed at $30 or $35 (on the basis of 100 per cent equivalent content--the fertilizer in question was commercial grade). The volume of exports of this product was also expected to rise in 1978 because demand had strengthened. Sales in 1977 were 834,000 tons but in 1978 were expected to reach 1.5 million tons, of which 600,000 tons would be delivered to Turkey (for payment by installments under Government guarantee) and 300,000 tons or 400,000 tons to Southeast Asia. The demand for fertilizer was greater than the supply, and Turkey was a good market because the transportation problem was minor.

The machine-building industry which had yielded 9.2 billion foreign exchange lei in 1977, was expected to bring in 12.2 billion in 1978, while chemical and petrochemical products would rise from 6.9 billion to 8.6 billion. Between 1977 and 1978 the following other increases were expected: metallurgy foreign exchange lei 3.1 billion to foreign exchange lei 4.2 billion; light industry from foreign exchange lei 3.4 billion to foreign exchange lei 4.2 billion, and food and agriculture from foreign exchange lei 4.2 billion to foreign exchange lei 6.8 billion.

Mr. Tyler asked for a broad breakdown of exports for 1977 and 1978 in order to have as much quantitative information as possible on where increases would occur.

Mr. Şerban said the increase in Romania's exports in 1977 was 12.2 per cent or more than double the increase in world trade in the same period. In 1978 a higher rate of growth was assumed. After the National Conference of the Party, measures were taken to jump from quantity to quality. By 1980 the value of exports should have increased by one third with less than 1 per cent rise in volume. The main task was to raise quality to international standards. There were reserves of productive capacity and 60 per cent of Romania's stock of machinery and equipment was less than 5 year's old. Moreover, the President had made many visits abroad to countries in Latin America, Africa, and Asia in order to get long-term export contracts. Romania had contracts to build oil in the Middle East, e.g., Kuwait, where equipment was needed irrespective of world demand. The demand for drilling equipment was very strong.

Mr. Tyler repeated that with world trade expected to expand by only 5 per cent in real terms and prices rising a little more slowly than in 1977, the export forecast of 16 per cent needed strong justification. Mr. Şerban noted that in textiles, with the expected change in the structure of exports, an increase of only 6 per cent was needed in volume terms to reach 16 per cent in value. For metal products exports were expected to rise from 3.1 billion foreign exchange lei to 4.2 billion, although there had been difficulties with the EEC at the beginning of this year because of the system of mineral prices, and this forecast might have to be adjusted. Negotiations to conclude an agreement with the EEC were due to start very soon. So far most of the export effort had been concentrated in Europe. For light industry the projected increase in exports was from 3.4 billion to 4.2 billion. Food and agricultural products were meeting better market conditions and investment had been expanded, especially in livestock. The 1978 export target was 6.8 billion compared to 4.2 billion in 1977. Other comparisons provided by Mr. Şerban were:

	1977	1978
Machine building	34,000 units	50,000 units
(There was no difficulty in selling tractors to LDCs, especially in Latin America, and this projection was based on existing contracts)		
Railway cars	7,900	9,430
Trucks	6,000	13,000 (firm contracts)
Chemical fertilizers	834,000 tons	1.5 billion tons
(100 per cent content equivalent, increase in price of 11 per cent to 15 per cent)		
Cement	3 million tons	3.5 million tons
(Surplus quantities available after the earthquake reconstruction. New capacities also coming on stream. No problems in selling cement, especially in Africa and the Middle East).		
Ready-made suits	1 million	1.2 million
Knitwear	495,000 units	678,000 units

	1977	1978
Meat	102,000 tons	283,000 tons

(New markets were developed in the Middle East after the imposition of restrictions in the EEC).

Sugar	--	163,000 tons

(A new export product. Previously the world price was considered too low to be worthwhile but it was expected to rise after the new international agreement)

Cereals -- also expanding

Tires and tubes	1,051,000	1,705,000
Synthetic rubber	15,400 tons	66,000 tons
Caustic soda	80,000 tons	90,000 tons
Machine for geological surveys and drilling	852 million (foreign exchange lei)	1,100 million (foreign exchange lei)
Oil refining equipment	33,500 tons	48,000 tons

Mr. Serban noted that stocks of some products needed for exports had been run down in 1977, especially textile raw materials and iron and steel. Some goods had also been diverted from the domestic to the foreign market to compensate for shortfalls in other export receipts. There was no new statistical evidence regarding the earthquake losses which had been forecast at $520 million, of which half was to occur in 1977 and half in 1978.

Mr. Tyler then asked Mr. Şerban to comment on the import forecast. Imports in 1988 were projected to go up by much less than national income or gross industrial product. Mr. Şerban noted that the level of imports in many other countries was stable. Imports from the nonconvertible world rise by more (14.9 per cent) than those from the convertible area (9.6 per cent) because

Romania was still running a surplus with the nonconvertible area, whereas vis-a-vis the convertible area the intention was to expand exports to cover debt payments.

One reason for the low rate of increase forecast for imports was that many branches of activity in Romania had become more competitive and could produce domestic products to replace some imported ones. In view of world inflation it was considered desirable to encourage import substitution. Under the current Five-Year Plan Romania's gross output was to rise by about lei 120 billion, as a result of better use of industrial capacity, labor force, and raw materials. Some of these new outputs would be added to exports and some would replace imports.

Another important factor in the relatively slow growth of imports Mr. Şerban said was that Romania was already in the third year of the Five-Year Plan. All the big investment projects had started construction in the first year and the need for capital goods had been larger in the first two years than it would be in the third year. The level of imports would be maintained but the largest part, purchases of complex equipment, had already been achieved. All of the new capacity was to be commissioned by the end of the Five-Year Plan. Moreover, Romania had already started contracting for imports of equipment for the next Five-Year Plan, part of which would be imported and paid for in 1979 and 1980. In the middle year of the Five-Year Plan investment and imports tended to be relatively low. Under the previous Five-Year Plan, however, many projects had been delayed because necessary imports had not been made in the first two years.

Mr. Tyler noted that the 1978 Plan showed investment up 26 per cent (compared with 17 per cent) and national income up 16 per cent (compared with 8.6 per cent in 1977). This implied a substantial shift in the relative importance of imports and domestic production. Mr. Şerban said that of total imports more than 40 per cent consisted of complex equipment. Industry had priority because it took 3 to 5 years to build an industrial plant, whereas projects in agriculture, construction, tourism and transportation could be implemented more quickly using domestic resources and equipment purchased previously. While it was true that investment was projected to rise by 25 per cent much of it, such as livestock breeding, did not require complex imports.

Mr. Ionescu-Lungu added that the share of investment achieved with domestic resources was greater each year. In industry only about 25 per cent of investment now relied on imported resources.

Mr. Tyler asked for a volume and price breakdown of imports similar to that provided for main export categories. Mr. Şerban said import projections were available only in volume terms. Mr. Tyler inquired how the balance of payments forecast could be prepared if no price projections were available for imports.

Discussion of Exchange System changes

Mr. Tyler said that, as a general comment, it was most unusual for a country to appreciate in the midst of a stand-by arrangement with the Fund. He realized that for Romania there were special factors as compared to market economies, but that the staff team would need to be able to explain the reasons for the change fully to Executive Directors. He also described the staff paper that would have to be prepared for the Executive Board, and that the changes would need to be mentioned in the Letter of Intent if they (the changes) became effective before the Letter was sent.

Mr. Bituleanu reiterated his desire for positive cooperation with the Fund, and reiterated the changes which would be made in the official and commercial rates. Regarding the noncommercial rate, he said that it was to remain at lei 12 - US$1 in order to stimulate tourism, but that continued inflation or weakening of the dollar might make re-examination of that rate necessary too. A change in this rate was not imminent; however, to compensate for the change in the official rate, the premium on the official rate to reach the noncommercial rate would be changed to 168.46.

The consequences of the change in the official rate were purely internal and would have no impact on the balance of payments. All balance of payments forecasts and foreign contracts were expressed in dollars. Regarding rates with socialist countries, the official rate of lei 6.67 - transferable ruble 1 remained unchanged as did the relation of the transferable ruble to the U.S. dollar. A definition of the leu in terms of gold would be retained. However, internally there would be an additional incentive to export, since the f.e. lei targets at the various domestic levels (enterprise, central, FTO, Ministry) would be maintained and this would correspond to more dollars when the new rate was implemented. The changed rate would encourage enterprises to increase the quality, quantity, and assortment of exports, and to try and reduce costs. There was stress on the improvement of quality so as to be able to raise export prices. It was hoped, for example, that in light industry considerable improvement could be made. But the forecast growth of exports in terms of dollars for 1978 remained the same. It was also hoped in this way to "invigorate" agricultural prices. It was debatable if all this could be done in one year, but an inventory taken at the end of last year had identified areas where supplementary efforts could be made. Another factor was that there were reserves in the Plan, i.e., the foreign trade targets in dollars had been estimated a bit conservatively.

On the import side, the effect was parallel. The number of dollars of imports would remain as planned, but the number of f.e. lei would change (decrease, for imports). There was no problem because the import plan was expressed both in dollars and in f.e. lei. While the f.e. lei figure would change, the Plan stipulations to economize as much as possible on imports were still in effect, as was the target in dollars. It was still necessary to obtain import licenses. The change in terms of f.e. lei could be looked at as providing a more realistic indicator of the value of the import targets than theold rate. This was also true for the change in the commercial rate (which would continue to be applied to services account and capital account transactions). In the convertible area, domestic prices had generally been going up faster than in Romania, where they remained stable, and the socialist countries generally where they were increasing slowly. /Not to be quoted: One result of this was that the imported share of the development fund, consumption fund, etc., was increasing each year, and this had led to internal criticism./ Changing the uniform settlement coefficient to 18 gave a more realistic unit of measurement of what was given and received for imports and exports. However, the equalization system would continue to operate with unchanged standard foreign prices in dollars and domestic prices in lei. For imports not subject to the equalization system, chiefly machinery and equipment, imports would indeed be cheaper at the new commercial rate. This should allow a more realistic assessment of prices and selection of imports, but could not be construed as stimulating imports per se, because the Plan targets and injunctions to improve quality, reduce material costs, etc., still remained.

On the day the changes became effective, Mr. Bituleanu continued, obligations and claims in lei would be re-expressed at the rate of lei 18 - US$1. Balance sheets of banks would be adjusted to the new rates. For enterprises which had borrowed abroad, a payment to "regularize" the new situation would be necessary. That is, if an enterprise had borrowed $1,000 and received lei 20,000, it would have to repay lei 20,000. When the balance sheets of the banks were adjusted to record the $1,000 borrowed as lei 18,000 (on the day these new measures became effective), the enterprise would be required to pay lei 2,000 (lei 20,000 - lei 18,000) to "regularize" its position. If it could not do so, the amount owing would be considered by the bank as an additional credit.

Regarding the size of the revaluation, Mr. Bituleanu said that while it did not eleiminate the disparity which had developed through the growth of world prices relative to the commercial rate for the leu since the latter was set at lei 20 - US$1 in 1973, it was a first step. World prices would be kept under continuous review and further action might be taken. The revaluation which would soon take place could be seen in the context of price resetting. The major resetting of domestic prices to bring them more in line with world prices had now been completed, but the Romanian authorities had become concerned about the depreciation of the dollar. The coming revaluation was intended to make export and import prices more realistic, and thus to help in foreign trade planning.

In summary, the measures were intended to stimulate exports through greater efforts on the part of enterprises. On the import side, especially for machinery which was not covered by the equalization system, the intent was to reduce the rate of increase of costs to enterprises caused by the rise in world prices in the convertible area. The measures to be taken were then appropriate in the context of the President's recent speech, in which he had stressed greater efforts in foreign trade.

The meeting adjourned at 2 p.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 10
held at the Ministry of Finance, at 10.30 a.m.
on Friday, February 24, 1978

PRESENT

Romanian representatives
Mr. Ionescu-Lungu, Ministry of Finance
Mr. Tocitu, Ministry of Finance
Mr. Serban, Ministry of Finance
Mr. Dan, National Bank
Mr. Stoenescu, Ministry of Finance
Mr. Varlam, Ministry of Finance
Mr. Munteanu, Ministry of Finance

IMF representatives
Mr. G. Tyler
Mrs. A. Mitchell
Mr. J. Wein

Mr. Varlam began with some further comments on the budget. Regarding the increase in expenditure on the national economy for 1977, which was higher than originally forecast, he said that both the earthquake and resetting of prices were contributory causes. However, he was not very sure about this. Mr. Tyler asked about the budgetary effects of the reduction in the value of stocks from the fourth quarter of 1976 to the first quarter of 1977. Mr. Varlam said that the reduction in the value of stocks had led to some repayments of enterprises to the budget. Regarding the taxation of profits and share of enterprise profits going to the budget, Mr. Varlam said that in 1977 lei 53.5 billion represented revenues from the profits tax, and lei 62.6 billion represented the share of enterprise profits passed to the budget.

A part of other revenue from socialist units was customs duties. Mr. Ionescu-Lungu said that those had amounted to lei 2.4 billion in 1977 and were estimated at lei 2.5 billion for 1978. These revenue were rather smaller than in previous years because of the lowering of customs duties, effective January 1, 1977 from an average 35 per cent to an average 10 per cent.

Regarding "other revenues from socialist units," Mr. Varlam said that these were projected to decrease in 1978. This item included local budget balances, which varied from year-to-year. Moreover, in 1978 enterprises would no longer be making certain payments associated with price resetting. "Other expenditure" appeared to rise sharply in 1978, Mr. Varlam noted but this was because the budget reserve of lei 3.5 billion was included in the 1978 figure, whereas for 1977 the figure no longer included the reserve or the budget surplus. Other expenditures in this item included computer housing facilities, international contributions and quotas, expenditures on certain miscellaneous centers, and money paid to persons with decorations. Finally, Mr. Varlam said that a new table on budget revenues and expenditures would be given the staff team, that took into account certain minor revisions in the figures.

The discussion focused on the balance of payments forecast for 1978. With respect to the nonconvertible area, Mr. Tocitu noted that there was a trend toward increased reciprocity of tourism between socialist countries. Increases in both receipts and payments on the transportation account reflected increased charges, not volume increase. The "Other services" item included certain expenditures connected with embassies, etc., as well as interest payments. Imports from the nonconvertible area were projected to grow faster than those from the convertible area partly because of certain long-term agreements, especially with socialist countries, to ensure supplies of raw materials. In connection with Romania's situation in 1977 certain reciprocal arrangements had been concluded. It had been agreed thatRomania would increase its imports and other socialist countries would increase their exports to Romania.

Mr. Tyler noted that in 1977 Romania moved from a net creditor position under bilateral agreements with the socialist countries to a deficit. In 1978 there would be another but smaller deficit. He asked whether such deficits had reached their limit. Mr. Tocitu replied that the debit balances were still within specified swing limits. These limits could be exceeded in special cases. IBEC could grant temporary credits for balance of payments support, or even credits for longer periods. Credits for exports and imports were used less between socialist countries than with others. Asked whether IBEC insisted on a program of measures when making loans, Mr. Tocitu said policy programs were discussed. There would be a bilateral agreement. A country which could not deliver goods as agreed would have to agree to deliver them in the future over a specified period. IBEC loans were made in the context of existing bilateral agreements. The next stage was multilateral agreements under which debtor countries having credits with other countries might agree to a process of compensation.

Mr. Tyler asked whether price effects were expected to be bigger in trade with the nonconvertible area than in other trade, given the projected rates of increase in export and import values. Mr. Tocitu said this question would have to be referred to Mr. Şerban.

With respect to the capital account, Mr. Tyler noted that repayments to Romania had been rising but would fall in 1978. Mr. Tocitu said this development was partly accounted for by the fact that Egypt, Guinea, and Pakistan were formerly included in the nonconvertible area but now appeared in the convertible area. Egypt was a particularly important factor in the shift. The bilateral payments agreement had been terminated in 1976 but still showed a balance in 1977 because payments were due in that year and the account was held open for the purpose. The 1977 figures did not represent current transactions.

Asked what proportion of loans extended by Romania in the convertible area went to LDCs, Mr. Tocitu said that up to 10 per cent were accounted for by industrial countries. None of the credit extended by Romania was directed to socialist countries.

Mr. Tyler noted that Romania had not received much short-term credit on a net basis from the nonconvertible area, but the 1978 forecast showed a figure of $110 million. Mr. Tocitu said that because of the increase in imports it was intended to supplement bilateralbalances with temporary short-term credit from IBEC. IBEC had a system of temporary grants. There could also be such grants when imports or exports were not settled immediately--a form of supplier credit. IBEC credit was not a line of credit, it was called "credit for settlement." Mr. Tyler drew the conclusion that Romania's deficit vis-a-vis the nonconvertible area in 1978 would be $150 million, rather than $50 million. He asked why Romania was shown as not extending any short-term credit in 1978. Mr. Tocitu said there might be some short-term credits for unpaid exports. He noted that the net figures were more important than the gross. Although the net position was now forecast at zero, this might not be the actual results. Mr. Tyler questioned the relationship between extensions of short-term credit in one period and repayments in another. He wondered if some credits classified as short-term were actually longer than one year. Mr. Tocitu said this was not usually the case, but at the end of the year some payments might run over into the following period.

Mr. Tyler commented that although in June Romania was forecasting a deficit of $258 million vis-a-vis the nonconvertible area in 1978, the actual result was a deficit of only $101 million mainly because the trade account was unexpectedly favorable.

Mr. Tyler asked what proportion of "Other services" was interest payments. Mr. Tocitu said that for 1978 there was very little in this item for the nonconvertible area which was not interest. However, some credits were shown including both capital and interest, so that separation was difficult. Mr. Tyler said that with respect to the convertible area it was most unsatisfactory not to have figures for actual interest payments. These figures must be known. Their absence made it impossible to produce for the Board a standard calculation of Romania's debt service ratio. The mission had asked for the interest figures in November 1977. Mr. Tocitu agreed to try to provide these figures on Monday, at least for 1977. Mr. Tyler said that for the June consultation the balance of payments tables must include a separate item for interest.

Mr. Tocitu passed on a table ofbilateral balances, but said the RBFT would have to comment on any new agreements or terminations. The agreements with Egypt, Guinea, and Pakistan had been terminated as scheduled. Mr. Tocitu noted that large balances shown for December 1977 under agreements with Brazil, India, and Iran had been partly liquidated in January by deliveries of exports and imports.

Mr. Tyler turned to the question of quarterly short-term external debt figures to be used as performance criteria for the remainder of the stand-by period. Mr. Tocitu said short-term debt outstanding was expected to decline by $53 million in the 12 months ending December 1978. The quarterly breakdown would show an increase from $238 million in December 1977 to $290 million at March 31, and $305 million at June 30. By September 30 there would be a decline to $275 million, and by December 31 to $185 million.

Mr. Tyler asked for further comments for the Letter of Intent regarding the unexpectedly favorable trade results in 1977. To what extent were these explained by overly pessimistic forecasts in June, and to what extent were the earthquake effects simply overcome by the efforts of the population? Mr. Tocitu replied that it was difficult to separate these elements, both of which were significant. Another factor had been the support received from other countries, especially the socialist countries.

It was agreed that the question of reconciling official reserve figures with information provided by the BIS regarding Romania's deposits in European banks would be discussed with Mr. Crainiceanu on Tuesday. On Monday the Ministry would try to make some comments on the reasons (other than weather) for the decline in agricultural outputs in 1977. There would also be a discussion of technical aspects of the projected changes in exchange rates.

The meeting adjourned at 12.30 p.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 11
held at the Ministry of Finance, at 9.00 a.m.
on Monday, February 27, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Eremia, Ministry of Finance	Mr. G. Tyler
Mr. Ionescu-Lungu, Ministry of Finance	Mrs. A. Mitchell
Mr. Tocitu, Ministry of Finance	Mr. J. Wein
Mr. Stoenescu, Ministry of Finance	
Mr. Munteanu, Ministry of Finance	
Mr. Dan, National Bank	
Mr. Andreescu, National Bank	
Mr. Pana, Ministry of Finance	

On the technical aspects of the proposed exchange rate move, Mr. Ionescu-Lungu asked Mr. Tyler if formal notification should be sent to the Fund after the change. Mr. Tyler explained that advance notice would not be expected, but the communication should reach the Managing Director before he could learn of the change through the Press or otherwise. Mr. Ionescu-Lungu said that in principle the change had already been approved but it could not become effective until the decree had been signed. The timing was still unknown.

Mr. Tyler asked if the gold content of the leu as officially defined would be changed. Mr. Ionescu-Lungu thought the gold content would be changed. Mr. Eremia thought the gold content was now irrelevant and would remain unchanged as in the cases of Czechoslovakia and Hungary. The Romanian representatives were agreed that the draft decree did not mention gold, but only the official rate for the dollar. They promised to clarify this matter in the official notification to the Fund. (Subsequently, the mission was told that the gold content remained unchanged.)

Mr. Ionescu-Lungu informed Mr. Tyler that official and commercial rates between Romania and the other socialist countries were not being changed. The official rate for the ruble remained at 6.67 and the rate for the transferable ruble was unchanged. Mr. Eremia suggested that the gold content and rate for the transferable ruble would probably be re-examined before the end of the year. It was possible that the whole structure of socialist currencies might appreciate vis-a-vis the dollar or vice versa. There might also be relative changes among the group to reflect the differing evolution of prices. This has been the subject of Mr. Eremia's recent discussions in Moscow.

Mr. Tyler noted that with Viet Nam, a Fund member, if the rate for the dong were not changed there would be a broken cross rate as between Fund members. Mr. Eremia said the official rate for the dong would not be changed but it was intended to carry out a new analysis of noncommercial rates with certain socialist countries which were not members of the IBEC. These rates had been established in 1963. No rates were officially quoted for Laos or Cambodia.

Mr. Tyler asked for a recapitulation of what would happen to the valuation of existing assets and liabilities on the day of the exchange rate change. Mr. Ionescu-Lungu explained that it would be the foreign trade enterprises who would be affected and not producing enterprises. Regularization funds would be set up in the banks (the RBFT, Investment Bank, and Agricultural Bank) and foreign trade enterprises would adjust their balances through transfer to or from these funds. It was hoped that no payments to or from the budget would be required but it would not be clear for at least one month whether the final assets and liabilities of the regularization funds would be completely in balance.

Mr. Tyler asked whether the description of the exchange rate changes should be linked with the President's speech on improving the economic mechanism. Mr. Ionescu-Lungu said that in general the change was taking place within the framework of making the economy work better, but the timing was coincidental. There had formerly been a preoccupation to appreciate and unify rates. The present change was also linked to the depreciation of the dollar. The rate in lei for exports had moved closer to 18 in recent years and this was the immediate rationale for the present change. It was hoped that improved quality of exports and higher export prices in future would strengthen the rate further. The present measure was meant to stimulate enterprises to do better on world markets by changes such as changing the structure of exports, reducing the weight of machinery and equipment in line with world standards, and reducing inputs.

Mr. Tyler noted that Mr. Bituleanu had referred to new arrangements allowing foreign trade enterprises or centrals to retain some foreign exchange receipts from exports and possibly allow exchange for foreign travel by the workers. Mr. Ionescu-Lungu said the whole subject of how to increase foreign exchange receipts over Plan levels and how to use the excess was currently under discussion. It was not clear whether new decisions would be made on the treatment of normal foreign exchange receipts or excessive receipts, or whether they might be used for additional imports or for workers' travel. The Ministry of Foreign Trade was working with the Ministry of Finance in preparing drafts for discussion. For the time being the obligation to repatriate all foreign exchange receipts remained in effect.

Mr. Tyler asked whether in the balance sheets of banks foreign assets and liabilities were shown at the official rate or at the rate of lei 20. Mr. Ionescu-Lungu said the rate of lei 20 was used, but in formal balance sheets the official rate was used. Mr. Tyler then asked whether foreign borrowing was always carried out in the name of the Romanian Bank of Foreign Trade, which then held the obligation to repay. Mr. Ionescu-Lungu explained that enterprises would make contracts with foreign partners under which these enterprises had the formal obligation to repay. Although in the case of suppliers' credits there would be a bank guarantee. There were also banking credits. The RBFT had lines of credit. In the case of the IBRD the credits were taken by the Investment Bank and Agricultural Bank and remained liabilities of those banks to the IBRD.

On the figures on short-term external debt to be used in the stand-by arrangement, Mr. Tyler said he considered that the trend of such debt did not match the quarterly balance in the trade account. There was too much borrowing in the first half of 1978 and too much repayment in the second half. The impression could be that Romania was trying to ensure that performance targets would be met in March and June. In the first half of the year the borrowing would completely cover the trade deficit, while in the second half repayments would be $100 million less than the trade surplus. It could look as though Romania was not applying much balance of payments discipline during the first half of the year under the stand-by, but expected to show a more substantial improvement after the end of the stand-by period. This would encourage Executive Directors to insist on seeing a stand-by program for a full 12-month period, rather than approving it in two separate halves. Mr. Tocitu explained that the projected evolution of the short-term debt was not connected with the understandings related to performance criteria in the stand-by, but simply a reflection of the behaviour of the trade account. In the first half, a temporary deficit would be covered by short-term credit. In the second half the repayment of $120 million would reflect the combination of the trade surplus and the liabilities on medium- and long-term debt. Mr. Tyler said that with a trade surplus of $161 million for the year as a whole, of which one third was to be used to repay debt, it would be reasonable to cover one third of the deficit in the first half and use one third of the surplus for repayment in the second. He thought Executive Directors would expect either a larger net repayment for the year as a whole or smaller net borrowing in the first half of the year. He suggested that short-term borrowing might be limited to $40 million in the first half with repayment of $93 million in the second half. Mr. Ionescu-Lungu and Mr. Tocitu agreed that this matter could be discussed further with the RBFT.

Mr. Tocitu provided figures for actual annual payments of interest on convertible debt. These amounted to $162 million in 1976, $195 million in 1977, and $205 million (provisional) for 1978. Mr. Tyler explained that debt service ratio for Romania would normally be calculated by excluding service payments on Fund debt and then comparing the sum of amortization and interest with the level of merchandise exports. Mr. Tocitu added that the bilateral balance with Viet Nam as of December 1977 was $1.93 million, the account being denominated in U.S. dollars.

Mr. Pana, Deputy Manager for Agriculture in the Ministry, summarized the reasons for the small decline in cereal output from 1976 to 1977. There had been too much rain in the spring of 1977, which impeded and in some cases, prevented normal preparations for the crop, and in addition the ground was still too wet from excess rainfall in the autumn of 1976. Despite the generally excessive rain in the summer of 1977, there had been droughts in certain areas which were usually planted in cereals. Nevertheless, partly because of irrigation, 1977 cereal output was 3.777 million tons above the 1971-75 average. There were no indications yet regarding developments for the spring of 1978 but the weather in the autumn of 1977 had been good enough to permit completion of all normal work in the fields, such as ploughing and fertilization. Any shortfall in the autumn rains had been offset by snow this winter.

Mr. Tyler concluded by saying that he hoped to be ready to leave Bucharest on Wednesday. Matters still to be discussed included the Letter of Intent and the import forecast. Meetings with Mr. Crainiceanu at the RBFT and with the Minister of Finance were also to be fitted in.

The meeting adjourned at 11.00 a.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 12
held at the Romanian Bank for Foreign Trade at 12.45 p.m.
on Tuesday, February 28, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Crainiceanu, Foreign Trade Bank	Mr. G. Tyler
Mr. Contineanu, Deputy Managing Director, RBFT	Mrs. A. Mitchell
Mr. Giurgiu, Head of Department, RBFT	
Mrs. Popescu, RBFT	
Mr. Tocitu, Ministry of Finance	

Mr. Tyler opened the meeting by noting that it was the first visit of a Fund mission to the RBFT and he looked forward to future collaboration. He wished to begin by raising two problems. The first related to the BIS figures which showed net assets of Romanian holders in reporting banks as larger than the gross official reserves of Romania. He thought there might be some double counting, involving deposits of the RBFT in foreign banks with which it was associated, possibly being redeposited in other institutions. Mr. Crainiceanu said he had started to analyze this problem after the June mission. The RBFT had a monopoly of foreign exchange reserves and it appeared that not enough attention had been paid to the classification of assets.

Liabilities under letters of credit had been deducted from the total, as had balances being held for repayment of approaching maturities. Mr. Crainiceanu suggested that a broader discussion be held in June when the figures might be improved. Romania had as a main objective an improvement in the reserve position.

Mr. Tyler said that during the June consultation he would also like to discuss the supply of information. Some improvements had already been made. As a next stage he would like to have better statistics for the financial system as a whole. His understanding of the system had been improved by the technical discussions in November. A monetary survey for Romania would, of course, include the balance sheet of the RBFT. This was one institution which already published some information in Romania, but not in a form which was very helpful to the Fund. He hoped that Mr. Crainiceanu, who understood the interests of the Fund could explain the situation to the Investment Bank and the Bank for Agriculture. These banks should understand that the aim was to bring together the data for all banks, so that not even the Fund Board would be able to distinguish the position of an individual bank.

Mr. Crainiceanu said it was intended that the improvements in the mechanism of the economy mentioned in the President's recent speech would encompass an improvement in statistics, and Mr. Tyler welcomed this prospect although it was clear that results could not be achieved overnight.

Mr. Tyler then turned to Romania's foreign borrowing and lending, which had been mentioned in the Press. He asked for comments on recent and projected foreign borrowing, and wondered if the terms agreed were satisfactory to Romania. Mr. Crainiceanu said that before the end of 1977 Romania had borrowed $53 million through a consortium led by First Chicago, London to finance the Island Creek project. This project was a result of Romania's desire to find long-term sources of coking coal. The form of cooperation was advantageous. The contract would run for 12 to 18 years. Romania would pay for coal imports at market prices, and the total value was estimated by the U.S. partner at $2 billion, although this might be a little high. On interest rates, the spread was 1 per cent over LIBOR with a management fee of three eights and a commitment fee of 0.5 per cent. In addition there were "out of pocket" and legal fees amounting to around $20,000. The grace period was three years. Currently, a loan equivalent to $100 million in convertible currencies was being negotiated with National Westminster. In this case the loan would be for six years with a grace period of three years. There would be a spread of seven eights for the first three years and 1 per cent for the second. The management fee in this case was five eights and the commitment fee

0.5 per cent. Adding in the out of pocket and legal fees gave an overall interest cost of 1.06 per cent.

Mr. Tyler said the financial press considered Romania more creditworthy than certain other socialist countries. Mr. Crainiceanu agreed, but said the impression would be even more favorable if Romania were to publish statistics on the external position. Mr. Tyler agreed. He assumed that the recent loan negotiations reflected Romania's desire to shift from supplier credits (which were usually reflected somehow in import prices) to banking credits. Mr. Crainiceanu agreed that banking credits were more advantageous: the difference in cost could be 2 per cent, and banking credits allowed the financing costs to be more properly allocated to the relevant imports. Mr. Crainiceanu said he did not foresee a continuation of the trend of recent foreign borrowing. For the time being the Government intended to stimulate sales of exports.

On the question of exchange rates Mr. Crainiceanu said that while visiting New York and Washington in November he had been assured by many financial experts that the dollar was undervalued and would strengthen. The recent developments in relative rates seemed to have been totally unforeseen. The RBFT followed foreign exchange markets very closely because prices for 60 per cent of exports were denominated in U.S. dollars. The fall of the dollar had resulted in constantly changing prices and this process could not be allowed to continue indefinitely.

Mr. Tyler asked whether the RBFT was in favor of the proposed change in Romania's exchange rates. Mr. Crainiceanu felt the change would be an improvement although there would be implications both ways for the foreign trade companies. There had been changes in the relationship between the bank and these companies during the five years when dollar rates were kept unchanged while inflation persisted.

Mr. Tyler asked whether Mr. Crainiceanu expected a substantial shift in the servicing of equipment imports as a result of the exchange rate change. Mr. Crainiceanu said there would be a general tendency for imports of equipment goods to become more attractive, their domestic prices would decrease and the cost of investment would decline. The Government would keep a careful eye on the trade balance by countries. This was in line with even the most developed and liberal countries where efforts were made to tie exports to imports.

Mr. Tyler noted that there would be little direct effect on exporters because of the Equalization Fund. Mr. Crainiceanu said the rationale of the Equalization Fund was well known, but he hoped that as the system was improved the size and importance of the Fund would diminish. Mr. Tyler noted that since the export targets of the Plan were to be left unchanged in foreign exchange lei exporters would, in theory, need to sell more in dollar terms. Mr. Crainiceanu said it was hoped that through diversification Romania could get a substantial improvement in export prices, which would increase dollar values. Mr. Tyler agreed that the measure could encourage exporters to sell more, but doubted that a full increase of 10 per cent could be obtained overnight. Mr. Crainiceanu agreed but noted that since the fourth quarter of 1977 there had been a continuing preoccupation with improving the quality of export goods. This would not be achieved by an administrative measure, but would be a permanent policy.

Asked about the prospective timing of the exchange rate decree, Mr. Crainiceanu said it could not become effective on March 1, but need not wait for April 1, although it was preferable to make such changes on the first day of a quarter.

In conclusion Mr. Crainiceanu said he hoped this visit would be the beginning of a long cooperation. In particular he would like to start sending trainees to the Fund Institute--perhaps 10 or 15 candidates over the long-term for periods of 3 or 4 months each. He agreed to begin submitting names of qualified candidates.

The meeting adjourned at 2.30 p.m.

INTERNATIONAL MONETARY FUND

Romania - Mid-Term Review

Minutes of Meeting No. 13
held at the Ministry of Finance, at 9. 30 a. m.
on Wednesday, March 1, 1978

PRESENT:

Romanian representatives	IMF representatives
Mr. Dumitrescu, Minister of Finance	Mr. G. Tyler
Mr. Eremia, Ministry of Finance	Mrs. A. Mitchell
Mr. Ionescu-Lungu, Ministry of Finance	
Mr. Stoenescu, Ministry of Finance	

Mr. Tyler opened the meeting by thanking Mr. Dumitrescu for the help given during the discussions by the Ministry officials, especially Mr. Ionescu-Lungu and Mr. Stoenescu.

The Minister said there had been some problems assembling and approving the data required by the mission but he was satisfied that this was now under control. As Mr. Bituleanu and Mr. Ionescu-Lungu had explained, the exchange rate change had been decided but it was up to the President to choose the moment for signing the decree. It might come at any moment within the next couple of weeks. Mr. Dumitrescu had wanted the mission to be informed in advance as a gesture of cooperation with the Fund, and he would send a telex as soon as possible when the decree was signed.

Mr. Tyler explained that the Fund might take the view that with the exchange rate change new multiple currency practices had been introduced since three socialist countries, Viet Nam, Laos, and Cambodia were now members of the Fund and Romania's action would result in broken cross rates. This could lead to a formal problem with the stand-by and the Board might have to be informed, but he was sure the matter could be solved.

Mr. Dumitrescu said the change in the official rate had domestic, not international implications, while the rate of lei 20 was a domestic co-efficient rather than an exchange rate. The Romanian action would narrow the gap between the trade and noncommercial rates in line with the Fund's aims. Romania's goal was to reach a rate of lei 15 - US$1 in 1980 by improving exports and prices. Rates with socialist countries were not being changed at present but discussions were going on bilaterally with Czechoslovakia, Hungary, and Poland where there had been substantial relative changes in prices. Tourists were coming from these countries to take advantage of lower prices in Romania.

Mr. Dumitrescu explained (this was later confirmed by Mr. Eremia and Mr. Ionescu-Lungu) that there were no official quotations of rates for Laos and Cambodia. At present there were no transactions with these countries, but if there should be any they would be denominated in dollars and values would be affected by the forthcoming appreciation in the same way as with nonsocialist countries.

This was the same situation which would apply in transactions with non-socialist countries for which no official rates were quoted at present, such as Kuwait or Venezuela. The Minister said he did not understand the Fund's attitude toward the Romanian action. Mr. Tyler explained the problem but said he would discuss it further in Washington and inform the Minister as soon as possible, if any further action was required on the part of Romania (such as a request for modification of the stand-by).

Mr. Tyler explained that although there were no serious problems with the Letter of Intent, the uncertainty over the signing of the exchange rate decree would create problems in terms of technical details. Mr. Dumitrescu noted that Romania had made great efforts to achieve good economic results in 1977. External borrowing had been less than allowed for under the performance criteria and all other indicators had been below the relevant ceilings. The ceilings had caused no problems. This year further efforts would be made to improve the balance of payments by strengthening export performance. The Letter had been well drafted, and there was additional supporting material which could be put into the staff paper.

Mr. Tyler said he would wish to discuss the timing of the June consultation (in principle to start June 21). Mr. Bituleanu and Mr. Ionescu-Lungu had explained that the Ministry would like to know in advance what data would be needed,so that it could be approved for release along with the quarterly statistics for the end of March which were to be supplied to the Fund Board. Mr. Tyler said he would do his best to meet this request but it was not possible to provide a comprehensive list of information required by the Fund in such a way that he could guarantee never to ask for anything more. He repeated that there were many figures not supplied by Romania which were available from all other Fund members, that pressure from the Board and staff to enlarge the scope of information from Romania was intense and that the only way to deal with this problem was to continue to make gradual progress in providing information. Moreover, future developments might well make it desirable to have information that did not seem important now. For June he would like information on bank balance sheets to produce a monetary survey for the Board. It had been established in November that the necessary data was available although it might need to be reorganized.

The Minister said Romania had agreed last year to provide regular quarterly data to the Board on a confidential basis and this would be continued at the same level. He did not want to create the impression in Romania that the data had to be enlarged on every occasion; this would lead to undesirable controversy. There had already been great progress in providing information. He would not insist that the limit had been reached, but he would like to discuss in June what new information was considered strictly necessary for the near future. The monetary data already provided was sufficient for analysis of the trends of the main variables, credit and money supply. He was willing to discuss providing a breakdown of credit into categories, if that would be helpful. He believed in general, however, that the Romanian banking system was different from those in other countries and was not convinced of the usefulness of more data on it for comparative purposes. However, the Minister did not preclude the idea of further progress in the area of information. Mr. Tyler said that on return to Washington he would discuss the position in detail with Mr. Whittome, other senior members of the staff, and the Managing Director to get a clear idea of what should be aimed at for the consultation discussions in June. It was agreed that the information would be sent to Romania through the Embassy in Washington. Mr. Tyler emphasized that ultimately the Board was responsible for deciding how much information should be requested, and noted that in the past ten years member countries had increasingly been asking the Fund for more analysis of world economic problems. Such analysis could only be producedon the basis of information supplied by members.

The Minister asked Mr. Tyler to thank Mr. Ruding for all the useful information provided, and also to ask for more details before April 1 concerning the agenda for the Interim Committee meeting. He sent his regards to Mr. Whittome and suggested that Mr. Tyler pay a short visit to Bucharest on the way back from Yugoslavia to Washington. Mr. Dumitrescu said that on that occasion he would like to discuss more general world monetary problems.

In a technical meeting with Mr. Eremia and Mr. Ionescu-Lungu, Mr. Tyler explained that there were two possibilities of a new multiple exchange rate practice, one on the basis of the changes in the official rate and in the uniform settlement coefficient, and the other because of the broken cross rate with Viet Nam. It would be up to the Legal Department to decide on the interpretation and he would notify the Ministry what action should be taken. Mr. Eremia explained that there was no problem regarding Laos and Cambodia, but Viet Nam was part of the multilateral system of socialist countries under which settlements were made through IBEC in transferable rubles, on the basis of official rates determined by the gold content of the ruble. It would be impossible to change Romania's rate of exchange with

Viet Nam without breaking the IBEC settlement system and discriminating against a member of the socialist system. Mr. Tyler said he understood the problem. It was quite possible for the Fund to accept and approve multiple currency practices in particular circumstances and this might be such a situation.

ID/78/1	-	World Economic Outlook - General Survey
ID/78/2	-	World Economic Outlook - Supporting Material on the International Adjustment Process
ID/78/3	-	World Economic Outlook - Background Information
ID/78/4	-	World Economic Outlook - Statistical Summary
SM/78/53 Sup. 1	-	Implementation of the Second Amendment - The Subsidy Account
SM/78/60	-	A Proposal for a Sixteen-Currency SDR Basket
SM/78/60 Sup. 1	-	A Proposal for a Sixteen-Currency Basket - Revision of Table 1
SM/78/60 Sup. 2	-	Decision on the Method of Valuation of the Special Drawing Right
SM/78/60 Sup. 7	-	Special Drawing Right - Method of Valuation
SM/78/67	-	Consultation Practices and Procedures
SM/78/73	-	Implementation of the Second Amendment - Transfer of Special Drawing Rights Held in the General Resources Account to Participants to Promote Reconstitution
SM/78/73 Sup. 1	-	As above
SM/78/74	-	Further Comments on Early Repurchases and on Augmentation
SM/78/74 Sup. 2	-	Implementation of the Second Amendment - Early Repurchases
SM/78/74 Sup. 3	-	Elimination of Augmentation of Rights to Purchase under Stand-By and Extended Arrangements
SM/78/78	-	Determination of the SDR Interest Rate under the Amended Articles
SM/78/79	-	Additional Types of SDR Use
SM/78/80	-	Second Amendment of Articles of Agreement - Entry into Force
SM/78/81	-	Implementation of the Second Amendment - Notification of Exchange Arrangements under Article IV, Section 2
SM/78/81 Sup. 1	-	Implementation of Second Amendment - Notification of Exchange Arrangements under Article IV, Section 2
SM/78/82	-	Implementation of the Second Amendment - Charges
SM/78/87	-	Freely Usable Currencies
SM/78/89	-	The Rise in Protectionism - Background Paper
SM/78/91	-	The Rise in Protectionism
TR/78/2 Sup. 2	-	Trust Fund - Third Interim Loan Disbursements for the Period July 1, 1976 to June 30, 1978
TR/78/14	-	Terms and Conditions for Gold Auctions After the Second Amendment
TR/78/16	-	Trust Fund - Third Interim Loan Disbursements for the Period July 1, 1976 to June 30, 1978
TR/78/17	-	Terms and Conditions for the April 1978 Gold Auction on Behalf of the Trust Fund

Yours sincerely

F.G. Mogae

F.G. Mogae
Alternate Executive Director

Mr Rose

MEMORANDUM

To: Mr. Sturc
Mr. Nicoletopoulos
Mr. Rose

March 7, 1978

From: Geoffrey Tyler GT

Subject: Romania--Exchange System

The changes in exchange rates introduced by Romania on March 6, 1978 do not affect exchange rates with socialist countries other than Yugoslavia.1/ They, therefore, do not affect rates with Cambodia, Laos, and Vietnam. With respect to Cambodia and Laos, no exchange rates are in fact quoted by Romania and any transactions that occur take place in U.S. dollars. For Vietnam, however, an official rate is quoted and is used in settlements between the two countries. The Romanians state that to change this rate would be impossible without upsetting the relationships that exist between the currencies of socialist countries and which govern bilateral and multilateral settlement arrangements. They also say that the rate used does not in practice affect the amount of trade that takes place between Romania and Vietnam, this being determined by bilateral agreements on the quantities and prices of goods to be traded, which are based on world prices, not on relative domestic prices and the two official exchange rates.

If only because the relation between the leu and the Vietnamese dong has not been changed in the same way as that between the leu and currencies of other Fund members, the change in the exchange system appears to involve a new multiple currency practice. If this is so, then a performance criteria under the current stand-by arrangement has been breached. It would be helpful if we could agree on what elements in the change in the exchange system constitute new multiple currency practices.

Assuming there are new multiple currency practices, I would hope that we would be willing to take whatever action is necessary to allow Romania to continue to make purchases under the stand-by arrangement. Discussions for a mid-term review have just been completed by a staff mission and a paper will be circulated later this month. A draft letter explaining policy and including quantified performance criteria has been agreed with the Romanians; a copy is attached. In addition to providing any general comments, you may wish to look at the proposed wording of paragraph 10 to judge whether it is sufficient to enable the staff to propose whatever action is needed under the consultation provisions of the stand-by arrangement to cover any new multiple currency practice.

The text of the Romanian message on exchange rates is being circulated to the Executive Board, with a brief statement that a Board paper will be circulated shortly. A first draft was circulated last week and initial comments have been received from Mr. Nicoletopoulos and from the European Department. Before finalizing a redraft, it would be helpful to have your reaction on the subject of what new multiple currency practices exist and how we should handle them.

1/ Listed by Romania as Albania, Bulgaria, Cuba, Czechoslovakia, Democratic Republic of Germany, Hungary, People's Republic of China, Mongolia, Democratic People's Republic of Korea, Socialist Republic of Vietnam, Poland, and the U.S.S.R.

cc: Mrs. Mitchell
Mr. Wein

Office Memorandum

TO : The Acting Managing Director

DATE: March 7, 1978

FROM : Brian Rose BR

SUBJECT : Romania--Exchange Rate

We propose circulating the text of the Romanian message to Executive Directors. Currently we are drafting a Board paper on the subject for your approval and hope to have it to you later in the week.

Upon approval, the paper should be returned to the European Department.

cc: The Managing Director (on return)
Mr. Ware

CONFIDENTIAL

March 7, 1978

To: Members of the Executive Board

From: The Secretary

Subject: Romania - Exchange Rates

There follows the text of a cable dated March 6, 1978 to the Managing Director from Mr. Florea Dumitrescu, Minister of Finance of Romania.

> World prices instability as well as the depreciation of many national currencies which took place these last years, determined Romanian authorities to adopt, starting with March 6, 1978, the following changes in the exchange rate of currencies in terms of lei:
>
> 1. The official rate of the U.S. dollar in terms of lei has been reduced from lei 4.97 to lei 4.47 per one U.S. dollar and consequently, official rates of the currencies of non-socialist countries which are quoted and of Yugoslav dinar in terms of lei have been changed.
>
> 2. The uniform settlement coefficient at which Romanian enterprises buy and sell foreign exchange connected with import and export transactions (including invisibles linked to the ones) and which applies also to capital transactions, has been changed from lei 20 to lei 18 per one U.S. dollar.
>
> 3. The exchange rate for noncommercial transactions with non-socialist countries and Yugoslavia was left unchanged at lei 12 per one U.S. dollar.
>
> 4. All official exchange rates and those for non-commercial transactions with socialist countries, except Yugoslavia, remain unchanged.

This matter has been under discussion between the Romanian authorities and the Fund staff before the measures were announced.

A staff paper will be issued shortly.

248331 IMF UR

11703D EBANK R

6.03.1978 H 1700

RECEIVED
I.M.F.

1978 MAR -6 AM 10: 04

CABLE
ROOM

ORIG: EURO
CC:MD
DMD
MR. RUDING
LEG
RES

332397

TRE
ETR
SEC

MR. MANAGING DIRECTOR:

WORLD PRICES INSTABILITY AS WELL AS THE DEPRECIATION OF MANY NATIONAL CURRENCIES WHICH TOOK PLACE THESE LAST YEARS, DETERMINED ROMANIAN AUTHORITIES TO ADOPT, STARTING WITH MARCH 6, 1978, THE FOLLOWING CHANGES IN THE EXCHANGE RATE OF CURRENCIES IN TERMS OF LEI:

1. THE OFFICIAL RATE OF THE U.S.DOLLAR IN TERMS OF LEI HAS BEEN REDUCED FROM LEI 4.97 TO LEI 4.47 PER ONE U.S DOLLAR AND CONSEQUENTLY, OFFICIAL RATES OF THE CURRENCIES OF NON-SOCIALIST COUNTRIES WHICH ARE QUOTED AND OF YUGOSLAV DINAR IN TERMS OF LEI HAVE BEEN CHANGED.

2. THE UNIFORM SETTLEMENT COEFFICIENT AT WHICH ROMANIAN ENTERPRISES BUY AND SELL FOREIGN EXCHANGE CONNECTED WITH IMPORT AND EXPORT TRANSACTIONS (INCLUDING INVISIBLES LINKED TO THE ONES) AND WHICH APPLIES ALSO TO CAPITAL TRANSACTIONS, HAS BEEN CHANGED FROM LEI 20 TO LEI 18 PER ONE U.S. DOLLAR.

3. THE EXCHANGE RATE FOR NONCOMMERCIAL TRANSACTIONS WITH NON-SOCIALIST COUNTRIES AND YUGOSLAVIA WAS LEFT UNCHANGED

RCA MAR 06 0957

248331 IMF UR

248331 IMF UR

11703D EBANK R

6.03.1978 H 1700

RECEIVED
I.M.F.

1978 MAR -6 AM 10: 04

CABLE
ROOM

ORIG: EURO
CC:MD
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MR. RUDING
LEG
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CC: EED

~~RE~~
~~AFM.~~
File

MR. MANAGING DIRECTOR:

WORLD PRICES INSTABILITY AS WELL AS THE DEPRECIATION OF MANY NATIONAL CURRENCIES WHICH TOOK PLACE THESE LAST YEARS, DETERMINED ROMANIAN AUTHORITIES TO ADOPT, STARTING WITH MARCH 6, 1978, THE FOLLOWING CHANGES IN THE EXCHANGE RATE OF CURRENCIES IN TERMS OF LEI:

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2. THE UNIFORM SETTLEMENT COEFFICIENT AT WHICH ROMANIAN ENTERPRISES BUY AND SELL FOREIGN EXCHANGE CONNECTED WITH IMPORT AND EXPORT TRANSACTIONS (INCLUDING INVISIBLES LINKED TO THE ONES) AND WHICH APPLIES ALSO TO CAPITAL TRANSACTIONS, HAS BEEN CHANGED FROM LEI 20 TO LEI 18 PER ONE U.S. DOLLAR.

3. THE EXCHANGE RATE FOR NONCOMMERCIAL TRANSACTIONS WITH NON-SOCIALIST COUNTRIES AND YUGOSLAVIA WAS LEFT UNCHANGED AT LEI 12 PER ONE U.S.DOLLAR.

4. ALL OFFICIAL EXCHANGE RATES AND THOSE FOR NON-VCOMMERCIAL TRANSACTIONS WITH SOCIALIST COUNTRIES, EXCEPT YUGOSLAVIA, REMAIN UNCHANGED.

MINISTER OF FINANCE,

FLOREA DUMITRESCU

EBANK R

CHECK

SERVICE

- Telex ☐
- Night Letter ☐
- Full Rate ☐
- Code ☐

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

LEG

MAR -3 PM 5:55

TIME RECEIVED

ADDRESS

MINISTERUL FINANTELOR
STR. DOAMNEI NR. 8
BUCHAREST, ROMANIA

Special Instructions

Please repeat to:

Banca Nationala a Republicii Socialiste Romani[a]
Bucharest, Romania

NO. 2

1. REFERENCE REPURCHASE OF ROMANIAN LEI 209,196,851.45 EQUIVALENT TO SDR 15,000,000 DUE NOT LATER THAN MARCH 15, 1978. WE ADVISE THAT ABOVE REPURCHASE BE DISCHARGED BY PAYING NETHERLANDS GUILDERS.

2. IF YOU NEED TO ACQUIRE THIS CURRENCY THROUGH DE NEDERLANDSCHE BANK N.V., AMSTERDAM, WHICH IS READY TO ASSIST, PLEASE INITIATE ARRANGEMENTS FOR SUCH PURCHASE AGAINST PAYMENT OF U.S. DOLLARS EITHER YOURSELVES OR THROUGH YOUR AGENT WITH DE NEDERLANDSCHE BANK N.V., AMSTERDAM, AT LEAST TWO BUSINESS DAYS BEFORE VALUE DATE, INDICATING SDR EQUIVALENT OF NETHERLANDS GUILDERS YOU WISH TO PURCHASE AND VALUE DATE. WOULD APPRECIATE IF YOU INFORM FUND OF COST OF ACQUISITION, EXCLUDING COMMISSION. IF MORE THAN ONE RATE INVOLVED, PLEASE INDICATE AMOUNT OF CURRENCY ACQUIRED AT EACH RATE.

3. FUND WILL ADVISE YOU ON MARCH 10, 1978 PRECISE /C

Distribution

CC: TRE
MD
DMD
MR. RUDING
LEG
RES
~~EURO~~
ETR
SEC

MESSAGE MUST END HERE

Drafted by: TTran/ch
Department: TRE
Date: March 3, 1978

Anna Watkins
NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: AMinsBasic Log: 391398/399 Route: WUI ITT Operator: JH

12

CHECK SERVICE

- Telex ☐
- Night Letter ☐
- Full Rate ☐
- Code ☐

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

TIME RECEIVED 5:55

ADDRESS

MINISTERUL FINANTELOR

BUCHAREST, ROMANIA

Special Instructions

- 2 -

AMOUNT OF ABOVE CURRENCY TO BE PAID VALUE MARCH 15, 1978.

TEST NO.

TREASURER'S

INTERFUND

Distribution

MESSAGE MUST END HERE

Drafted by: TTran/ch

Department: TRE

Date: March 3, 1978

Anna Watkins
NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: Log: Route: Operator:

CHECK SERVICE

Telex ☒
Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

1:12

TIME RECEIVED

ADDRESS

Tyler, Hotel Intercontinental,
Bucharest, Romania

Special Instructions

in code

1. Please ensure that any communication to Fund (1) does not refer to gold values; (2) specifies changes not only in official rate but also in uniform settlement coefficient and position regarding noncommercial rate.

2. Please seek confirmation that orderly cross-rates among nonsocialist currencies will be maintained.

3. Sturc would be interested to know, if possible, how, if at all, recent changes in intra-Comecon pricing system have affected Romanian cost price structure.

Rose

Distribution

MESSAGE MUST END HERE

Drafted by: BRose:skm
Department: European
Date: March 1, 1978

Brian Rose
NAME (TYPE)

SIGNATURE

NAME (TYPE)

SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 3Mins
Log: 390766
Route: RCA
Operator: CS

7/OCR

Mr. Ernest Sturc
Mr. G. Nicoletopoulos

March 1, 1978

Brian Rose

Romania

Among the various points you raised on the draft paper on Romania there were four which might have required further communication with Mr. Tyler in Bucharest.

One was the question of how the lei position of firms with liabilities in foreign currencies would be affected by the proposed changes. Mr. Wein assures me that it will not be affected at all.

The attached draft cable to Mr. Tyler deals with your other questions.

Attachment

CHECK SERVICE

Telex ☒
Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Tyler, Hotel Intercontinental,

Bucharest, Romania

Special Instructions

Thank you for draft paper which Wein has now delivered to us. Relevant departments have been asked to study it as matter of urgency, but am doubtful if we can give you definitive answer today, Tuesday, on whether further detail required. Will try to cable you further by noon Wednesday, Washington time. No baerd meeting on subject will be scheduled this week.

Regards, Rose,

Distribution

MESSAGE MUST END HERE

Drafted by: BRose
Department: European
Date: February 28, 1978

Brian Rose — NAME (TYPE) — Brian Rose SIGNATURE

NAME (TYPE) — SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 2 min. Log: 390591 Route: RCA Operator: SF

SEC-17/OCR
9-2-76

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

Night Letter
Full Rate
Code

TIME RECEIVED

ADDRESS

Tyler, Hotel Intercontinental,

Bucharest, Romania

Special Instructions

Thank you for draft paper which Wein has now delivered to us. Relevant departments have been asked to study it as matter of urgency, but am doubtful if we can give you definitive answer today, Tuesday, on whether further detail required. Will try to cable you further by noon Wednesday, Washington time. No board meeting on subject will be scheduled this week.

Regards, Rose

Distribution

MESSAGE MUST END HERE

Drafted by: BRose
Department: European
Date: February 28, 1978

Brian Rose
Brian Rose

No. of words
Route
Operator

1. Use OCR B210 Sphere and set typewriter for DOUBLE SPACING - No other markings acceptable

MEMORANDUM FOR THE FILES

Subject: Romania--Visit by Mr. Cora, First Secretary at the Embassy of Romania

February 27, 1978

On Monday, February 27, 1978, Mr. Cora paid a visit to Mr. Evensen. The discussion was mostly devoted to the Witteveen Facility: Mr. Evensen explained that this might not become operational until the autumn of 1978. Mr. Cora asked about the next Managing Director: Mr. Evensen replied that it would almost certainly be Mr. de Larosière, and that Mr. Witteveen hoped to be able to relinquish his post to his successor soon after the Interim Committee Meeting in Mexico in April. Mr. Cora also sought views on the future of the gold price and the exchange rate for the dollar. Mr. Cora did not have any new information on Romania to impart.

A. Mountford

cc: Mr. Tyler
Mr. Wein

cc: Div. ESED.

RECEIVED
I.M.F.

1978 FEB 27 PM 1:41

331715

CABLE
ROOM

ZCZC 248331 PDC0267 RMX3448 BRU148 BUC/TX11541/37/05156

URWT CO RMBU 085

BUCURESTI 85/82 27 1814

Called: Mrs. Wein
ESED.

WHITTONE INTERFUND

WASHINGTON DC USA

FURTHER TO TELEPHONE CONVERSATION DATE STILL UNKNOWN
BUT IT SEEMS LESS LIKELY TO BE EARLIEST POSSIBILITY
WE DISCUSSED HOWEVER AS PRECUATION WEIN RETURNING WASHINGTON AND
WILL BE IN OFFICE AFTERNOON FEBRUARY 28 ARRIVING NEW YORK
10.00 BY BA 171 AND WASHINGTON NA 421 HE WILL BRING
DRAFT PAPER IT WOULD BE HELPFUL IF IT COULD BE LOOKED
AT QUICKLY IN CASE FURTHER DETAIL REQUIRED FROM HERE IF I RECEIVE
NEW INFORMATION ON TIMING WILL TELEX REGARDS

TYLER

COL 28 1000 171 421

0229 EST

440040 FUND UI

440040 FUND UI

11769 INTER R

cc: EED

RECEIVED
I.M.F.

1978 MAR -1 AM 8:44

331877

CABLE
ROOM

WHITTOME

NO INDICATION OF TIMING BUT SOME INDICATION NOW THAT I COULD OCCUR ON ANY DAY OF MONTH AND THEREFORE MORE UNCERTAINTY THAN BEFORE. ON MAIN BUSINESS HOPE TO FINALIZE LETTER TODAY AND DEPART MARCH TWO ARRIVING WASHINGTON FRIDAY.

REGARDS

TYLER

V. Ball will call Mr Tyler.

440040 FUND UI

11769 INTER R

To Mr Whittome

Subject Romania.

According to Mr Walsh (Treasurer's),
Total drawings since membership = SDR 357.5 millions.
Outstanding drawings = SDR 317.5 millions.

A. Mountford

Romania.

Present holdings = SDR 460 millions
or 242.11% of quota

Quota = SDR 190 m. (SDR. 245 after 6th Review)

Present Stand-by = SDR 64.125 million (ie. remainder of enlarged third tranche)

Drawings so far = SDR 25 million
∴ Remainder = SDR 39.125 million
Of which, SDR 13.125 million available very soon
and SDR 13.0 million available in August 1978

WITHDRAWAL NOTICE

PROJECT

Project number	2014-012
Project name	
Project tab number	02
Project box number	A24724-072

DOCUMENT

Series / File	Romania - Correspondence and Memos (29894)
Original box / file No	72 / 2
Date	02/21/1978
Type	Telex
From	Tyler
To	Mr. Whittome
Subject / Title	Informed significant change in exchange system
Number of pages	1
Classification	SECRET
Authority	IMF European Department Immediate Office

COMMENTS

Incoming message

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

Entered by skarimova Entered on 2014-12-04

Office Memorandum

TO : Mr. Whittome
Mr. Dannemann

DATE: January 25, 1978

FROM : Geoffrey Tyler and Edward Saunders

SUBJECT : The Exploratory Visit in Statistics to Romania

Attached is our report covering the recent visit to Romania.

cc: Mr. Nose
Mr. Sundgren
Mr. Wein

INTERNATIONAL MONETARY FUND

REPORT ON THE EXPLORATORY VISIT IN STATISTICS TO ROMANIA

November 15 - 29, 1977

Geoffrey Tyler
Edward Saunders

December 1977

This visit was agreed upon following discussions between the European Department of the Fund and the Romanian authorities, during the 1977 Article XIV consultation discussions and at the 1977 Fund Annual Meeting. Its purpose was to further develop the Fund's knowledge of the various money and banking statistics and general statistics1/ compiled in Romania.

Discussions were held with officials of the Ministries and other organizations responsible for the compilation of the relevant statistics. A list of the officials who participated in the discussions is contained in Attachment 1.

This report is divided into 3 sections. The first is concerned with the dissemination of statistics in Romania. The second section describes the activities of the institutions comprising the banking system and their balance sheets. It is followed by a description of statistics on money supply and international reserves. The report concludes with a third section giving descriptions of the methodologies used in compiling general statistics.

I. Dissemination of Statistics

It is evident from discussions with the Romanian representatives that most of the short-term money and banking statistics and general statistics which would normally form the basis of an *IFS* country page are regularly compiled. For the most part, these statistics are typically very comprehensive in coverage, appear to be compiled according to sound statistical practices, and are available very quickly. The majority of these short-term statistics are not available to outside users, however, because of the present policy of not releasing data which are not published.

1/ General statistics comprise statistics of prices, production, foreign trade, employment and earnings, and the national accounts.

In the area of general statistics the only source of published statistics is the *Statistical Yearbook of the Socialist Republic of Romania* (the *Yearbook*), compiled by the Central Directorate of Statistics (CDS). The *Yearbook*[1/] contains an impressive array of annual data covering most areas of economic and social statistics; notable exceptions in the area of general statistics, however, are statistics of wholesale prices and price and volume indexes of exports and imports.

With the exception of the Romanian Bank for Foreign Trade, which publishes an abridged balance sheet in its *Annual Report*, there are virtually no money and banking statistics published for Romania.

A relatively comprehensive set of data are supplied to the Fund on a confidential basis for the purpose of annual Article XIV consultations. In addition, the Romanian authorities have recently begun to supply quarterly data for certain statistical series to the Executive Directors of the Fund on a confidential basis.

II. Money and Banking Statistics

1. Introduction

The banking system in Romania comprises the National Bank, four specialized banks (the Investment Bank, the Bank for Agriculture and Food Industry, the Romanian Bank for Foreign Trade and the Savings Bank) and credit cooperatives largely for private farmers. The activities of these banks and the availability of balance sheet data are described below. Also described are the activities of the State Insurance Administration and the Romanian branch of Manufacturers' Hanover Trust. This section of the report concludes with a description of Romanian statistics of money supply and international reserves.

In terms of standard *IFS* definitions, the National Bank and the Romanian Bank for Foreign Trade comprise the "Monetary Authorities," the former by virtue of its role as the central bank and the latter in view of its holdings of foreign exchange. There are no deposit money banks in the *IFS* sense since for none of the remaining banks do demand deposits constitute a large part of total liabilities. For *IFS* purposes these would all be termed "Other Financial Institutions." The "Monetary Authorities" section and the "Monetary Survey" section are therefore synonymous.

2. The National Bank

An abridged version of the balance sheet has been supplied to the Fund on an annual basis (see page 63 of SM/77/215). A complete balance sheet is compiled

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1/ An English translation of the *Yearbook* texts and table headings is published each year by the CDS.

on a monthly basis with the following breakdown:

a. Assets

(1) Credits.

(a) Direct Credits to the Non-bank Socialist Sector for Working Capital.[1/] These credits are principally short-term and are granted to industry, export and import trade, agricultural production and trade and services for increases in planned reserves and for the granting of consumer credit by enterprises selling on credit. A breakdown by branches of the economy and by category of credit is given in the balance sheet. Records of the maturity distribution of credits are maintained by individual branches of the Bank.

(b) Credits to other Banks. These are granted in situations where a bank has insufficient funds to provide credits to the branch of the economy for which it is responsible.[2/] The credits are granted for the one year plan period and must be repaid to the National Bank as soon as the borrowing bank obtains its own resources.

(c) Overdue Credits. Such credits incur penalty interest rates. They occur for a variety of reasons, e.g., unsold stock, the borrower has not been liquid enough to repay, etc.

(2) Other Assets.

(a) Cash in the till.

(b) Foreign currency and foreign checks.

(c) Deposits in foreign banks.

(d) Holdings of gold and other precious metals.[3/]

(e) Buildings and equipment.

(f) Current profit, to be transferred eventually to reserves or to the state budget.

b. Liabilities

(1) Cash in circulation.

(2) Own capital and reserves. The latter cannot exceed own capital and when they have reached that level, all profits must be transferred to the state budget.

1/ A small amount of credit is extended for investment (small mechanization).

2/ In practice, only the Bank for Agriculture and Food Industry uses such credits.

3/ Only the National Bank has the authority to purchase or sell gold in any manner, at home or abroad.

(3) Budget deposits.

(a) of the state budget.

(b) of the local budgets.

(c) surpluses of budgets from current and all previous years. Separate records are maintained for current year surpluses and for surpluses from previous years.

(4) Deposits of enterprises. These comprise all financial assets of enterprises except those kept for special purposes at other banks.

(5) Deposits of ministries and centrals to be used for special purposes.

(6) Deposits of other banks[1/] and financial institutions.

(a) Romanian Bank for Foreign Trade.

(b) Investment Bank.

(c) Savings Bank (C.E.C.).

(d) State Insurance Company.

(7) Foreign liabilities.

(a) foreign credits received.

(b) private citizens' foreign exchange deposits.

(c) deposits of IMF and IBRD.

(8) Other liabilities. These include settlements due to the state budget from amortization and funds for foreign participation (in joint enterprises).

3. The Romanian Bank for Foreign Trade

The Romanian Bank for Foreign Trade (RBFT) is concerned with all aspects of the financing of Romania's foreign activities, including financing of joint enterprises in Romania and managing the foreign exchange holdings of Romania. It finances both exports and imports and the foreign activities of service sectors such as construction. It has representative offices in Zurich, Frankfurt and Rome, operates joint banks in Paris and London, and is establishing similar banks in Frankfurt and Cairo.

The balance sheet is published in abridged form in the Bank's *Annual Report*. The Bank also compiles a monthly balance sheet with the breakdowns shown below. All balance sheet items are expressed in lei. For the purposes of the *Annual Report*, foreign assets and liabilities are converted at the official rate, which is currently lei 4.97 per U.S. dollar. For its own internal bookkeeping purposes, however, the Bank converts at the rate of lei 20 per U.S. dollar, which is the

1/ In theory, the Bank for Agriculture and Food Industry could have deposits at the National Bank but, in practice, it is a net debtor of the National Bank.

exchange rate used in all capital transactions in the balance of payments involving foreign exchange. The Bank also maintains separate records of accounts held in each foreign currency.

a. Assets

(1) Cash.

(a) in lei.

(b) in foreign exchange.

(c) checks in foreign exchange.

(2) Credits. The majority of credits are made in lei to foreign trade enterprises for both exports and imports. A small amount of credit in foreign exchange is extended to exporters, between the period of presentation and collection of export bills, and to importers.

(3) Deposits in current accounts in convertible foreign exchange in foreign banks.

(4) Deposits, sight and time, in CMEA banks.

(5) Deposits in lei at the National Bank.

(6) Participation in joint foreign banks in London, Paris, Frankfurt and Cairo.

(7) Other Assets.

(a) real property.

(b) settlements with the budget.

(c) funds for own investment of the RBFT.

(d) advance payments.

(e) share of profits to be paid into reserves.

b. Liabilities

(1) Own capital.

(2) Reserves. These are allocated from profit. In total, they cannot exceed own capital; when they equal this amount, all profits must be transferred to the budget. This is the case at present.

(3) Liabilities to foreign banks. These are credits received in foreign exchange either in the form of financial credits or as supplier credits. Generally all are in convertible currency and are made direct to the RBFT, although in some instances, small in total, credit may be made directly to enterprises.

(4) Current accounts and creditors.

(a) accounts of Romanian foreign trade enterprises, in lei. This is the largest category.

(b) accounts held by physical or juridical foreigners, in foreign exchange.

(c) Romanian residents' foreign exchange accounts.

(d) deposits of joint enterprises in Romania.

(5) Profits, to be transferred to reserves or to the state budget.

(6) Other Liabilities.

(a) fund for own fixed investment.

(b) amortization fund.

(c) settlements to be transferred to the state budget.

4. <u>The Investment Bank</u>

The Investment Bank finances investments of all socialist economic units, including cooperatives, except those in the agricultural sector. The investments are those included in the State Plan for financing by the Bank. The units receiving finance must provide the Bank with all necessary documentation, including economic and technical studies for the project. The Bank analyzes the information to determine the efficiency of the investment and is authorized to reject requests not meeting all requirements. The project must be planned so as to be commissioned adequately and quickly. After commissioning, the Bank analyzes operations to see that technical and economic standards of operation are achieved. On the financial side the Bank ensures that investment is amortized over the stated period.

For units in the construction sector, the Bank plays a special role. Whereas other units receive fixed capital from the Bank, construction units also receive credits for working capital. In other non-agricultural sectors credits for working capital are provided by the National Bank.

A full balance sheet is prepared annually for the last day of the year. Monthly and quarterly indicators are prepared for the Board of the Bank and these, in effect, comprise a summary balance sheet. These apply to the last day of the period and are normally available about 10 days after that date. The complete annual balance sheet takes somewhat longer to prepare. Quarterly analyses are made of the sectoral distribution of credits. No regular analyses are made of the maturity distribution of credits. The Romanian representatives thought that it would be possible to produce a monthly balance sheet that would be suitable for use in compiling a monetary survey.

The major assets and liabilities of the Bank are as follows:

a. <u>Assets</u>

(1) Credits to enterprises, other than agricultural and construction enterprises, for all components of fixed investment.

(2) Credits for fixed investment for new enterprises or large investment by existing enterprises. The resources for these credits are obtained by transfers from the budget.

(3) Credits to construction enterprises, both for fixed and working capital. These two categories of credits are recorded separately and are not interchangeable.

(4) Credits in lei to enterprises in the non-agricultural sector corresponding to loans made by the World Bank.

(5) Deposits with the National Bank.1/

(6) Other assets, including buildings, equipment, advance payments, etc.

b. Liabilities

(1) The counterpart of World Bank loans. The liability to the World Bank is repayable in foreing exchange. Any exchange loss or gain involved, should the current exchange rate of lei 20 per U.S. dollar be changed, would be borne by the Bank or by the state budget, not by the enterprise receiving the credit from the Bank (item 4 on the asset side).

(2) Credits from the National Bank. When these exist they are usually small and are used to finance advances to construction enterprises.

(3) Deposits in depreciation accounts of enterprises. These deposits must be made by enterprises from gross profits irrespective of any immediate need for investment funds.

(4) Deposits of enterprises from gross profits needed for investment targets established in the State Plan.2/

(5) Transfers from the budget to finance planned investment. These transfers are mainly to finance credits in item 2 of the asset side of the balance sheet.

(6) Capital of the Investment Bank.

(7) Resources of the Investment Bank. These cannot exceed the capital (item 6). When reserves equal capital, all profits must be transferred to the budget. This is the case at present.

5. The Bank for Agriculture and Food Industry

The Bank for Agriculture and Food Industry (BAFI) is concerned with state and cooperative agricultural units, food manufacturing, forestry and "water industries" (irrigation, fishing, etc.). It also supplies a small amount of credit

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1/ This is a net item and could theoretically be replaced by a net liability, but in practice only small amounts of such credits have been received from the National Bank.

2/ If amortization deposits (item 4) equal or exceed investment requirements of an enterprise, no deposit need be made to liability item 5. Any excess in the amortization deposit account can finance additional investment within the relevant central or ministry.

to certain associations in the agricultural sector (e.g., the union of beekeepers) and to individual private farmers. Credits are granted both for working and fixed investment needs.

State enterprises receive grants for fixed investment from state funds which are channelled through the BAFI but which are not to be repaid. These transfers are kept quite separate from the other transactions of the BAFI. The BAFI grants long-term credits to state enterprises, which must be repaid; these are principally to the food industries, rather than to agricultural units.

Agricultural cooperatives must obtain most of their fixed investment resources (usually at least 70 per cent) from their own funds, which are deposited in accounts with the BAFI. They come from amortization and from profits, being deposited in the appropriate account. The remainder of their investment needs are satisfied by BAFI credits; these generally comprise no more than 30 per cent of total investment, although the ratio may be higher in special cases.

Private farmers may also obtain credits for fixed investment but these are quite small.

Working capital of state agriculture and the food industry is mainly supplied from the budget, and increased needs above original allocations are in principal to be covered by part of profits. The BAFI does, however, supply credit for peak seasonal needs. Of the working capital needs of cooperatives, the BAFI can supply an amount usually equal to 60 per cent of production that is contracted by the state; this percentage can sometimes be increased. Private farmers can obtain credit up to an amount equal to the value of deliveries to the state.

It should be noted that the BAFI is the sole bank dealt with by those in the agricultural sector, whereas in industry enterprises will normally deal with both the National Bank and the Investment Bank.

In addition to banking and fiscal operations, the BAFI supervises and approves the preparation of investment projects, and the operation subsequent for commissioning, and supervises all transfers of funds to and from its clients.

Summary balance sheets are prepared for the last day of each month and are normally available about 5 days after the end of the period. The Bank makes monthly analyses of the sectoral distribution and the time structure of credits. Loans from the World Bank are liabilities in foreign exchange converted into lei at the rate of lei 20 per U.S. dollar. The counterpart lending by the BAFI is in lei and any exchange loss resulting from a change in the lei/dollar rate would be borne by the BAFI or by the state budget.

The Balance Sheet of the BAFI comprises the following:

a. Assets

(1) Relatively small amounts of cash are held to satisfy requirements of depositors.

(2) Short-term credits are supplied only for working capital requirements, as described above.

(3) Medium and long-term credits are usually supplied for fixed investment. Medium-term credit may be used in some cases for working capital by cooperatives, and by other users with special permission.

(4) Other assets comprise buildings, equipment, etc., materials in inventories, minor deposits by individuals and entities such as the beekeepers' union. There are no deposits in other banks.

b. Liabilities

(1) Credit from the National Bank is a net item and theoretically could be replaced by a deposit with the National Bank. In practice, however, it is always a credit liability.

(2) Deposits are maintained by state economic units, by cooperatives, and by individuals and other entities, although the latter deposits are quite small. Deposits of the first two categories are in two separate accounts -- operation of working capital and investment -- according to the source of the deposits and the purpose to which they can be put.

(3) Amounts payable to the budget include two separate categories.[1/] The first comprises the amounts collected by the BAFI from its customers that are to be paid from their profits to the state budget. The second is that part of the net profit of BAFI that is to be paid to the budget. As long as BAFI reserves equal its own capital, as at present, all net profits must be transferred to the budget.

(4) Funds transferred to BAFI to finance credits include both medium and long-term funds, principally from the budget. Short-term funds from the budget for financing short-term credits are given only for exceptional purposes, for example in the case of natural calamities. All these credits must be repaid and they are therefore different from the budget grants, which are kept in quite separate accounts.

1/ In 1971, there was a miniscule third category for a special purpose, but this is better described in the category of net BAFI profit due to the state budget.

(5) Suspense accounts comprise principally various items in transit at the time of preparation of the balance sheet.

(6) Own capital of the BAFI.

(7) Reserves of the BAFI. These are obtained from net profits. When total reserves equal own capital, as is now the case, all net profits must be transferred to the budget since reserves cannot exceed own capital.

6. The Savings Bank

The Savings Bank's (C.E.C.) main task is to attract excess funds of the population and to use them as the basis for making loans to finance private dwelling construction. Loans are made for this purpose only since other consumer credit (for example, credit for the purchase of consumer durables) is provided by the National Bank to the selling enterprise directly, not to the consumer.

The central level of the C.E.C. is subordinated to the Ministry of Finance. There are branches and sub-branches in each district and also in the larger towns. In smaller towns operations take place at agencies. In addition to its own network of branches, sub-branches and agencies, the C.E.C. also receives deposits (but does not grant credits) at such places as post offices, credit cooperatives and at some large enterprises.

Deposits of the public can take the form of time deposits of one year at 5 per cent, sight deposits at 3-1/2 per cent, and sight deposits at 2 per cent that carry rights to participate in lotteries, the average interest rate after allowing for the lottery component being 4 per cent. The relative importances of these three categories of pass book deposits are about 35 per cent, 40 per cent and 25 per cent respectively. Other forms of savings instruments, such as bonds, are less important, being equal to about 10 per cent of total pass book deposits.

In addition to individuals, the C.E.C. will accept deposits from such organizations as credit unions, joint tenant associations, etc. Also, in addition to holding savings deposits, individuals can open personal current accounts, paying interest at 2 per cent, which can be used to effect payments for electricity, telephones, payments due to large stores, etc.

Credits granted by the C.E.C. are for periods of from 15 to 25 years. Interest rates vary from 3 to 5 per cent, depending on the personal incomes of recipients.

The C.E.C. has no foreign assets and liabilities.

The main balance sheet is prepared for December 31. A check balance sheet is prepared quarterly with a lag of 5 days, and the main aggregates such as credits and deposits are prepared monthly. The end-year balance sheet has the following breakdowns:

a. Assets

(1) Cash.

(2) Deposits with the National Bank, which bear interest at 4.75 per cent compared with an average lending rate of the C.E.C. of 4.0 per cent.

(3) Credits to the public for private dwelling construction.

(4) Other debtors and settlements, including items in transit.

(5) Fixed assets.

(6) Funds for investment in the current year.

(7) Other assets including minor inventories and advance payments.

(8) Payments due to the state budget from profits.

b. Liabilities

(1) Own funds.

(2) Reserves. The level cannot exceed 5 per cent of savings deposits and 30 per cent of each year's profits. The remaining 70 per cent of profit is transferred to the budget and if the above 5 per cent limit is reached, which is not the case at present, all profits go to the budget.

(3) Amortization fund.

(4) Special funds for granting credits which were previously made by the Investment Bank but which are now made through the C.E.C. As credits are repaid this item is steadily decreasing.

(5) Deposits of the population and certain other units.

(6) Profits to be transferred to the state budget or to reserves.

7. The State Insurance Administration

The Administration of State Insurance (ADAS) is state-owned and is the sole insurance and re-insurance organization in Romania. Its headquarters are in Bucharest and it has about 80 branches in the main cities. It operates in both domestic and international insurance.

a. Domestic insurance

Domestic insurance, which in terms of premia comprises about 60 per cent of total business, is made up of various forms of compulsory insurance and various categories of optional insurance. About two-thirds of total domestic insurance is compulsory. All domestic business is in lei.

Compulsory insurance comprises:

(1) third party motor vehicle insurance.

(2) personal accident insurance for all categories of domestic travel, except intra-city travel. Premia are included in the ticket price.

(3) all private dwellings (but not contents) for fire, flood, natural disasters, etc.

(4) protection of cooperative farms, equipment, production, livestock, stock, etc., against normal risks, including hail, floods, fire, etc.

Optional forms of insurance cover the following areas:

(1) about 20 varieties of life insurance. This category of business is not greatly developed because of the extensive coverage of social services.

(2) additional coverage of the above forms of compulsory insurance, since the compulsory coverage is usually less than the full value.

(3) contents of dwellings.

(4) motor vehicles, other than third party risks.

Premium rates are actuarially determined to cover costs and claims and to provide a profit. Rates must, however, be approved by the Ministry of Finance. In addition to salaried staff, ADAS also has full-time agents paid on a commission basis.

b. International business

About 40 per cent of total premia are derived from international business. Premia and claims are paid in foreign exchange but all receipts are deposited with the National Bank, which credits ADAS with the corresponding amount in lei, converted at the rate of lei 20 per U.S. dollar. The exchange risk is borne by ADAS. The main categories of foreign business are:

(1) marine insurance, including both cargo and hull. Coverage is given to the Romanian transport and fishing fleets and to all trade by Romanian foreign trade enterprises. If a trade transaction includes insurance on the Romanian side, then ADAS supplies coverage. If an import is bought by a Romanian enterprise on an f.o.b. basis, then ADAS automatically insures at standard conditions and rates without negotiating an individual policy.

(2) all kinds of aviation risks of TAROM (Romanian Air Transport).

(3) all kinds of risks of Romanian construction enterprises working abroad.

(4) export credit insurance.

(5) motor vehicle insurance for foreign travel by car.

(6) industrial fire, etc., for joint enterprises in Romania, covering the whole value not merely the foreign equity.

(7) life insurance for foreigners working in Romania, if desired.

(8) any other form of insurance on the conditions that apply in London, with rates based on London rates.

(9) re-insurance. About 80 to 85 per cent of foreign business is re-insured to prevent any potential large loss of foreign exchange.

The full balance sheet is compiled for December 31. Monthly working balances are made but they are available more slowly than in the case of banks. The balance sheet is entirely in lei. All receipts in foreign exchange are immediately sold to the National Bank and any needed to meet claims are purchased from that source.

Balance sheet assets comprise deposits at the National Bank. Liabilities, in addition to own capital and reserves, buildings, etc., comprise estimated future liabilities and profits.

8. The Romanian Branch of Manufacturers' Hanover Trust

Since 1974, this bank has been authorized by official decree to operate a branch in Bucharest. It is a branch of a foreign bank and is not incorporated in Romania. All its operations are in foreign currencies. Since it is a branch of a bank incorporated outside Romania, it does not produce a normal balance sheet, although it does, of course, keep accounts of its Romanian operations. Compared with the Romanian Bank for Foreign Trade (RBFT), which does similar business, it is an extremely small bank.

Its operations are specified in the license that allows the branch to operate in Romania. The main features are:

a. It can accept time and sight deposits in any currency except lei from anyone except Romanian citizens and enterprises. All deposits must be made through the intermediary of the RBFT.

b. It can place deposits abroad and with the RBFT.

c. It can conduct credit operations in foreign exchange but not in lei. Credit can be extended to any foreign clients and also to Romanian exterprises, joint enterprises with Romanian participation, and to the RBFT. Credit other than to foreigners must be made through the RBFT. The kinds of credit operations include all those normal in foreign banking business.

Since all business is in foreign exchange and since the bank is a branch of a foreign bank and its operations are quantitatively small, it is probably most convenient to regard it as not being part of the Romanian monetary sector.

9. Statistics of Money Supply and International Reserves

The Romanian authorities have recently begun to supply quarterly data on money supply and international reserves, and their components, to the Executive

Directors of the Fund. These data are supplied on a confidential basis for the use of Executive Directors and staff directly concerned with Romania.

Data on international reserves are compiled on a basis consistent with standard *IFS* definitions. Total international reserves are obtained as the sum of the banking system's holdings of gold and convertible foreign exchange, Romania's holdings of SDR's and its reserve position in the Fund.

In the case of money supply, however, the Romanian concept is different from that used in most, if not all, member countries. It derives quite distinctly from the division of monetary assets and liabilities into short-term and medium to long-term instruments. The elements of money supply relate to those short-term liabilities of the monetary sector that can be used for immediate purposes, as distinct from those directed toward medium and long-term investment. The result of these concepts is that the treatment of foreign assets and liabilities, savings deposits and deposits of the budgets are radically different than in the case of the Fund's standard definitions.

It is believed that money supply consists of the following liabilities of the banking system as a whole:

a. Cash in circulation.

b. Short-term deposits at all banks of enterprises and ministries, but <u>not</u> deposits of other banks at the National Bank.

c. The surplus of the Republican and local budgets from current and past years on deposit at the National Bank.

d. Budget resources that are currently available for specified short-term purposes. These are not included until the time of their use.

e. Deposits of persons and certain organizations entitled to have deposits at the Savings Bank (C.E.C.) <u>net</u> of long-term credits made from these deposits for the purchase of dwellings by the public. The concept is that this <u>net</u> amount is "available" in the financial system for financing current expenditures.

f. New foreign assets in convertible currency of the banking system, the concept again being that these funds provide a means of financing current expenditures.

III. <u>General Statistics</u>

1. <u>Basic Data Sources</u>

There are two main data sources for the general statistics compiled in Romania. The first is the series of Statistical Reports which all units in the socialist sector are required to provide to the relevant ministry on a regular basis. These data are, in most cases, also supplied to the CDS, which is the organization responsible for the compilation of most Romanian general statistics. These reports, which are used by ministries for monitoring the performance of units under their control, provide, inter alia, data on values of production, investment, retail sales, exports and imports, and employment and earnings. The data to be provided and the frequency of reporting are determined by the Council of Ministers. For some 100 commodities, for example, which are considered to be important in monitoring plan performance, daily reports on quantities produced are required. For the important industrial and agricultural branches, monthly data covering the whole range of economic indicators are reported.

The second data source relates to activity in the private sector. These data are usually not as comprehensive as those relating to the socialist sector and generally involve some degree of approximation. Although the private sector makes only a small contribution to aggregate economic activity, these data are of some significance in measuring total output and gross product for the agricultural branch of the economy.

2. International Trade Statistics

The foreign Trade Ministry is responsible for the compilation of international trade statistics. It compiles annual data on the values of total exports and imports as well as value and/or quantity data on exports and imports of major commodities[1/] and selected groups and sub-groups of commodities. It also compiles annual data on the direction of trade. These data are published in the *Yearbook*.

Quarterly data on the value of total exports and imports and on the direction of trade are also compiled. The former are provided to the Executive Directors of the Fund on a confidential basis. These quarterly data are not published.

The statistics are compiled from Statistical Reports submitted to the Ministry by Romanian foreign trade enterprises.

The methodologies used in compiling international trade statistics for Comecon countries are described in considerable detail in *Statistics of Comecon Member Countries*. The salient features of the methodology used in Romania are:

a. Exports statistics refer to domestic exports and re-exports. Imports comprise imports for domestic consumption and for re-export.

b. Excluded from the scope of the statistics are: goods in transit, goods

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1/ The only commodities which appear to be significant in terms of total exports and imports are petroleum products (exports and imports) and chemical fertilizers (exports). These data are compiled on an annual basis and only quantity data are published in the *Yearbook*.

imported or exported free of charge, samples, goods imported or exported on account of contributions to the U.N. Technical Assistance Fund, passengers' personal luggage, containers and packages, parcels containing consumer goods, cinema and television films for hire, supplies for diplomatic missions and their staff, and transport equipment exported or imported for repair and then returned.

c. Values are expressed in foreign-exchange lei. The conversion from foreign currencies is made according to the official rate set by the National Bank.

d. The statistics are based on f.o.b. values,1/ and relate to goods actually crossing the frontier during the period in question.

e. The commodity classification used is the "Uniform Commodity Nomenclature" of the Comecon countries (the UCN).

f. The statistics are in all cases based on actual transactions values.

g. Direction of trade data are based on the principle of buying country/selling country, namely, it is considered that exports represent deliveries to buying countries and imports acquisitions from selling countries.2/

The quarterly statistics described above are available within 20 days of the end of the period. Preliminary annual data are available within 2 months of the end of the year while final data are available after a further two months.

3. Price and Volume Indexes for Exports and Imports

a. Price Indexes

The Foreign Trade Ministry compiles annual indexes of total export prices (including re-exports) on a 1970 reference base (the start date of the series). The indexes are compiled according to the Paasche formula, i.e., with current period quantity weights. Separate group indexes are also compiled for raw materials, machinery and equipment, foodstuffs and fuels. In addition, sub-group indexes are compiled for important groups of commodities, such as petroleum and petroleum products and parts of light industry, such as textiles. Quarterly calculations are made on an infrequent basis.

In the area of import prices it has not yet been possible to develop a satisfactory measure for total imports because of problems of quality change,

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1/ Imports statistics are not compiled on a c.i.f. basis nor are there are data available to enable calculation of such a series.

2/ The Ministry representatives indicated that the extent of differences between their direction of trade data and those compiled by other countries had been raised by a number of their trading partners. It was explained that the differences are due to the Romanian practice of recording trade statistics according to the country of contract rather than that of final origin or destination. Work is currently in progress to compile trade statistics on an origin/destination basis (using information contained in statistical reports) beginhing with data for the year 1977.

product mix and disappearing items. Annual indexes have been compiled since 1970, and on a 1970 reference base, using the Paasche formula for a "raw materials" group and for certain other imports such as selected types of machinery and equipment and fertilizers. These commodities would together represent about 40 to 50 per cent of total imports. The Romanian representatives expressed some doubts as to the reliability of these indexes. The main reason is that problems of quality change and changes in composition are not so easy to overcome as they are in the case of exports, where detailed plan data are readily available.

The import and export price indexes are compiled from value and quantity data supplied to the Ministry by foreign trade enterprises for the purpose of compiling international trade statistics. The indexes are available within 4 to 6 months after the end of the year. They are not published.

The authorities are concerned about the quality of the present indexes and are attempting to develop a more satisfactory export price index as well as a comprehensive import price index. It appears that indexes will be developed on a sample basis. The completion date for this project is not known.

b. Volume Indexes

The Ministry ceased compilation of its 1970 based export and import volume indexes with data for the year 1973 in view of the unsatisfactory nature of the measures.[1/] There are no plans to recommence compilation of a more satisfactory set of series.

4. Consumer Prices

The CDS has published indexes of consumer prices on a variety of reference base periods since the year 1933. The present series of annual "Index Numbers of Commodity Prices and Consumer Service Tariffs in Socialist Units" is published in the *Yearbook* on a 1970 reference base.

The index relates to the retail prices of all goods and services supplied by the socialist trade sector, which accounts for more than 95 per cent of all retail sales. Information on prices of sales in the private sector is not available.

The index is compiled from two sets of basic data. Information on socialist sales is obtained on a quarterly basis from statistical reports provided by all commercial units to the Prices Control Board (PCB). These reports contain details of prices and quantities sold for each commodity. In situations where prices have changed during the quarter, quantities sold at both the old and the new prices are reported. Information on free market sales[2/] (which comprise foodstuff items)

1/ The United Nations publishes these indexes in its *Monthly Bulletin of Statistics*.

2/ Over the course of the year, free market sales would comprise 4 to 5 per cent of the weight of the Food group of the index; for fruit and vegetables, the weight is about 60 to 65 per cent.

is provided to the CDS by administrations of 95 selected localities (which represent 85 per cent, by number, of all localities) throughout the country. Prices data for a sample of specific, representative qualities of each index item are collected by market administrations on the fifth, fifteenth and twenty-fifth of each month. The sample would represent in excess of 80 per cent of all index items. Quantity data on sales for each sampled item are reported on a daily basis. These quantity data are estimated on the basis of a sample of observed differences in stocks at two representative periods during the day's trading.

All prices data used in the index calculations are weighted averages of all sales in the period.

Indexes for the socialist sector are compiled as harmonic averages of price ratios, i.e.,

$$\frac{\Sigma P_1 \quad Q_1}{\dfrac{P_{1a} \quad Q_{1a}}{\dfrac{P_{1a} \quad Q_{1a}}{P_{oa} \quad Q_{1a}}} + \dfrac{P_{1b} \quad Q_{1b}}{\dfrac{P_{1b} \quad Q_{1b}}{P_{ob} \quad Q_{1b}}}} = \frac{\Sigma P_1 \quad Q_1}{\Sigma 1/K \quad P_1 Q_1}$$

(Where $K = P_1/P_o$)

$$= \frac{P_1 \quad Q_1}{P_0 \quad Q_1}$$

That is, the indexes are effectively compiled using the Paasche method.

Although indexes for free market index items were described as being compiled by the "classic Paasche method," the approach followed is, for all intents and purposes, identical to that described above for socialist sales. For index items which comprise both socialist and free market sales, aggregate indexes are obtained by combining the two indexes by their relative constant price values (obtained by deflating current period values by the relevant price index). Values for free market sales are estimated on the basis of the results of a continuing expenditure survey of approximately 11,000 households. Values for socialist sales require no adjustment since they reflect total sales.

The published annual indexes are obtained from quarterly cumulative indexes. These latter indexes are not published.

The indexes are compiled on two reference bases, that of the preceding year (or quarter) and of the first year (or quarter) of the current Five-Year Plan. Beginning with the year 1976, the indexes will be published on a 1975 reference base, the last year of the 1971-1975 plan. For 1977, for example, the following annual indexes will be compiled:

$$\frac{P_{1977} \quad Q_{1977}}{P_{1975} \quad Q_{1977}} \qquad\qquad \frac{P_{1977} \quad Q_{1977}}{P_{1976} \quad Q_{1977}}$$

Similarly, the index for the first quarter of 1977 has been compiled with reference bases of the first quarter 1976 and the first quarter 1975.

The index for 1977 will be obtained by dividing the sum of the quarterly current values by the corresponding sums of the constant values (on both the 1975 and 1976 reference bases).

Both quarterly and annual indexes are available within about 40 days of the end of the period in question.

Indexes are published for five groups. Sub-indexes for the "fruit and vegetables" and "other food" components of the Food Group are also compiled but are not published.

Since the indexes are compiled using current period quantity weights, the problems of new and disappearing (and seasonal) items are not as great as for Laspeyres indexes. Disappearing or seasonal items are automatically excluded from the index calculations since they have no weight. New items are included in the index by estimating base period prices (i.e., for the preceding year and the plan base year) on the basis of observed price movements in similar items or groups of items.

Changes in specifications of an index item which, in the CDS's judgment, leave the item substantially unchanged, are ignored. Variations in quality from one period to the next (for example in the fat content of sausages) are allowed for in the prices supplied to the CDS by the PCB. Major changes in quality occur infrequently. The approach taken is, in effect, to treat the commodity concerned as a new item and to splice it in using the method described above.

Apart from the groupings mentioned above, the CDS also compiles separate experimental indexes for "Wagearners," "Peasantry" and "Pensioners" in order to monitor plan targets. Weighting patterns are based on the previously mentioned Household Expenditure Survey. From the description given by the International Labor Office (the ILO) in its technical guide,[1/] it would appear that the index supplied to the ILO by the Romanian authorities is a weighted average of the indexes for wagearners and peasantry. The Romanian authorities were not able to

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1/ *Technical Guide, Vol. 1, Consumer Prices*, ILO, Geneva, 1976.

clarify this matter.

The CDS is presently extending the present sample of households to obtain more comprehensive weighting patterns for the indexes mentioned above. It is also in the process of developing indexes on a district basis. Any divergent movements shown by these various indexes would, for all intents and purposes, reflect only differences in consumption patterns, since prices are uniform throughout the country and for different consumers for all items except fruit and vegetables.

5. Wholesale Prices

Until recently the need to compile aggregate indexes of wholesale prices was not considered great since, as will be described later in the national accounts section of this report, constant price data were reported directly by all socialist units. Beginning with data for 1977, however, these units will only report in current prices. As a result it has been necessary to develop series of wholesale price indexes to be used as deflators in the compilation of constant price national accounts series.

Beginning with the year 1975, the CDS has been compiling experimental quarterly indexes relating to the prices of industrial goods and agricultural goods.

The indexes refer to the prices of domestically produced goods and are on a gross basis.[1/]

Indexes for industrial goods are compiled at two different price levels -- for producer prices and for delivery prices (the latter including turnover taxes)-- in the case of consumer goods. Indexes are broken down by Ministries at present but it is hoped that it will be possible to develop a breakdown by branches. The agricultural price index covers all sales to the state made by socialist units, cooperatives and private farmers. It is based on farm-gate prices.

The indexes are based on a complete enumeration of all units and all commodities.

Both indexes are compiled according to the Paasche formula, with current period quantity weights and the corresponding quarter of the preceding year as the reference base.

Problems associated with quality change and new and disappearing items are dealt with in the same way as for the consumer price index. The Romanian representatives did indicate, however, that these problems were more severe in the case

1/ They include therefore not only goods destined for final consumption, but also those sold for further processing within the same branch of industry.

of industrial products and that the approach taken was, of necessity, more subjective.

The indexes are not published. They are available within one month of the end of the quarter to which they relate.

6. Production Indexes

The CDS compiles indexes of gross industrial production and gross agricultural production. The indexes are compiled for years and quarters. Historical series, converted to a variety of reference base periods (corresponding to the base periods of the five year plans), are presented in the *Yearbook*. These annual indexes form the basis of the output components of the net output measures used in compiling the constant price national accounts. The quarterly indexes are not published.

The indexes are compiled according to the Laspeyres formula, on a 1963 reference and weighting base.

Until 1977, the indexes were obtained by aggregating constant price data reported by all socialist units.[1/] The constant price estimates reported by the units were obtained by expressing current period quantities at average 1963 prices.

Beginning with 1977, however, these constant price data are no longer reported. It is understood that the CDS intends to make use of the wholesale price indexes previously described to compile the production indexes for 1977 and subsequent years.

Although the quarterly and annual indexes are based on the same methodologies, the scope of the two series differs. The annual indexes cover all production in the economy, whereas the quarterly indexes relate only to production in the state sector and exclude cooperatives and private production.[2/] In addition, units are classified by Ministry for the purpose of the quarterly indexes; in the annual indexes the classification is by branch, and units are classified by their primary activity. Construction activity, for example, carried out by an industrial unit would be included in the quarterly index of industrial production but not in the annual index.

The quarterly indexes are available within one month of the end of each quarter. The CDS also compiles monthly statistics on the value of industrial production, based on statistics reported by industrial units. Since producer

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1/ The annual indexes for agricultural production include estimates of the volume of production of private farmers which are supplied to the CDS by the various Peoples' Councils.

2/ The exclusion is not significant in the case of non-agricultural production.

prices are fixed throughout the year, this series is used an an indicator of industrial production. Provisional data are available within four days of the end of the month and are finalized within 10 to 20 days.

7. Employment and Earnings Statistics

a. Employment Statistics

The CDS compiles and publishes annual series of employment in the economy and its various branches. Two sets of statistics are published -- those relating to employment levels at the end of the year and those covering average employment throughout the year. The statistics relate to the "occupied population" and cover both state and private employment. Employment in the armed forces and mass organizations is excluded, however.

The basic data used in compiling these statistics are obtained from statistical reports supplied by economic units. The frequency of reporting differs between branches of the economy: units engaged in industrial, construction and trade activities are required to report each month as are state agricultural units. Some units, such as schools, report quarterly and others (such as agricultural cooperatives) are required to report annually only. Information on private employment (i.e., in agriculture and handicrafts) is reported annually.

Employment for two separate categories is reported -- for workers and for TESA (which covers technical staff, engineers, economists, administrative staff, etc.). All units maintain monthly data on employment in these two categories irrespective of the frequency with which they are required to report data. Monthly data on employment of workers are averages of daily employment. Individuals are considered to be employed if they are registered as employed by the unit and are therefore included when on sick or recreation leave. Employees in agricultural cooperatives who engage in private agriculture for part of the year are considered to be employed in the cooperative for the whole of the year. There is no distinction made between full time and part time employment, the latter occurring only in the agricultural sector.

In the case of TESA employees, where employment levels are relatively stable, average monthly employment is obtained as the simple average of levels at the beginning and at the end of the month.

Units reporting on a quarterly or annual basis provide data obtained as simple averages of the monthly data. All units are also required to report employment levels as at the end of the calendar year.

In addition to the data described above, units are required to report employment data required for calculations of labor productivity. Two concepts are employed:

(1) Direct productive workers, i.e., those employees directly involved in the production process (excluding persons undergoing training).

(2) Total Employment -- this comprises workers and certain TESA employees who are considered to be directly involved in the production process.

Monthly data on employment are compiled for major branches of the economy and for certain sub-branches. Statistics on total employment are available within ten days of the end of the month concerned while those used in the calculation of labor productivity are available within five days.

b. Earnings Statistics

The scope and basic data sources for statistics of average remuneration are the same as those described above for employment statistics. Monthly estimates are compiled for main branches and certain sub-branches. The lag in the compilation of annual data is somewhat longer than for employment series, however, since units are required to report these data at the same time as balance sheet data. The statistics relate to total cash payments (and therefore exclude allowances and payment in kind) and are on an accruals basis.

c. Hours Worked

Statistics on hours worked are compiled monthly, for the main productive branches, from data contained in special reports of hours worked and utilization of working time.

d. Real Wages and Salaries

This series is reported to *IFS* but is not shown in official statistical publications. It is compiled only annually and is obtained by deflating net wages and salaries by the index of retail prices.

8. National Accounts Statistics

The national accounts in Romania are compiled by the CDS according to the system of Material Product Balances (the MPS). The accounts are compiled, in both current and constant prices, for Social Product (by branch of the economy) and for National Income (by branch of the economy and by use). The data are published in the *Yearbook* in the form of percentage shares or index numbers. Quarterly data are not compiled.

Social Product comprises the gross output of goods and services of the material sector, valued at delivery prices, which includes the turnover tax. Output of the so called non-productive sector, which provides services for private and social needs, is not included. Basically, all goods are included in the social product, even if they are not included in the Plan.

For units with both non-productive and productive elements, an attempt is made to identify and include the latter in social product. In calculating social product and national income by productive branch, all activities of the kind undertaken in each branch are generally included, even if they take place in a unit whose principal activities are in another branch. For example, in industry, the industrial production of units, most of whose activity is non-industrial, is included.

National income, or net material product, is equal to gross output less material costs, including depreciation. It includes remuneration of employees, income of cooperative and private craftsmen and peasants, contributions to social insurance, net enterprise income, and indirect taxes less subsidies, for the material production sector. However, in the uses of net material product, the separation of the material and non-productive sectors is not maintained, since the non-productive sector receives and uses investments emanating from the material sector. Compared with the U.N. System of National Accounts, national income in Romania excludes non-productive services consumed by the population and the state administration, but includes indirect taxes less subsidies.1/

The basic data used in compiling the accounts are from two sources. Socialist units and cooperatives report current price data on gross output, net output and material inputs to the appropriate central, where it is aggregated and forwarded to the appropriate Ministry and to the CDS. These data are then aggregated by the CDS to obtain branch statistics. Information on private sector production is based on records kept by the Peoples' Councils in each commune. These data are reported to the CDS through the District Councils. The Romanian representatives indicated that, unlike the data for the socialist sector, these estimates involved a degree of approximation.

Estimates of national income at constant prices are obtained as the sum of the constant price gross products of the various branches of the economy. These latter measures are obtained, in all cases, using the net-output approach. As mentioned earlier in this report, the constant price estimates of gross output were based on data reported by units until 1977. Beginning with that year the CDS intends to use the new series of wholesale price indexes as deflators for

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1/ A more detailed description of the conceptual basis of Romania's national accounts will be presented in the World Bank's *Basic Economic Report* on Romania, which is scheduled for release in February 1978. The relationship between the MPS and the SNA is set out in the recent U.N. bulletin *Studies in Methods, Series F, No. 20.*

industry and agriculture. For the remaining sectors reported data on physical output will continue to be used. Data on material inputs have always been reported in current prices only, and the conversion to constant prices poses some problems. Constant price estimates for most industries are obtained at the branch level by deflation, for all branches except agriculture. The deflators are built up from information supplied by units on the total value of price differences compared with the previous year. In the case of agriculture, where most material inputs are homogeneous in nature, constant price estimates are obtained by revaluing reported quantity data at base year prices.

The constant price estimates are presently compiled on a 1963 reference and weighting base. The Romanian representatives thought that the series would be rebased to 1977 beginning with the year 1978.

Provisional national accounts data are available within two months of the end of the year and are finalized within six months.

Attachment 1

Statistical Visit to Romania
November 15-29, 1977

List of Romanian Representatives

1. Ministry of Finance

Mr. Crainiceanu
Mr. Ionescu-Longi
Mr. Munteanu
Mr. Nicolescu
Mr. Parvu*
Mr. Stegaru
Mr. Stoinescu

2. The National Bank of Romania

Mr. Dan
Mr. Mirescu
Mr. Petrescu
Mr. Seculeanu

3. The Romanian Bank for Foreign Trade

Mr. Toma

4. The Bank for Agriculture and Food Industry

Mr. Linca

5. The Investment Bank

Mr. Nitescu

6. The Savings Bank

Mr. Spantulescu

7. The State Insurance Administration

Mr. Maniu

8. The Ministry of Foreign Trade

Mr. Bolohun
Mr. Lisandru

9. The State Committee for Prices

Mr. Bugeanu
Mr. Lazaride

10. The Central Directorate of Statistics

Mrs. Hlevca
Mr. Custura
Mr. Dimescu
Mr. Rosen

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* In relation to Government Finance Statistics only.

F.O.

January 24, 1978

MEMORANDUM FOR THE FILES

Subject: Romania

Mr. Besteliu, Economic Counsellor at the Romanian Embassy, saw me today to ask informally whether the Managing Director could send a cable congratulating President Ceausescu on his sixtieth birthday, which comes on January 26, 1978. He reminded me that the Managing Director had sent such a cable on the fifty-fifth birthday of the President in 1973. He also said that Mr. Knapp, of the World Bank, will be sending a cable on behalf of Mr. McNamara. I told Mr. Besteliu, in my recollection, that the earlier cable had been sent as a special exception, and at a time when Romania had just joined the Fund (in December 1972). However, I undertook to raise the matter with my colleagues.

After discussing the matter with Mr. Pfeifer I explained the situation to Mr. Van Houtven, telling him in addition that the European Department view was that there was no strong case for another special exception. While Mr. Van Houtven was willing to raise the matter with the Acting Managing Director, he and I agreed that it was reasonable to take a decision without doing this on the basis of a common position of the European and Secretary's Departments.

I shall informally tell Mr. Besteliu that it has been decided that we must follow our practice of not sending congratulatory cables on such occasions.

GT

Geoffrey Tyler

cc: Mr. Van Houtven
Mr. Pfeifer

Office Memorandum

TO : The Acting Managing Director

DATE: January 24, 1978

FROM : A. Pfeifer

SUBJECT : Romania--Draft for Mid-Term Review Mission

The draft brief for the above mission is attached. It has been cleared with ETR (Mr. Sturc), LEG (Mr. Nicoletopoulos), RES (Mr. Rhomberg), and TRE (Mr. Cutler).

The brief should be returned to the European Department.

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

1/24/78

INTERNATIONAL MONETARY FUND

ROMANIA

Briefing Paper for Mid-Term Review
of the Stand-By Arrangement

Prepared by the European Department and
the Exchange and Trade Relations Department

(In consultation with the Legal, Research,
and Treasurer's Departments)

Approved by Albin Pfeifer and Ernest Sturc

January 24, 1978

I. Introduction

A mission consisting of Mr. Tyler (EUR), Mrs. Mitchell (ETR), Mr. Wein (EUR), and Miss Symons (ETR), as secretary, will be in Bucharest beginning February 10, 1978 to review the stand-by arrangement of September 9, 1977 and to negotiate performance criteria for the remainder of the stand-by period.

II. Recent Economic Developments

Although detailed results for 1977 are not yet known, press reports indicate that, in two important areas, industrial production and the harvest, good results were achieved. Gross industrial production in 1977 increased by 11.5 per cent, overfulfilling the Plan by a percentage point. Despite the severe earthquake which occurred in March, the original 1977 Plan targets for the domestic economy were not changed, so that an overfulfillment would seem to indicate considerable recovery in an important sector of the Romanian economy. Moreover, it has been reported that the cereal harvest in 1977 was about 18 million tons, a good outturn. However, critical articles in the Romanian press suggest that gross investment, planned to increase by 18 per cent, will show a substantial underfulfillment.

Complete balance of payments data are available for only the first half of 1977. In this period there was an overall trade deficit of SDR 201 million (compared with a surplus of SDR 213 million in the first half of 1976), and a services deficit of SDR 87 million. Net long- and medium-term inflows were SDR 209 million, mostly from the convertible area as the result of short-term borrowing following the earthquake. The resulting deficit of SDR 65 million was financed by an increase of SDR 70 million in payments agreements liabilities in the nonconvertible area, and there was a small increase in gross convertible international reserves. Trade data received for the third quarter show a small surplus, bringing the cumulative trade deficit in the first nine months to SDR 195 million. For 1977 as a whole, a trade deficit of SDR 265 million and a current account deficit of SDR 470 million were officially forecast; with net capital inflow expected to exceed SDR 200 million, the forecast overall balance of payments deficit was put at almost SDR 250 million.

In the first half of 1977 with the convertible area, there was a visible trade deficit of SDR 115 million and a services deficit of nearly SDR 100 million. On capital account, medium- and long-term net inflow of about SDR 55 million and a short-term net inflow of nearly SDR 165 million were recorded, the latter chiefly reflecting short-term borrowing after the earthquake. There was thus a very small overall surplus in convertible currencies (SDR 5 million) in the first half of 1977. Data available for the first nine months of 1977 show a trade deficit in convertible currencies of SDR 129 million. Convertible reserves at the end of September were SDR 205 million, equivalent to about three weeks' imports of goods and services from the convertible area, compared with SDR 194 million at the end of 1976.

Plan targets for 1978 project continued rapid real growth and very high rates of investment. National income is to grow by 11.0-11.5 per cent, gross industrial production by 10.6 per cent, and gross agricultural production may increase by 7 per cent, or more if the weather is reasonable. Investment in the national economy is expected to increase by 17 per cent, or slightly more slowly than planned for 1977. Foreign trade turnover, i.e., total exports plus total imports, is to increase by 19 per cent, but separate figures for exports and imports and a division between convertible and nonconvertible currencies are not published.

III. Background to the Discussions

Following widespread damage caused by floods in 1975,[1/] the Romanian economy achieved a substantial recovery in 1976, both domestically and in the current account of the balance of payments. However, in March 1977, a severe earthquake caused damage estimated at more than SDR 1.8 billion (damage to capital stock plus lost production) and losses to the balance of payments estimated at SDR 550 million in 1977-78, nearly all of which falls on the balance of payments in convertible currencies. As a result, the current account deficit in convertible currencies in 1977 was forecast to increase sharply to SDR 300 million compared with SDR 53 million in 1976.

A staff mission visited Romania in June 1977 to hold Article XIV discussions and to negotiate requests for a stand-by arrangement of SDR 64.125 million (the remainder of the enlarged third credit tranche) and for a second purchase of SDR 47.5 million under the compensatory financing facility, bringing total purchases under this facility to 75 per cent of quota. On September 9, the Executive Board approved these requests (EBS/77/309, 8/18/77 and EBS/77/313, 8/22/77, respectively).

1/ A stand-by arrangement (EBS/75/306, 9/8/75) covering the second and third credit tranches was agreed with the Fund on October 3, 1975.

The Romanian stand-by program differs from that for most other countries because the Romanian economy operates under the direction of a central plan covering all the important kinds of economic activity. The most important means of adjusting the trade account is by directly altering the pattern of production so as to increase the supply of exportables and minimize the necessary level of imported inputs and stocks. Domestic credit policy, particularly limitations on the growth of short-term credit of the banking system, is also used to restrict the level of imported stocks. Insofar as these measures do not result in sufficient adjustment, borrowing on international capital markets may be undertaken, or, generally as a last resort, some investments may be postponed.

The main quantified performance criteria of the stand-by program operate directly on the balance of payments in convertible currencies. There are quarterly targets for the trade balance in convertible currencies, which is also a good proxy for the current account balance, since the services account is relatively small and normally not very volatile. Performance targets on gross international reserves provide for a modest increase and implicitly provide a limit on the overall balance in convertible currencies, since transactions with the Fund are the only other item in the monetary accounts. Taken together, these two limits imply a targeted limit on net foreign borrowing, and within the latter specific quarterly limits on outstanding convertible short-term debt have been included as performance criteria. The remaining performance criteria relate to quarterly limits on short-term credit of the banking system, and to the usual limitation on payments and import restrictions. All performance criteria for end-September 1977 were met and third quarter data suggest that those for end-December 1977 will also be realized. Because the Plan for 1978 was not known during the negotiations in June 1977, it was not possible to project the balance of payments for 1978 or to establish performance criteria for 1978. As provided in the stand-by arrangement, Romania may not purchase under the present stand-by arrangement in 1978 until, inter alia, performance targets for 1978 have been agreed with the Fund.

IV. Scope of Discussions

The mission will review developments in 1977, especially since the discussions of June 1977. The review will include an updated estimate of the damage to the domestic economy and the loss to the balance of payments caused by the earthquake. As mentioned, it seems likely that end-1977 performance criteria were met. The mission is authorized to indicate to the Romanian authorities that, if the outcome of the discussions on the program are satisfactory, they will be able to make the second possible purchase under the stand-by arrangement (SDR 13.125 million) as soon as performance criteria are established. This is the amount that under the phasing of the stand-by arrangement will become available on February 1, 1978, but could not be drawn until performance criteria have been established for 1978.

The mission will examine expected developments in 1978, with emphasis on the performance variables and the balance of payments in convertible currencies. In line with the brief for the original negotiations for the stand-by arrangement in mid-1977, the mission will negotiate, ad referendum, quarterly targets for the trade balance in convertible currencies, the level of convertible international reserves, domestic short-term credit of the banking system, and short-term debt in convertible currencies outstanding for the remaining period of the stand-by arrangement. In discussing performance targets, particularly for the trade balance in convertible currencies, the mission will take into account recent forecasts of slower growth in some of Romania's overseas markets, and the consistency of balance of payments forecasts with planned domestic growth. The mission believes that there should be a reduction in the deficit on current account in convertible currencies in 1978. The mission will also ascertain whether there have been any changes in the trade and payments system since the last discussions and whether any such changes are planned for 1978.

Mr. Whittome
2

Memorandum for the Files

Subject: Romania and BIS Statistics January 18, 1978

I had a telephone call from the secretary of Mr. Dealtry of the BIS this morning. I had written to him asking whether it would be convenient for Mr. Wein to visit Basle to discuss the statistics of Romanian assets and liabilities with reporting banks that are published by the BIS.

Mr. Dealtry's secretary--he is on his way to New York--said that, in principle, there was no problem with Mr. Wein's visit. However, the expert he would need to see, a Dr. Mayer, is ill with the flu at the moment and, therefore, they do not know whether he will be in Basle on February 8. She promised to let me know the situation early next week.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein

Mr. Whittome

MEMORANDUM FOR THE FILES

Subject: Romania

January 4, 1978

Mr. Gardner has asked for a country piece on Romania for the IMF Survey. I explained to him that we would not be able to do a piece in the standard form, which normally incorporates such things as a balance of payments table and a monetary survey. However, I undertook that we would prepare a factual piece on the Romanian planning process, Plan achievements in 1977, and Plan targets for 1978.

We will be able to finalize the piece after we have obtained the 1978 data at the forthcoming mid-term review. On that occasion, I will check with the Romanian authorities that they have no objection to the article which we would show them in draft form. I have warned Mr, Gardner that there is a slight, but I hope very slight, chance that the Romanians might not wish a piece to appear.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Wein