440040 FUND UI
11239B MIFIN R
NO.788/11/12/1981

RECEIVED
I.M.F.
1981 DEC 11 AM 9: 27
CABLE
ROOM

479870

I M F UR WASHINGTON D.C.
ATT. ACTING DIRECTOR
EUROPEAN DEPARTMENT

RE : DATE OF BUCHAREST QUOTE SEMINAR UNQUOTE.

PLEASE BE SO KIND TO INFORM MR.GEOFFREY TYLER THAT THE QUOTE SEMINAR UNQUETE OF BUCJAREST WILL BE HELD ON THE PERIOD OF JANUARY 12 - 13, 1982.-

BEST REGARDS,
IULIAN BITULEANU
DEPUTY MINISTER

Management, Salop, Paljarvi, Carter informed. Mr. Polak got a cable directly.
cc: ED
GB 12/11/81

MOM

Office Memorandum

December 24, 1981

MEMORANDUM FOR FILES

Subject: Romania

1. At the present time the accumulation of arrears has prevented Romania drawing on November 15 the SDR 76 million under the stand-by arrangement dated June 15, 1981 to which, given that all other performance criteria had by then been observed, she would have been entitled to.

2. Under paragraph 4 (c) of the stand-by arrangement Romania will not automatically be able to draw the SDR 76 million of November 15 if the arrears question is settled. Rather a waiver will be required after a consultation between the Fund and Romania and at that consultation new conditions or changes in existing understandings could be introduced.

3. Quite apart from the arrears problem and the need for a consultation and waiver, no purchases can be made after December 31, 1981 until the performance criteria have been established in consultation with the Fund on all aspects of the program for the 1982 period of the stand-by arrangement and until the exchange rate regime has been further simplified.

4. I have put these facts on record for we do not know when the Romanian arrears problem will be resolved in a way that we can deem satisfactory nor do we know what the climate of opinion vis-à-vis Eastern Europe will be at that time. It is not impossible that the management will be very reluctant to release a large accumulated sum to Romania in mid-1982.

L.A. Whittome

cc: EED

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

MARK XX FOR SERVICE
(XX) TELEX
( ) FULL RATE
( ) CODE

1981 DEC 22 PM 4:27

ADDRESS

MR. PETRE GIGEA
MINISTER OF FINANCE
MINISTRY OF FINANCE
BUCHAREST, ROMANIA

DISTRIBUTION

MR. POLAK
MR. WHITTOME

TEXT

WOULD BE GRATEFUL IF YOU COULD CONFIRM THAT PROPOSED MEETING WILL TAKE PLACE ON JANUARY 12 AND 13. IF SO, AND PROVIDED YOU THINK IT USEFUL, I WOULD PROPOSE ARRIVING ON JANUARY 8 WITH DOCUMENTATION AND TABLES PREPARED AS WE AGREED. ON JANUARY 9 AND 11 WE COULD ENSURE THAT ANY NECESSARY UPDATING IS INCORPORATED AND DISCUSS LATEST POSITION REGARDING BALANCE OF PAYMENTS AND DELAYS IN PAYMENTS AS WELL AS ARRANGEMENTS FOR THE MEETINGS.

BEST REGARDS,

GEOFFREY TYLER

SPECIAL INSTRUCTIONS

TEXT MUST END HERE

DRAFTED BY:	GTYLER/vrb	EXT.	74016	DEPARTMENT:	EUR	DATE:	12/22/81
NAME (TYPE):	GEOFFREY TYLER			NAME (TYPE):			

(**) TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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The Deputy Managing Director December 21, 1981

L.A. Whittome

Romania--Informal Meeting with Commercial Banks

There is to be a meeting in Bucharest on January 12 and 13, 1982 at which the Romanian authorities will meet with representatives of nine commercial banks, from six countries, to begin to search for a solution to the problem of payments arrears. The recent mission to Romania prepared documentation for the meeting, including a description of economic developments and policies and a comprehensive set of tables. Mr. Tyler rang you from Europe in early December and obtained your approval for staff participation in the meetings as observers.

I propose that the same staff members who took part in the above preparations (Tyler (EUR), Paljarvi (ETR), and Salop (EUR)) plus a secretary arrive in Bucharest on January 8, 1982. This would allow two days to obtain the latest data on the arrears situation, to update statistical material, and to make sure that the Romanians are fully prepared. The mission members would remain for the Article IV consultation discussions and negotiation of the 1982 program under the stand-by arrangement, which are to begin on January 18, 1982. Mr. Tyler would go to Paris for January 14-15, 1982 as an observer at the debt rescheduling meeting between Poland and creditor governments, assuming that this meeting takes place.

May I have your approval for the above travel please.

Office Memorandum

December 18, 1981

MEMORANDUM FOR THE FILES

Subject: Romania

I received a cable for the Swiss Bank Corporation (copy attached) and this morning spoke to Mr. Mada in Bucharest. The Romanians are aware of the Swiss action and presumbaly will do something about it. I also telephoned Mr. Schob in Basel, who had been at the meeting with bankers that I had in Zurich. I told him on a confidential basis that I had reason to believe the Romanian authorities would be commencing a dialogue with banks early in 1982 and that the current account in convertible currencies in 1981 would probably be better that I had expected when speaking in Zurich. Mr. Schob said Swiss banks were taking a tough line on Romania.

I told Mr. Mada that we were close to finalizing the reproduction of supporting documentation for the proposed meeting with bankers in Bucharest in February. He said that he understood preparations for the meeting were proceeding satisfactorily but he did not give details.

GT

Geoffrey Tyler

cc: Mr. Whittome

CABLE

RECEIVED
I.M.F.

1981 DEC 17 AM 8: 11

CABLE
ROOM

480456

11.48
BASLE, DECEMBER 17, 1981 KA-JB/GV
FROM SWISS BANK CORPORATION, GENERAL MANAGEMENT
TO INTERNATIONAL MONETARY FUND, EUROPEAN DEPARTMENT, WASHINGTON D.C.

ATTN: MR. GEOFFREY TYLER, ASSISTANT DIRECTOR

ROMANIA / ROMANIAN BANK FOR FOREIGN TRADE, BUCAREST (RBFT)

DEAR MR. TYLER,

ON THE OCCASION OF THE MEETING OF NOVEMBER 25, 1981 AT THE PREMISES OF THE SWISS NATIONAL BANK IN ZURICH INFORMATION WAS EXCHANGED ABOUT THE SITUATION IN EASTER EUROPE, ESPECIALLY ON ROMANIA'S DIFFICULTIES IN SERVICING ITS INTERNATIONL DEBTS.

THE REPRESENTATIVE OF OUR BANK AT THE AFORESAID MEETING DREW YOUR ATTENTION TO HE NON-FULFILLMENT OF OBLIGATIONS IN VERY IMPORTANT AMOUNTS. HE STRESSED THAT IN THE FOREIGN EXCHANGE BUSINESS EVEN SPOT TRANSACTIONS HAVE NOT BEEN HONOURED.

IN SPITE OF NUMEROUS CALLS TO RBFT, THE PAST DUE OBLIGATIONS ARISING FROM FOREIGN EXCHANGE TRANSACTIONS STILL AMOUNT TO USDLRS 25 MIO. WE CLEARLY INDICATED TO RBFT THAT UNLESS THIS AMOUNT IS SETTLED UNTIL 21 DECEMBER 1981 OUR BANK WILL TAKE LEGAL ACTION AGAINST THEM, BEING FULLY AWARE THAT SUCH ACTION MIGHT HARM THE REPUTATION OF RBFT IN THE INTERNATIONAL MARKET.

WILLING TO EXHAUST ALL POSSIBLITIES WHICH MIGHT INFLUENCE RBFT IN THEIR ATTITUDE TOWARDS THIS CASE, WE THINK IT FAIR TO INFORM IMF, OF WHICH ROMANIA IS A MEMBER PARTY, IN ADVANCE ABOUT THE DECICION WE HAVE TAKEN IN THIS RESPECT.

YOURS SINCERELY,

SWISS BANK CORPORATION

IN SPITE OF NUMEROUS CALLS TO RBFT, THE PAST DUE OBLIGATIONS ARISING FROM FOREIGN EXCHANGE TRANSACTIONS STILL AMOUNT TO USDLRS 25 MIO. WE CLEARLY INDICATED TO RBFT THAT UNLESS THIS AMOUNT IS SETTLED UNTIL 21 DECEMBER 1981 OUR BANK WILL TAKE LEGAL ACTION AGAINST THEM, BEING FULLY AWARE THAT SUCH ACTION MIGHT HARM THE REPUTATION OF RBFT IN THE INTERNATIONAL MARKET.

WILLING TO EXHAUST ALL POSSIBLITIES WHICH MIGHT INFLUENCE RBFT IN THEIR ATTITUDE TOWARDS THIS CASE, WE THINK IT FAIR TO INFORM IMF, OF WHICH ROMANIA IS A MEMBER PARTY, IN ADVANCE ABOUT THE DECICION WE HAVE TAKEN IN THIS RESPECT.

YOURS SINCERELY,

SWISS BANK CORPORATION

DR. F. GALLIKER
GENERAL MANAGER

H. SCHOB
VICE PRESIDENT

INTERFUND WSH

The Managing Director December 11, 1981

Ekhard Brehmer

Romania

Attached is a list with the names of the banks who will participate in the meeting on payments arrears with the Romanian authorities. The meeting is now scheduled for January 12-13. I have informed Mr. Polak about the meeting.

Attachment

cc: Deputy Managing Director
Mr. Carter

cc: I.O.
EED

112393 MIFIN R
NO.789/11/12/1981

RECEIVED
I.M.F.

I M F UR WASHINGTON D.C.
MR. J. POLAK - EXECUTIVE DIRECTOR 11 AM 9:31
- CONFIDENTZIAL -

CABLE
ROOM

479877

I WANT TO INFORM YOU THAT WE INTEND TO ORGANIZE A SEMINAR IN BUCHAREST ON JANUARY 12-13, 1982WITH THE PARTICIPATION OF SEVERAL BANKS FROM USA, UNITED KINGDOM, FRANCE, SWITZERLAND, F.R.OF GERMANY AND AUSTRIA, FOLLOWED BY BILATERAL NEGOCIATIONS, AIMED TO THE FURTHER DEVELOPMENT OF THE COOPERATION WITH THESE BANKS. THE WOULD ACTION WILL HAVE A CONFIDENTZIAL CHARACTER WITHOUT ANY PUBLICITY.

FOR THE ABOVE MENTIONED SEMINAR WE HAVE PREPARED, WITH THE ASSISTANCE OF THE IMF MISSION, LEAD BY MR. TYLER,WHO HAD BEEN IN BUCHAREST FROM NOVEMBER 26 TO DECEMBER 9, 1981 A PAPER COMPRISING BRIEFLY THE FOLLOWING :

- OUR TRADE ABD PAYMENTS BALANCE IN 1981, AS WELL AS THE FORECASTS FOR 1982 INDICATE IMPROVEMENTS COMPARED WITH THE FIGURES WHICH WERE ON THE BASIS OF THE APPROVAL BY IMF OF THE PRESENT STANDY-BY ARRANGEMENT,

MR. GEOFFREY TYLER

INTERCONTINENTAL VICTORIA HOTEL

WARSAW

POLAND

(XX) TELEX

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DISTRIBUTION

TEXT

NO MEETING NEXT WEEK.

BREHMER

INTERFUND

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SPECIAL INSTRUCTIONS

TEXT MUST END HERE

DRAFTED BY EBREHMER EXT 74984 DEPARTMENT: EUR DATE: 12/11/81

NAME (TYPE) E. BREHMER NAME (TYPE) (**)

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TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SIGNATURE ____ SIGNATURE ____

1. Use OCR-B210 Sphere and set typewriter for DOUBLE SPACING—No other markings acceptable.
2. Align First Character at Line Number 23.
3. Use 10 Pitch Type (Pica).
4. Only type in indicated white areas.

1.	Bank of America	United States
2.	Manufacturers Hanover Trust	United States
3.	Barclays Bank	United Kingdom
4.	Lloyds Bank	United Kingdom
5.	Société Générale	France
6.	Crédit Lyonnais	France
7.	Union Bank	Switzerland
8.	Deutsche Bank	Germany
9.	Creditanstalt Bankverein	Austria

Office Memorandum

TO : The Managing Director

DATE: December 14, 1981

FROM : Ekhard Brehmer E.Br 12/14

SUBJECT : Romania

Further to my memorandum to you of December 11 the list of names of the banks which will participate in the meeting on payments arrears with the Romanian authorities has been changed slightly. Instead of Crédit Lyonnais it should read Banque Nationale de Paris.

cc: Deputy Managing Director
Mr. Carter

VIII LAW

Office Memorandum SECRET

2

December 9, 1981

MEMORANDUM FOR FILES

Subject: Romania

Today Mr. Paljarvi and I visited Mr. Polak to inform him about the fact that the Romanian authorities have agreed to invite nine foreign commercial banks to a meeting on how to deal with Romanian payments arrears. We also informed him about the possible dates of the meetings (December 16-17 or January 12-13) and that the Fund staff are helping the Romanian authorities to prepare the necessary documentation.

Mr. Polak told us that he plans to visit Romania in early January 1982. He would be grateful to receive the names of the banks involved, to see the debriefing paper of the mission, and if possible, the preparatory documents, when they are ready.

Mr. Polak has been made aware of the confidentiality of this matter.

Ekhard Brehmer EBr 12/9

Office Memorandum

SECRET

DECLASSIFIED

By Mr. Franks Date 9/24/10

December 8, 1981

To: The Managing Director
The Deputy Managing Director

From: G. Tyler

Subject: Romania - Stand-By Arrangement--Treatment of Arrears

The arrears problem

Payments arrears developed in the second half of 1981, principally because of withdrawals of short-term credit facilities for and short-term foreign deposits from the Romanian Bank for Foreign Trade. A mission was in Bucharest in October 1981 to discuss the situation and to try to explore the ways in which a program might be formulated to eliminate the arrears, which at present constitute a payments restriction and hence prevent further purchases under the stand-by arrangement.

A mission consisting of Mr. Paljarvi (ETR), Ms. Salop (EUR), Miss Pike (Secretary, EUR), and myself was in Bucharest from November 26 to December 8, 1981 to continue the discussions. In particular, an endeavor was to be made to persuade the authorities to institute as quickly as possible an informal meeting with a small number of representative banks from the main creditor countries. During the October discussions, the Minister of Finance had apparently been convinced that such discussions were desirable, but President Ceauşescu decided that only bilateral talks should be undertaken. The staff did not believe that bilateral talks would be effective, a view that was basically shared by the bankers with whom Messrs. Whittome and Tyler met in New York, Frankfurt, Paris, London, and Zurich.

Initially, I had long but inconclusive discussions with the Minister and Deputy Minister of Finance regarding a large loan which they believed was obtainable from a Middle East source. Subsequently, this possibility seems to have disappeared. The remainder of the mission's work was related to obtaining the information needed to draft a paper, with accompanying tables, that could be given by Romania to commercial banks to form the basis of discussions aimed at finding a solution to the arrears problem. Such a document was drafted and agreed with the Ministry of Finance. At the same time, we emphasized the staff view that purely bilateral approaches to the banks would probably not lead to a solution.

The mission discussed with the authorities the amounts of financing required and the possible sources of funds that would be necessary to eliminate the arrears within two years. The arrears will probably total about $1.6 billion at the end of 1981. Of the total arrears of $1,472 million outstanding at the end of November 1981, $642 million was to banks and $830 million related to unpaid letters of credit and collections documents. The attached tables show the financing requirements in convertible currencies in 1982-83--on the assumption that the arrears are repaid in amounts of $800 million in both 1982 and 1983--and possible financing resources. We believe the assumptions about the availability of medium- and long-term credits are reasonable as are the underlying current account projections. In gross terms, the amount of additional financing required from banks and other providers of short-term funds totals $2,050 million during the next two years, but in net terms it is only $450 million. There is the difficulty under the assumption of eliminating arrears evenly over 1982-83 that the gross amount of bank loans in 1982 is high and that in 1983 much lower; no doubt various possibilities exist for evening out the requirements over the two years. However, there is the more serious difficulty that, on the kind of negotiating scenario envisaged by Romania, a moderate number of large banks would provide the necessary gross financing and part of this would be used to repay a number of smaller banks and other creditors. However, even for these large banks, which have a continuing exposure in Romania, the need to avoid a deep financial crisis and the possibility of resumed Fund assistance to Romania should provide incentives to work toward an agreement to solve the arrears problem.

Until the morning of the mission's departure, no decision could be obtained approving an informal "seminar" with a small group of representative banks. However, in a long session with the Minister of Finance on that morning, he said that authority had been given and that they would be inviting nine banks (two from each of the United States, the United Kingdom, and France, and one each from Germany, Switzerland, and Austria). The invitations will be issued by the President of the Romanian Bank for Foreign Trade but with the full authority of the Government. The Minister of Finance will take part in the discussions. I made it clear that, while we could participate as an observer, we would in no sense be representing Romania, merely serving both sets of principals. The date of the meeting will depend on what the commercial banks find convenient. The Romanian authorities will suggest either December 16-17, 1981 or January 12-13, 1982, and will inform the European Department of the agreed date by Friday, December 11, 1981. Probably it will be in January. It should be stressed that the Romanian authorities place great emphasis on the need to maintain secrecy about the seminar at this stage.

The Minister of Finance is completely aware that no purchase can be made under the stand-by arrangement until a program regarding the arrears, acceptable to you, is negotiated with the banks. We have agreed to return in the second half of January 1982 to have Article IV consultation discussions. At that time, we shall also negotiate the 1982 program for the stand-by arrangement but have made it clear that a successful outcome of these discussions can mean nothing until the arrears situation is settled satisfactorily.

Summary of economic developments in 1981 and 1982

Under the stand-by program, the current account deficit in convertible currencies in 1981 was to be $1.8 billion. It is now expected to be $0.9 billion (about 1.5 per cent of GDP). Convertible exports are forecast to rise by 11.5 per cent and convertible imports to decline by 11.0 per cent. The forecast current account deficit in nonconvertible currencies, at $0.1 billion, is only slightly higher than originally planned. The improvement in the current account in convertible currencies is due to a sharp decline in the growth of real consumption to an estimated 2.4 per cent, and an absolute decline of 2.5 per cent in real fixed investment. The original plan had consumption rising by 3.7 per cent and fixed investment by 4.4 per cent. For 1982, the current account deficit in convertible currencies is forecast to be $450 million (about 0.6 per cent of GDP), with exports increasing by 14.5 per cent and imports by 7.6 per cent. Real consumption is to rise by 2.9 per cent and real fixed investment by 5.0 per cent.

The slow growth in convertible imports in 1981 and 1982 is explainable in part by increased extraction of natural gas to substitute for imported oil and in part by a relative shift to imports from the nonconvertible area. The latter increased by 16.2 per cent in 1981 and are expected to rise by 16.7 per cent in 1982. In addition, the depressed level of investment permitted a small decrease in imports of equipment in 1981 and will allow such imports to decline by 12 per cent in 1982. The mission views the domestic and external forecasts as compatible. The Romanian officials assured us that the external figures are what they consider achievable and that they are considerably below the formal plan figures.

We had very preliminary discussions about the 1982 program in the fields of exchange rate and price reforms. The Romanians said that they will be able to perform as they promised. In particular, the number of exchange rates will be reduced and retail prices, which in fact have already been increased by 3 per cent this year, will rise by a further 5 per cent in 1982.

Conclusions

I believe the decision to hold a meeting with a small number of banks is an important step although in itself it can be nothing but a beginning. However, one may hope that the outcome will be a greater awareness of the improving economic situation in Romania and an understanding that the authorities wish to cooperate with the banks in searching for a solution to the arrears problem. There is, of course, a very real danger that the outcome of the seminar and subsequent negotiations between Romania and the banks will fall seriously short of what the former wants. In such circumstances, the Fund staff could lose credibility in Romania. However, I believe that it is essential to find out what the banks will in fact do. Without that knowledge Romania cannot sensibly design its economic policies.

cc: Mr. Whittome (o/r)
Mr. Finch
Mr. Carter

Table 1. Romania: Gross Financing Requirements in Convertible Currencies, 1982-83

(In millions of U.S. dollars)

	1982	1983
Current account deficit	450	-100
Gross repayment of medium- and long-term debt	2,120	1,730
Gross repayment of short-term credits, excluding arrears	440	--
Increase in gross convertible reserves	75	75
Net financing of credit extended by Romania	150	150
Repayment of arrears	800	800
Total	4,035	2,655

Source: Data provided by Romanian authorities and staff estimates.

Table 2. Romania: Sources for Convertible Currency Financing, 1982-83

(In millions of U.S. dollars)

	1982	1983
World Bank loans	300	300
IMF purchases (gross)	475	415
Medium- and long-term import-related credits	1,600	1,500
Other	1,660	440
Total	4,035	2,655

Sources: Data provided by Romanian authorities and staff estimates.

Office Memorandum SECRET

December 8, 1981

MEMORANDUM FOR FILES

Subject: Romania--Meeting with Commercial Banks on Payments Arrears

Mr. Tyler informed us this afternoon that the Romanian authorities have agreed to have a meeting with possibly nine commercial banks on the question of payments arrears. He will call management to ask whether it is proper for the Fund to take part in this meeting. The dates suggested by the Romanians are either December 16-17, 1981 or January 12-13, 1982. Mr. Tyler felt that the last date will be the more likely given the fact that some preparation for the meeting would be needed. The dates depend of course on what the other side wants to arrange. Mr. Tyler also said that the 48-hour report will be brought back on Friday, December 11. After talking with the management he wants to tell the Romanians that there is full official approval for Fund participation in the meeting with the commercial banks.

Mr. Tyler has asked the Romanian authorities to send a cable to me by Friday, December 11 to inform us about the exact date of the meeting. In that case he needs to be informed via the Polish Embassy in a coded message. Mr. Tyler stressed that the scheduling of the meeting between the Romanian authorities and the commercial banks is top secret.

Mr. Tyler asked me to inform Mr. Paljarvi about the fact that the meeting has been agreed upon with the Romanian authorities in principle. Mr. Paljarvi should prepare all the necessary tables for the meeting in typed form. If the meeting takes place on December 16-17 Ms Salop will come back to the office on Friday and could assist him in his task. If the meeting takes place in January Ms. Salop will only return on Monday and there would obviously be less pressure for preparing the tables. Ms. Salop's address in Paris is Hotel Pas de Calais, 59 rue St. Teres, Paris, Phone: 544-5000.

Ekhard Brehmer E.B. 12/8/81

Office Memorandum

December 7, 1981

MEMORANDUM FOR FILES

Subject: Romania - Discussion on Payments Arrears

Today Mr. Tyler called from Bucharest. He recalled that the main purpose of the discussion was to get a solution to the problem of the payments arrears. He said that so far no decision had been taken as to whether the Romanians would do what had been proposed by the mission. The proposal was to arrange a small meeting between the Romanian authorities and 5 to 6 commercial banks. Mr. Tyler said that he has drafted a document setting out the pertinent facts for that meeting. He said that the subject was too complicated to discuss over the phone.

One member of his mission, namely Mr. Paljarvi (ETR) will return on Wednesday to give a full brief on what happened during the mission. Mr. Tyler's Back-to-Office Report would be in our hands on Friday when Miss Pike, the secretary on the mission, returns to headquarters. Mr. Tyler also said that he would ring me from Zurich if anything of interest had happened meanwhile. He suggested that Mr. Paljarvi and myself should visit Mr. Polak to brief him on the results of the mission to Romania. Miss Salop will return to headquarters on December 14.

Ekhard Brehmer 12/7

cc: Front Office
Eastern European Division

ROMANIA

RECEIVED
I.M.F.

1981 DEC -4 AM 8:18

CABLE
ROOM

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RCA DEC 04 0812
248331 IMF UR
11541C INTER R

TLX NO. 041512/C

FOR WITTOME

CURRENTLY BOOKED TO ARRIVE ZURICH 1940 ON OS 205 TUESDAY, DECEMBER 8. GRATEFUL IF YOU COULD ARRANGE FOR HOTEL ZURICH, PRESUME REMAINDER MISSION THERE AND THAT THEY HAVE MY AIR TICKET NO CHANGE IN SITUATION HERE. DECISION STILL NOT MADE ON WHETHER MEETING OF TYPE WE ENVISAGED WILL BE POSSIBLE OR NOT AND MAY NOT BE MADE UNTIL MONDAY. WE ARE CONTINUING WITH PREPARATION AND DISCUSSIONS OF POSSIBLE DOCUMENTATION BUT HAVE SAID WE SHALL ALL BE LEAVING DECEMBER 8.

REGARDS

TYLER

248331 IMF UR
11541C INTER R

Mr. Tyler (o/r) December 4, 1981

L.A. Whittome

Romania

Larry Brainard who has the reputation of being about the most knowledgeable of the bank economists working on Eastern Europe has passed me a message via Erb to the effect that in his opinion a better analytical approach to Romania would be to concentrate on changes in the nominal income (?) (perhaps liquidity?) of the economy for which monthly data are said to be available. It was apparent from the message that he himself had some serious doubts about the validity of our present approach which essentially relies on the projections of the Romanian planners.

Can we think around this please.

cc: Ms. Salop (o/r)

Office Memorandum

December 3, 1981

MEMORANDUM FOR FILES

Subject: Romania

The general question as to whether programs which are failing should be renegotiated or cancelled will come up in a fashion with regard to Romania. If an agreement on arrears which is satisfactory to us does not for example come into being until, say, July 1982 then there would be a case for then releasing to the Romanians the SDR 76 million that became available last month plus the amounts which would have become due, given normal phasing, in the first half of 1982. This could in total come to a significant sum.

We should not automatically accept this but should consider very carefully the merits of the case. It may be that the stand-by should be cancelled and reinstated providing for an even phasing of the balance over the remainder of the period of the stand-by.

L.A. Whittome

cc: IO
Mr. Tyler

Office Memorandum

December 2, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Tyler phoned this morning to say that he and his colleagues have now provided a draft economic text to the Romanians which could form the basis of a Romanian document if there were to be discussions with the banks. They had also provided a number of tables. He said that there was still no firm decision as to how they would proceed though some officials seemed to believe that a multilateral meeting might not be refused. Tyler added that the latest estimate for the arrears at the end of this year had now fallen to between \$1.3 million and \$1.6 million. The reduction as against the earlier estimate of nearly \$2 billion was the result of a sharper than foreseen improvement in the current account with the convertible area. It appears that the deficit under this heading in 1981 will now be somewhat under \$1 million.

A separate point raised is that even if the \$1 billion in new money proves finally to be available it will in itself be inadequate to clear off the arrears that have been accumulated.

L.A. Whittome

cc: EED

Office Memorandum

cc: Poland
Romania
Yugoslavia
Hungary

December 1, 1981

MEMORANDUM FOR FILES

Subject: Eastern Europe

1. I spoke to Mr. Kjelleren of Manufacturers on Poland, Romania, and Hungary. On Poland he warned that the people we would be talking to would in many cases be more interested in their future career than in giving us the whole economic picture. In his experience it was not so much that they would tell untruths but that they were well able to give less than the whole truth. He said that this was a game they had played for years with great skill and they played it between themselves as much as with outsiders. He said that on his last visit to Poland he had been asked by the Prime Minister what was the full picture as the Prime Minister thought that he was not being fully briefed by his subordinates.

2. As regards Romania, he added to the many stories of Romanian ineptness of which we are already aware and he said that Marine Midland held a deposit of $100 million for Romania in London which was not being used. He said that an initiative by Manufacturers to offer to clear a long "daisy chain" of transactions in New York had not been taken up by the Romanians. He also said that an $80 million syndication of which Manufacturers are the leader is being left on ice at the present. He added that the New York banks feelings were hardening as regards Romania. Chase had written off their business with Romania and other banks are taking an increasingly harsh line.

3. On Yugoslavia he said that he found the estimate of current account deficit with the convertible area of $1.6 million to $1.7 million this year as overoptimistic and the forecast of an overall deficit of $500 million next year as being extremely optimistic. He said, as many others have done, that Governor Bogoev's departure was most regrettable and he added that signs of lack of discipline in the Yugoslav commercial banking community were growing. There was "double queueing" in the market and no attempt to space offers. The syndication in New York might bring in some $250 million to $300 million as things now stood. He added on a personal note that the behavior of Mr. Kostic had not led to the banks having great confidence in him.

/LAW/

L.A. Whittome

cc: EED

cc: ETR

RECEIVED
I.M.F.

1981 NOV 30 AM 9: 14

CABLE
ROOM

478478

ORIG: EURO
CC: ETR

248331A IMF UR
RCA NOV 30 0907
248331A IMF UR
11541D INTER R
TLX NO. 301605/C

SALOP, PALJARVI, AND PIKE ARRIVED BUCHAREST
PIKE

CALLED : Mrs. Paljarvi

248331A IMF UR
A

etR

Office Memorandum

November 30, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Tyler telephoned this morning to say it seems that the offer of $1 billion is firm. The offer has been made by the Saudi authorities and is for a loan of $1 billion for ten years.

However, it is now clear that the suggestion that there might be an informal meeting with a group of commercial banks at the end of this week was made without having the backing of the President. It seems unlikely that this meeting will take place around the time originally specified. It is also uncertain whether it can take place even at a later date. I am informing the banks concerned.

/LAW/

L.A. Whittome

cc: EED

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

ROMANIA

MARK XX FOR SERVICE
(XX) TELEX
( ) FULL RATE
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DISTRIBUTION

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ADDRESS

MR. JANJORI
UNION BANK OF SWITZERLAND
BANNHOFSTRASSE 45
ZURICH, SWITZERLAND

TEXT

I REGRET THAT THE PROJECTED INFORMAL MEETING IN BUCHAREST ABOUT WHICH I TALKED TO YOU ON FRØDAY HAS NOT RECEIVED THE APPROVAL OF THE HIGHEST AUTHORITY. THE POSITION IS THEREFORE AS IT WAS BEFORE AND TO MY REGRET I AM NOT IN A POSITION TO HOLD OUT THE HOPE OF ANY GENERAL MEETING IN THE VERY NEAR FUTURE.

BEST REGARDS
WHITTOME
INTERFUND

TEXT MUST END HERE

SPECIAL INSTRUCTIONS
TELEX NO. 58183

DRAFTED BY: LAWHITTOME EXT. 73074 DEPARTMENT: EUR DATE: 11/30/81

NAME (TYPE): L.A. WHITTOME NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words 2 min Log 641510 Route RCA Operator JJ

SIGNATURE: SIGNATURE:

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

MARK XX FOR SERVICE

(XX) TELEX

( ) FULL RATE

( ) CODE

DISTRIBUTION

ADDRESS

MR. WHITTLE
LLOYDS BANK INTERNATIONAL LTD
40-66 QUEEN VICTORIA STREET
LONDON, ENGLAND

TEXT

I REGRET THAT THE INFORMAL MEETINGS FOR A SMALL GROUP OF BANKS IN BUCHAREST ABOUT WHICH I TALKED TO YOU ON FRIDAY HAS NOT RECEIVED THE APPROVAL OF THE HIGHEST AUTHORITY IN ROMANIA. THE IDEA THEREFORE IS IN ABFYANCE.

BEST REGARDS

WHITTOME

INTERFUND

DO NOT TYPE HERE

TEXT MUST END HERE

SPECIAL INSTRUCTIONS

TELEX NO. 888421

DRAFTED BY: LAWHITTOME EXT. 73074 DEPARTMENT: EUR DATE: 11/30/81

NAME (TYPE): L.A. Whittome NAME (TYPE): (**)

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No. of words 2 min Log 641508 Route RCA Operator JJ

SIGNATURE: [signature] SIGNATURE:

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

ADDRESS

MR. JEAN NAVILLE
DIRECTEUR AU SERVICE DES AFFAIRES INTERNATIONALES
CREDIT LYONNAIS, 19 BOULEVARD DES ITALIENS
PARIS 2E, FRANCE

81 NOV 27 PM 5:15

MARK XX FOR SERVICE
(XX) TELEX
( ) FULL RATE
( ) CODE

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TEXT

I TRIED TO TELEPHONE YOU TODAY BUT DID NOT SUCCEED.
GRATEFUL IF YOU COULD PHONE ME AS A MATTER OF SOME
URGENCY ON MONDAY, NOVEMBER 30. 9.30 A.M. WASHINGTON
TIME WOULD BE CONVENIENT FOR ME.
BEST REGARDS
WHITTOME
INTERFUND

SPECIAL INSTRUCTIONS

TEXT MUST END HERE

DRAFTED BY: LAWHITTOME EXT. 73074 DEPARTMENT: EUR DATE: 11.27/81

NAME (TYPE): L.A. Whittome NAME (TYPE): (√)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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No. of words 3 min. Log 641178 Route ITT Operator EB

SIGNATURE: [signature] SIGNATURE:

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

MARK XX FOR SERVICE
(XX) TELEX
( ) FULL RATE
( ) CODE

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ADDRESS

MR. CHRISTIAN VONTZ
EXECUTIVE VICE PRESIDENT
DEUTSCHE BANK AG
FRANKFURT AM MAIN
GERMANY

TEXT

I REGRET THAT THE PROJECTED INFORMAL MEETING IN BUCHAREST ABOUT WHICH I TALKED TO YOU ON FRIDAY HAS NOT RECEIVED THE APPROVAL OF THE HIGHEST AUTHORITY. THE POSITION IS THEREFORE AS IT WAS BEFORE AND TO MY REGRET I AM NOT IN A POSITION TO HOLD OUT THE HOPE OF ANY GENERAL MEETING IN THE VERY NEAR FUTURE.

BEST REGARDS
WHITTOME
INTERFUND

TEXT MUST END HERE

SPECIAL INSTRUCTIONS

TELEX NO. 414791

DRAFTED BY: LAWHITTOME EXT. 73074 DEPARTMENT: EUR DATE: 11/30/81

NAME (TYPE): L.AWHITTOME NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words 3 min Log 641509 Route RCA Operator JJ

SIGNATURE: SIGNATURE:

Office Memorandum

November 27, 1981

MEMORANDUM FOR FILES

Subject: Romania

This morning I have spoken, as requested by the Romanian authorities, to four of the five commercial banks which they intend to ask to a small informal meeting in Bucharest at the end of next week. The reactions were all positive although Morgans first reserved their position and then declined on the grounds that their exposure in Romania was very small and they did not wish to increase it. I telephoned Mr. Tyler and suggested that Manufactures be asked in place of Morgans. I have not yet been able to get through to the right person at Credit Lyonnais.

The General Manager of Lloyds Bank said that he had already been approached by the Romanians on a bilateral basis. Lloyds Bank together with Barclays Bank have been asked to roll over all the short-term debts maturing in 1981 so that this would be repaid as a "bullet" at the end of 1982. They have also been asked to roll over all the short-term debt maturities due in 1982 so that they would be repaid, again as a bullet, in December 1983. They are considering whether they can agree to such a proposal. He told me that they have also been assured that if this were done by all banks then the maturities of the medium and long term debt could be coped with. The Vice President of the Deutsche Bank strongly welcomed the initiative and would himself be prepared to go to Bucharest.

I should add that not surprisingly all the commercial banks were extremely sceptical as to whether the offer of $1 billion would prove to be firm when it was followed up.

L.A. Whittome

cc: EED

Office Memorandum

November 27, 1981

MEMORANDUM FOR FILES

Subject: Romania

I spoke today to Mr. Polak and brought him fully up to date with the latest developments. He is inclined to postpone his visit to Romania but will consider this matter further.

/ LAW

L.A. Whittome

cc: EED

NOV 27 1981

Office Memorandum

CONFIDENTIAL

Approved
MR
Nov 27.81

TO: The Managing Director

DATE: November 27, 1981

FROM: L.A. Whittome

SUBJECT: Romania

Mr. Tyler telephoned me from Bucharest this morning. He said that there was a new development in that a large Middle East lender had offered the Romanians \$1 billion for approximately two years provided that the Romanians could provide guarantees from commercial banks of repute in western countries. It appears that of this sum approximately half would need to be used immediately to satisfy the demands of a variety of small creditors who were pressing hard for repayment but the balance could be left on deposit presumably with the banks providing the guarantee at least for a period. I asked about the possibility of providing gold collateral but the answer was that though they might be prepared to do this to a limited extent they would not be prepared to allow the gold to leave Romania and this in my opinion would be unsatisfactory to any lender.

The Middle East lender, who is unspecified, has insisted upon an answer within 10 days. I am not at all clear whether this is not yet another in the succession of offerings of large amounts of Middle East money which has been a feature of life for many governments in the last few years. However, the Romanians believe that the offer is a serious one and are prepared to hold around the end of next week a small meeting with five banks, namely Lloyds, Morgan Guarantee, Deutsche Bank, Credit Lyonnaise, and the UBS. The Romanians have asked for our help in preparing this meeting and if you agree I would intend to send two staff members most concerned to Bucharest today to join Mr. Tyler and they together with a secretary will be able to prepare the necessary documentation. In my own view even if on closer inspection the offer of \$1 billion is found to be a good deal vaguer than now seems the case we should welcome the opportunity it provides of obtaining an early meeting between a group of large commercial banks and the Romanians and we should do all that we can to enable this to take place.

Yes

Yes

Tyler also mentions that the Romanians are "insisting" that the drawing which was due on November 15 be released to them before the end of this year. I have said I think that we would need to be very satisfied that an arrangement was well in hand before we could agree to this release and in making such a judgment we would be guided to a considerable extent by the results of the forthcoming meetings with the commercial banks. Even if indeed this meeting was fully successful the timetable given that we need Board approval would be extremely tight but in that case the Romanians could probably make arrangements for a temporary bridging loan from one of the banks.

cc: The Deputy Managing Director
Mr. Carter

Office Memorandum

November 27, 1981

MEMORANDUM FOR FILES

Subject: France and Romania

I spoke to Mr. Camdessus today on two questions:

(i) the timing of the French consultation. He said that he had recommended agreement to the January 12 date as agreed between us but that Mr. Haberer who will still be in the Treasury as of that date had vetoed the suggestion. In looking for another date I suggested as early as possible in February and we have provisionally agreed February 3. I said that this seemed appropriate unless there were a useful role we could play in the policy discussions that would take place during January. Camdessus considered the matter sympathetically but said that he thought that, as of now, the Minister's position was firmly established and that they would carry a cautious economic policy through the Cabinet. He said they were well aware of the trade-off between wages and prices and also wages and unemployment and he thought for the moment that the difficulties of analysis were not overwhelming. He concluded therefore that to start on February 3 would make sense but added that it might be convenient for us to be prepared to pay a short visit later in 1982 and that in any case the 1983 consultation should be set at a time during which the policy discussions were still taking place for by then the political pressures to ease policies would surely have become a lot more marked.

(ii) Camdessus said that the French Government had now also been approached by the Romanians to reschedule existing intergovernmental debt and also with a proposal for new credit. As we know the British were approached about a week earlier and I now hear the Germans have also been approached. All three governments are taking the position that they are only prepared to discuss these matters in a multilateral context.

L.A. Whittome

cc: WED
EED

file: EE
Romania
Yugoslavia
Hungary
Poland

NOV 27 1981

Office Memorandum

To: The Managing Director
The Deputy Managing Director

November 27, 1981

From: L.A. Whittome

Subject: Eastern Europe

Mr. Tyler and I met with the main U.S. banks at the Federal Reserve of New York on November 13. Last week we met first with the central banks and later the commercial banks in Frankfurt, Paris, and London; in addition I spent a day at both the Ministry of Finance in Bonn and the Treasury in London. On each occasion we made an initial presentation explaining why we had become perturbed at the threat posed to the western banking system by developments in Eastern Europe and then seeking by a careful summary on a country by country basis to calm the worst fears whilst taking pains not to gloss over the difficulties.

In each financial center the central banks had organized the meetings and except in Bonn they chaired these meetings. It seemed clear that being reluctant themselves to seem to risk advocating any particular course to their commercial banks they welcomed the fact that an outside institution was prepared to take an initiative in this field. The Americans and Germans told us that the issue had been discussed at the last BIS meeting in Basle at which it had been agreed that the Fund initiative was timely.

There were the expected differences of attitude as between the financial centers. In New York the relative small exposure of the U.S. banks, their realization that any special measure taken for Poland this year would have to be repeated in subsequent years and their fears of setting a weakening precedent in relation to countries where they are heavily exposed led them to adopt a conservative--though a less harsh attitude than I had expected. The reaction of the German banks was noticeably different. Their direct exposure to Poland (which is about twice the figure reported to the Bundesbank when lending through associated banks in Luxembourg is taken into account) is substantial. Moreover, their profits have recently been under pressure and the prospect of having to write-off or make special provision for interest or principal owed by Poland and perhaps later Romania is very unwelcome. It seems likely that the German banks will bring pressure on their authorities and a meeting has already been arranged in the Bundesbank for early December. The German banks were concerned but not unduly worried about Romania; they were uneasy at the growing difficulties of other Eastern European countries.

In Paris discussion centered primarily around Romania where the French banks appear to be relatively highly exposed partly because of the activities of the Franco-Romanian bank in which the three presently nationalized French banks are major shareholders. The reaction of the London bankers was somewhat more relaxed; it could be categorized as lying somewhere between that of the Americans on the one hand, and on the other the French, and the Germans.

As regards countries the situation in Romania seems to be more or less as we had assumed. Arrears now total some $2 billion but are spread amongst a large number of banks and bank customers and therefore represent a relatively minor problem for any individual bank or for most customers, the more so since debts (other than overdue deposits) have so far seldom been more than two to three months in arrears. Indeed one French and one British bank suggested that if the Romanian current account with the west improved as fast as was planned the best course might be to let the Romanians muddle through by borrowing whenever and wherever they could to repay their most pressing creditors. But most banks and all central banks thought this a dangerous course. A point which we emphasized was that if a Polish default occurred the pressure on Romania would increase and it seemed essential that the spread of unease be stopped there or else there would be a clear risk of a "domino" situation.

We also explained that we had favored a well-prepared but informal meeting of a small group of the largest banks with the Romanians. We also explained that this approach had not finally proved acceptable to the Romanians at the highest levels. Virtually all to whom we spoke considered it the best course and thought that the Romanians would have a reasonable case to present. In practice Romania has begun to contact banks on a bilateral basis. A team will meet this week with a London bank and through the Franco-Romanian bank they have made approaches to a few French banks. They have also requested a $1 billion medium-term loan from the U.K. Government plus an increase in the present limit of ECGD guarantees to Romania. The British Government will refuse both requests and will instead suggest a multilateral meeting to consider the rescheduling of Government debt. The French have provisionally agreed to chair this meeting. However, the total debt to Governments involved is probably less than $500 million so there will be little enthusiasm from the western countries to bring the somewhat cumbersome Paris Club machinery into play; in any case the Romanians surely will object vehemently to such a course.

It was also clear that we have underestimated the full extent of Romanian ineptness in their dealing with banks. There was also a widespread but unsubstantiated impression that at least a part of Romanian gold reserves may have already been earmarked as collateral. For the time being individual banks and central banks have agreed to press the course suggested above on the Romanians.

We talked also of Yugoslavia. There was some general unease about the situation and both Hermes and ECGD in particular are watching their exposure to Yugoslavia with care. We were also told that an earlier view that Yugoslavia would be able to raise some $300-$350 million of the $450 million they were seeking from a syndicated loan in New York now seemed over-optimistic and the likely range has been pared down by $50 to $100 million on each side. It is unfortunate that Governor Bogoev's tenure of office has expired for plainly he had built up a reputation of competence and trustworthiness in banking circles. A number of banks suggested that if the Romanian difficulties grew more marked attention would be very likely to swing to Yugoslavia. For the moment we had the impression that the Yugoslav position is being watched carefully but is not now a matter of major concern.

On Hungary the widespread consensus was that the economy was well and conservatively run. There was some anxiety as regards Czechoslovakia and East Germany but it did not seem serious at this stage.

All banks emphasized that their attitude to lending to Eastern Europe had changed sharply over the past year and that the USSR had been included in this reassessment. The German banks had not yet been able to place more than 75 per cent of the pipeline loan and had been forced to ask the Russians to help through their banks in Western Europe. It was felt that the full amount would be raised but margins might have to be raised, Several banks reported that Russian deposits had been run down and despite a weak gold price Russian sales of gold have been running at a higher than usual level.

The question of Poland was discussed not only with the banks but also during a two day meeting in Paris of the main creditors. As regards the interGovernmental meeting the only new point of significance was a hardening of the tone of the Polish delegation. In effect they said that a rescheduling of the debt falling due in 1982 would have little purpose unless it were accompanied by substantial new credits for a minimum of some $4.5 billion. The western creditors took strong issue with the tone of this statement. A later private meeting of the main countries showed that unless a new political initiative was launched there was little possibility of new credits of the size requested.

The Western Governments also made it plain that they were not prepared to sign a rescheduling agreement for 1982 until the Poles had completed their agreement with the banks; they added that they were in no way disposed to help the Poles find the estimated $500 million in arrears of interest due to the banks on the signing of the bank agreement. In talking to the banks we raised on each occasion the options open if the Poles were not able to settle the arrears of interest when the agreement is signed (the date for signature is yet again slipping and may now fall into 1982). Attitudes varied but we found a far greater willingness than we had expected to think of new loans to enable the Poles to settle at least in part the internal arrears. However, individual banks were coy about this possibility in private and extremely cautious in the general meetings.

It is clear that the non-payment of interest would cause the American and German banks difficulties vis-à-vis their supervisory authorities and the British and French banks some problems (perhaps more minor?) vis-à-vis their auditors.

We took the general line that a Polish default would be unwelcome in that it would surely intensify the difficulties of the other Eastern European countries. If nevertheless it occurred then it was very desirable that an arrangement should be made to deal with Romania's difficulties--to prevent the contagium spreading further.

During the Polish meeting Camdessus arranged at the request of the smaller countries that we gave a report on the lines on which we had spoken to the banks.

Mr. Tyler will meet this week with the National Bank of Switzerland and the three main Swiss banks. He will then visit Bucharest to press again for informal talks whilst the situation is still serious but amenable to discussion. If necessary I shall later pay a brief visit to Bucharest.

The initiative seemed welcomed. We were fortunate that the coincidence of a series of visits to Hungary, Poland, Romania, and Yugoslavia had allowed us to be much more up to date than national officials and given us privileged access to information in these countries so that we were very much more up to date than the commercial bankers. I fear that we may now have to offer to pay very brief visits to Amsterdam, Brussels, and Milan but I much hope that they will not be necessary.

cc: Mr. Finch
Mr. Carter

cc: Romania
Yugoslavia
Hungary
Poland

November 27, 1981

MEMORANDUM FOR THE FILES

Subject: Eastern Europe Debt Situation--Meeting at Bank of France, November 18, 1981

This meeting, which Messrs. Whittome and Tyler attended, was chaired by the Bank of France. Representatives of BFCE, BNP, Crédit Lyonnais, Société Générale and the Treasury were present.

1. Romania

The commercial bank representatives were in general more resigned to developments in this country than bankers in Germany and the U.S. The bankers themselves had not had much problem with their own credits although those given by their clients had caused at least temporary difficulties. The banks present had not decreased the credit facilities made available to Romania but, with one exception, they had not increased them. The banks did not see any parallel between Romania and Poland although they agreed that Polish events had affected lending to the Eastern Bloc. As with other lenders, there was a widespread complaint about the inefficiency of the RBFT.

Some present were concerned about the extent to which it would be possible to continue with strong domestic restraint over an extended period and whether basic structural adjustments were being made. They appeared to be encouraged by the staff description of the program.

2. Yugoslavia

The group was much more relaxed about Yugoslavia than Romania; although the problem of inflation worried most of those present, there was a concern about the level of short-term foreign debt. One bank saw the emergence recently of some problems with respect to the smaller banks with less rigorous practices and hoped that the federal authorities would exact more control from the center.

3. Hungary

There was little discussion about Hungary. Those present did not see a problem.

Continued/...

4. Poland

There was some discussion of the problem of the interest payments falling due in December 1981. In general, the meeting appeared to think that delays in interest payments would probably continue but that this might continue, in effect as an informal ad hoc rescheduling, without anyone precipitating a formal default. There was, however, the worry that some of the smaller banks might not act so responsibly.

Geoffrey Tyler

cc: Immed. Office

4

Office Memorandum

CONFIDENTIAL

cc: Hungary
Romania
Yugoslavia
Poland
Czech.

November 27, 1981

MEMORANDUM FOR FILES

Subject: Eastern Europe--Discussions with German Banks

Messrs. Whittome and Tyler had discussions with senior officials of Commerzbank, Dresdner, Deutsche, and Gemeinwirtschaft Banks to discuss the foreign debt situations of Hungary, Romania, and Yugoslavia. There was also discussion of the Polish debt problem. The following were the main points of interest.

1. Hungary

Generally the bankers were all fairly relaxed about Hungary. None admitted withdrawing any of their own credit facilities and they expressed some surprise that the Hungarians had in fact experienced a tighter foreign credit position. There was some surmise that it had perhaps mainly been brought about by caution on the part of smaller banks, which tended to react to rumors in an exaggerated way.

2. Romania

There was complete agreement that a problem existed. It was clear that all the banks had suffered from the Romanian's poor public relations. There was a general willingness to agree that the balance of payments improvement which was described to the banks offered basis for a de facto rescheduling of the arrears. The bankers generally believed that purely bilateral approaches to individual banks could not bring about a rapid solution and that a more multilateral approach, at least within the individual major creditor countries, was likely to be more effective. None of the banks said that they had reduced their lending limits and all said that they would be willing to participate in any joint meetings that Romania might set up. Finally, none of the banks had any knowledge of gold pledging by Romania.

3. Yugoslavia

The attitude toward Yugoslavia was generally more relaxed than toward Poland although it was clear that German banks as a whole were anxious not to increase their net exposure to Yugoslavia and that probably some banks were trying to reduce it. One bank said that the timing of Yugoslavia in regard to foreign borrowing in the last months of 1981 was not sensible and that early 1982 would be a much easier time for the banks to discuss new loans. There was some complaint of Yugoslav inefficiency (much more muted than in the case of Romania) in using agreed lines of credit with Hermes guarantees.

4. Poland

The interest of the banks could next be described as intense. Much of the discussion centered around the question of what would happen if Poland could not find the $500-$600 million in cash needed to settle outstanding interest payments before the agreement with the commercial banks is due to be signed on December 14, 1981. Compared with New York, there was perhaps a slightly greater willingness to consider giving new loans to pay the interest, although clearly all the banks hoped that a better solution could be found. With the BIS loan proposal no longer a starter, the only concrete suggestion was a proposal that IBEC raise the loan and lend it to Poland. The banks decided to agree that the solution of the Polish difficulties would probably be slower in arriving than the Polish forecasts suggested. However, the basic attitude was that the banks had little choice but to go along with any reasonable attempt at a solution since this was the only hope of avoiding an outright moratorium.

The German banks face a problem in that none of their profits positions are strong. If interest payments are to fall into arrears, the accountants would probably start to insist on making adjustments to balance sheets, thereby reducing profits. Deutsche Bank has in fact in 1980 wrote off some part of Polish loans and will probably do so again in 1981. The other banks, being in a weaker profit position, are much less anxious to do the same.

There was a general interest in the timetable for Polish membership and the role the Fund might play both as an advisor on policies and as a lender. The Dresdner Bank, which is a leading partner in the negotiations with Poland, provided statistical material provided to the working group and offered to cooperate in future work on Poland.

One suggestion for dealing with the general Polish problem with foreign debt was to find a leading figure (not U.S. or German) who could play a role as a moderator to obtain a mutually satisfactory solution--à la Abs in Turkey.

5. Czechoslovakia

All the banks expressed great surprise that this country had experienced a withdrawal of credit lines.

6. General

All the banks expressed the hope that contacts of the present would continue.

Geoffrey Tyler

cc: Immediate Office

Office Memorandum

/lh/

November 23, 1981

MEMORANDUM FOR FILES

Subject: Romania--Debt Position

I spoke by telephone this morning with Mr. Piek, of Rabo Bank in Utrecht (telephone 36 23 07). He said that his bank and Crédit Agricole of Paris were comanagers in two large cofinancing loans with the World Bank. The amounts of the loan were $200 million and $150 million and had gone to BAFI. To date there were no problems with payments but in view of the short-term debt problem, Rabo Bank was reaching the point where they might have to consider informing participants in the loan of possible problems.

Mr. Piek had the well-known story to tell of problems with short-term credits and said that banks were not extending deposits on maturity. Contracts with and banking practices of the RBFT were poor. He mentioned a meeting of foreign exchange debtors (FOREX?) in Paris on November 19, 1981 where there had been widespread complaints about the practices.

Mr. Piek said that in conjunction with Crédit Agricole he would try to contact the Romanians and arrange a visit to Bucharest to try to convince the Romanian authorities that they should arrive some kind of a meeting with the banks to discuss what could be done to solve the current debt problem.

Geoffrey Tyler

cc: Immediate Office ✓
Mr. Chaufournier

1.10

November 19, 1981

Mr. Iulian Bituleanu
Deputy Minister
Ministry of Finance
Strada Doamnei 8
Bucharest, Romania

Dear Mr. Bituleanu,

I enclose three copies of the draft report of the economic mission led by Mr. Maiss. Twenty additional copies are being sent by air freight.

I should emphasize that, in a number of areas, the report makes observations on the basis of rather little information simply because the mission did not have access to the kind of data which would have permitted a firmer basis for its conclusions. I understand that this situation partially reflected the fact that at the time of the mission the five year plan for 1981-85 had not been finalized. I very much hope that in those instances where you feel that the mission's observations do not fully reflect the situation as you see it, you will provide solid factual information which will enable us to re-assess the validity of the mission's preliminary findings.

I am sending copies of this letter, together with copies of the draft report, to Messrs. Popescu and Rusinaru.

We look forward to hearing when you would be ready to discuss the report with us in Bucharest.

Sincerely yours,

Attila Karaosmanoglu
Director
Country Programs Department One
Europe, Middle East and North Africa Region

Attachments

Mr. Whittome

Office Memorandum

file: Romania
Hungary

November 19, 1981

To: Mr. de Fontenay

From: A. Mountford AM

Subject: Exchange Rates in Quota Calculations

1. The precedent of Romania

When Romania applied in 1972, the question was raised within the staff and in talks with Romanian officials, of the appropriate exchange rate to use in converting national accounting and b.o.p. data from leu to dollars for the quota calculation. From the outset it was recognized that the official exchange rates of leu 5.53 per U.S. dollar and leu 6.67 per ruble could not be used: these rates were used largely for accounting purposes and as bases for calculating the exchange rates actually in effect. In daily practice a very large number of rates were applied for trade purposes as a result of the operation of a complex equalization system. At the same time a rate of lei 16 per dollar applied to noncommercial transactions. Staff calculations made at the time suggested that a rate somewhat in excess of lei 16 owuld be appropriate, as the rate that might theoretically be consistent with balance of payments equilibrium in the hypothetical case of a liberalized trade and payments system.

The Romanian delegation suggested in practice a rate of leu 20 per US$ for conversion of national income figures, and noted that this rate had already been used in several publications. This suggestion was accepted by the staff, and the rate of leu 20 was used in the membership paper; it was not, apparently, discussed in the committee meetings or in the Executive Board.

It is not clear from the record how trade data in rubles was converted to dollars. My impression is that the Romanian authorities simply provided this data on a dollar basis.

2. Hungary

Mr. Bako has argued in favor of using the commerical exchange rate for converting national income and b.o.p. data, but you have reserved our position on this. ONe possiblity would be to use a weighted average of the commercial and tourist rates. One theoretical drawback to both these two solutions is that neither would be an "equilibrium" rate: a question to be faced by the mission is whether we should adjust the official rate or rates, and if so, how.

A separate question is the issue of the \$/ruble rate to be used. Mr. Bako raised this issue specifically with respect to the conversion foreign exchange holdings for the purpose of calculating reserves. In practice this should presumably not constitute a problem, as holdings of rubles, zloty, etc. are presumably not regarded as "convertible reserves" in the context of the quota calculations. I believe that our definition of reserves includes holdings by the central bank or Treasury (or any similar public body) of currencies of all Fund members that have accepted the obligations of Article VIII Sections 2, 3, and 4, <u>plus</u> other currencies that are freely convertible (e.g. Swiss francs). Perhaps our colleagues from Treasurer's and Legal could confirm this.

The problem remains, however, of converting trade and other current account data, expressed in convertible rubles, into dollars. On this I can see no obviously correct solution at this stage.

cc: Mr. Whittome ✓
Mr. Tyler (o/r)
Mr. Bhyiyan
Mr. Holder
Mr. O'Connor
Mr. Thakur
Mrs. Gürgen
Mr. Belanger

Office Memorandum

November 18, 1981

MEMORANDUM FOR THE FILES

Subject: Romania

At the request of the Managing Director, I have informed the following that the Romania stand-by is inoperative:

Mr. Laske
Miss Le Lorier
Mr. Okubo
Mr. Polak
Mr. Schneider
Mr. John Williams

I shall try to call Mr. Casey on Thursday (no one has been in the Canadian office this week) and on Friday, Mr. Erb, who has so far failed to return a call I placed last Friday.

Brian Rose BR

I spoke with Mr. Casy and Mr. Erb today, November 23.

INTERNATIONAL MONETARY FUND

November 18, 1981

TO : Mr. Rose

FROM: J. Salop JS

Subject: Message for Mr. Tyler from Mr. Polak

Mr. Polak telephoned last evening to inquire about Geoffrey's travel plans. It seems that Mr. Polak would like to speak with him before he arrives in Bucharest. I have sent Mr. Polak a copy of Geoffrey's itinerary and told him that I would convey to you his desire to speak with Geoffrey. If you are in contact with Geoffrey, the message is that he should telephone Mr. Polak before leaving for Bucharest.

GT spoke to Polak 11/19 uB.

Polak in the office all day Thur & Fri - his sec. can pull him out of mtgs. if necessary to speak to GT 11/18

Mr Rose

Office Memorandum

CONFIDENTIAL

ROMANIA

November 18, 1981

MEMORANDUM FOR FILES

Subject: Meeting with Mr. Scholl of the Bundesbank, November 17, 1981

Mr. Rose and I met with Mr. Scholl for about 1 1/2 hours on the morning of November 17. The main topics covered were the economic situation in Romania; impressions stemming from Mr. Scholl's recent visit to the Soviet Union; the political situation in Germany; and the purpose of Mr. Scholl's visit to the United States, namely to discuss U.S. intervention policy and to present a speech on German intervention policy at Forex International in New York.

1. Romania

Mr. Scholl described a number of recent Romanian banking procedures that had caused alarm among Western bankers. First, perhaps, was their unwillingness to communicate with Western bankers, either by telex or by telephone, or to provide any information about the state of the economy and the reasons for the delays in payment, and even failures to identify what certain payments to the commercial banks were intended for. In one instance arrears with a commercial bank had been built up, and suddenly unidentified transfers of foreign exchange were made by the Romanian authorities; in the event this payment represented interest viewed as due by the Romanian authorities on a credit that had matured but had been unilaterally extended by the Romanians without notification. In other instances the authorities purchased dollars from commercial banks--receiving the dollars but not paying for them with the promised deutsche mark. The way in which the Romanian authorities were conducting their financial business was in short disastrous, but this had not always been the case. Financial practices seem to have deteriorated very sharply from the summer, and Mr. Scholl asked Mr. Rose to comment on the causes of this change in behavior.

Mr. Rose thought that commercial banks had perhaps become more reluctant to extend short-term credit to Romania on account of developments in Poland. He also noted that the Romanian balance of payments deficit for 1981 was now projected to be very much lower than had earlier been forecast and that, in this sense, the financing requirements had declined, which should add to bankers' confidence in the ability of the Romanian economy to adjust. He found the current situation somewhat paradoxical. He noted that Mr. Tyler had discussed with the Romanian authorities the need to re-establish contact with the commercial banks

** I remember Mr. Scholl saying that his main contact was Mr. Voronin, Head of the Foreign Department. BR

and to restore their credibility. However, the Romanian authorities were quite allergic to the thought of discussions with a group of banks collectively, and even to the mention of rescheduling. The Fund's position was extremely difficult. If no agreement were to be reached with the commercial banks, it would be pointless for the Fund to provide additional funds to Romania since they would be of little avail. However, if the Fund were not to provide additional funds in 1982, then it was almost assured that there would be no further extension of bank credit.

2. U.S.S.R.

Mr. Scholl explained that, in early October, he had been asked by Mr. Poehl to represent him at the 60th anniversay celebration of the State Bank of the U.S.S.R. How the guest list was drawn up for foreign central banks was a bit of a mystery. Most large foreign commercial banks were represented. Mr. Scholl was anxious to share with Mr. Rose his impressions about the political situation in the Soviet Union and also the economic outlook. According to Mr. Scholl, the Soviet citizens that he met tended to live in fear. They were extremely apprehensive about the development of nuclear arms in the United States and the possibility of a nuclear war. They seemed to be rather ignorant of Soviet military capabilities. Another fear ** of the now dominant White Russians was that the minorities in other states--both ethnic and religious--were increasing at a much more rapid rate than they were, and that in the not too distant future they would become a minority. Mr. Scholl noted that widespread changes in housing policy had been instituted, whereby better housing was made available to families with large numbers of children rather than according to job seniority. He also noted that condominium ownership had recently been introduced into the U.S.S.R. Housing loans were obtained from the municipality, with preference being given to families with large numbers of children. The condominiums represented private property that could be sold or even inherited.

Returning to the position of minority groups within the Soviet Union, Mr. Scholl said that considerable autonomy had been granted to a number of Soviet states. In Georgia Georgian was the language in which the schools were taught, with Russian being taught as the second language. Further, the Soviet Union was making efforts to assuage the Islamic minority, going even so far as to construct mosques in Moscow.

Mr. Scholl was extremely impressed with Mr. Alkhimov, the chairman of the USSR State Bank (Gosbank) for the next two years. Not only was Mr. Alkhimov extremely able, but he was also politically well situated. As the director of the State Bank, he participated in ministerial meetings, but was also in his personal capacity a member of the Central Committee and the Politburo. His political prospects were very promising. He was very forthright in his discussions about the Soviet gold sales policy and had even published an article explaining this policy in <u>Pravda</u>. According to Mr. Alkhimov, the Government undertook gold sales to finance net imports. Net imports might rise unexpectedly on account of a shortfall in exports, but particularly on account of poor harvests. It was not possible to cut down drastically on nonfood imports, since these tended to concentrate to a substantial extent on consumer goods. Particularly at this point in time it was important not to arouse dissatisfaction among the populace. (The current weakness in the gold market may be attributed to large sales by the U.S.S.R.) Mr. Scholl later also noted that a large share of Soviet foreign exchange holdings were maintained in deutsche mark and that recently the East/West Trade Bank had been selling off deutsche mark for dollars in the Frankfurt market for purposes of financing imports.

Mr.Scholl felt that it would be beneficial to all if better contact were established with the Soviet authorities. He had asked Mr. Alkimov about the possibility of his attending BIS meetings or even sending observers to the Annual Meetings of the IMF/IBRD. Mr. Alkimov seemed somewhat receptive to the idea of attending BIS meetings, although he raised the difficulty that the Soviet Union was not in exactly good standing with the BIS since BIS members had not accepted the argument that the Baltic states had voluntarily joined the Soviet Union in 1940. And there was still a question about the ultimate disposition of the gold reserves of these states. However, Mr. Scholl did not feel that the difficulties on account of the status of the Baltic states would in fact prevent the U.S.S.R. from sending observers to the BIS, were this thought desirable.

Mr. Alkimov was much more doubtful about attending Fund meetings or making an approach to the Fund. One major difficulty he raised was that of providing data. Mr. Scholl wondered, however, whether it might not be useful for the Fund to put out feelers to see whether increased cooperation between the Fund and the Soviet Union might not be possible. He was not at all sure that the Soviet reaction would be negative, since Mr. Alkimov seemed rather outward-looking. In view of the recent applications of Hungary and Poland for Fund membership, increased cooperation in a sense seemed almost inevitable. It was agreed that the membership applications of Hungary and Poland to the IMF must have had the approval of the Soviet Union, and were viewed by the Soviet Union as a way of reducing its financial burdens over the medium term. Mr. Scholl noted derogatory remarks made about the ability of Polish authorities to learn from either their own experiences or that of other Eastern European countries--especially Hungary--how to manage their economy.

~~He asked in particular whether he could not invite USSR nationals to the IMF institute.~~

Mr. Scholl particularly wondered whether it might not be possible to invite the Soviets to send participants to some of the IMF Institute courses or perhaps IMF Institute seminars for more senior officials, and asked Mr. Rose to mention this to Mr. Whittome. Mr. Rose said that he was unaware that there had ever been participants from nonmember countries, but this was not necessarily an insuperable problem.

3. Germany

Mr. Scholl described the political situation in Germany as being one in which the coalition had been in power for 12 years and had run out of both energy and ideas. In his view, the basic economic situation was not nearly as bad as depicted in the newspapers. The current political situation resembled that of 1965, when the coalition between the FDP and the CDU was coming apart, partly on account of budgetary squabbles. The FDP left the coalition and there was consequently the formation of the grand coalition between the CDU and the SPD. He did not go so far as to say that this coalition in fact would come apart or, even if it came apart, what new alliances might emerge. He did note the great concern in Germany among young people about the possibilities of a nuclear war. However, he thought that the demonstrations had been rather restrained, given the degree of concern that seemed to prevail.

4. Intervention policy

On Monday, Mr. Scholl had visited with Mr. Volker and Mr. Wallich and yesterday he was to visit with Mr.McNamar of the Treasury. Wednesday was to be spent with the New York FED. Topic for discussion would be U.S. intervention policy, or the lack thereof. In Mr. Scholl's view, the statement by the U.S. that it would not intervene, as well as a de facto lack of intervention, had had serious adverse consequences for the foreign exchange market. As noted by Mr. Lamfalussy, exchange rate volatility had increased noticeably since the withdrawal of the FED from the market. Mr. Scholl thought that markets were in fact quite thin, and to leave exchange rate determination to such markets produced unwarranted volatility. Some action by the FED of New York on its own account--even if no change in U.S. policy were announced--would be helpful in stabilizing market expectations and reducing volatility. strong public

In addition to the difficulties posed by volatility, there had been a change in the determination of forward exchange rates of a year or more: not only did these rates reflect expected exchange rate movements and interest rate differentials, but they also now included extremely large risk premiums that, by substantially increasing transaction costs, had a dampening effect on international trade. The rise in the risk premium was particularly undesirable at the present time, in view of the dimished prospects for growth and trade.

5. The meeting with Mr. Rose was followed by a luncheon given by Mr. Habermeier for Mr. Scholl. Others in attendance included Messrs. Laske, Winkelmann, Williams, Artus, and Taya (TRE).

Mr. Habermeier held forth at great length of the commitments of the Fund through fiscal 1982 of some SDR 12 billion; commitments over the medium term; and what these commitments implied for either Fund borrowing or an increase in Fund quotas. Although SDR 8 billion was already in hand from SAMA, some SDR 25 billion of finance resources would be needed in total over the next two years. He objected particularly to the argument presented by the Germans, Japanese and Americans in the Board on Monday that the Fund should not borrow from countries in debtor positions with the Fund. A long discussion ensued, with Mr. Laske vigorously defending the German position, and Mr. Scholl observing with some amazement.

Mr. Scholl very briefly commented on his experiences in the U.S.S.R., but there was no time for him tc talk about intervention policy.

D. Ripley

cc: Mr. Rose

Mr. Tyler

cc:

Office Memorandum

TO : Mr. Finch

DATE November 13, 1981

FROM : Bahram Nowzad

SUBJECT : Debt Position of Eastern European Countries

We have put together the attached data on the debt situation of Poland, Romania, and Yugoslavia. Some of the information on Poland is confidential; therefore, we are not circulating the attached beyond the division and those named in this note. As of now we have very little on Hungary.

There was not sufficient time to undertake any further analysis. The basic data by themselves, however, present an inescapable--and somewhat gloomy--picture. In the case of Poland, where all the debt is relatively short-term, there is no debt profile problem as such and, therefore, the rescheduling of one year's maturities (à la Paris Club) would do little to relieve the pressure. The real solution would lie in a conversion of the debt (principal and interest) falling due in the next five years into a much longer-term debt, something which the banks would probably be reluctant to do. It seems to be a classic case of overborrowing combined with bad investments. As regards Romania, again the short-term debt and arrears are the main problem and, ideally, would require a rolling-over or refinancing by banks. The overall debt situation is not as serious as that of Poland. With respect to Yugoslavia, no clear-cut debt problem has emerged, as opposed to a balance of payments problem; however, given the substantial short-term debt of Yugoslavia and the spill-over effects of the debt difficulties incurred by Poland and Romania, Yugoslavia may also be a candidate for a roll-over problem in the near future.

Attachments

cc: Mr. Tyler (2 copies)

Copy 3 of 8

CONFIDENTIAL

External Debt Situation of Eastern European Countries

The attached sets of tables present basic factual information on the external debt situation of Poland, Romania, and Yugoslavia.* Their purpose is to bring together available indicators relating to the dimensions and the structure of the external debt of these countries, as well as a comparison of the debt data with other relevant economic magnitudes. The material was brought together as part of the ongoing surveillance of debt matters in the External Finance Division. In doing this exercise, we were hampered both by the relative paucity of available information as well as, for analytical purposes, by conceptual difficulties relating to national income accounts, exchange rates, etc. As more complete data become available, debt information on Eastern European countries could be incorporated into any future debt studies that may be undertaken.

External Finance Division

November 13, 1981

Attachments

* Data on Hungary's external debt are at present not available in sufficient detail to allow a similar presentation.

Relative Debt Position of Poland, Romania, Yugoslavia, in 1979 1/

	Relative Position				
	High	Above Median	Median	Below Median	Low
Outstanding convertible external debt					
Poland	*				
Romania			*		
Yugoslavia		*			
Convertible debt service					
Poland	*				
Romania			*		
Yugoslavia			*		
Ratio of outstanding convertible external debt to convertible export earnings					
Poland	*				
Romania				*	
Yugoslavia		*			
Ratio of net outstanding convertible external debt to convertible export earnings					
Poland	*				
Romania				*	
Yugoslavia		*			
Convertible debt service to convertible export earnings					
Poland	*				
Romania			*		
Yugoslavia			*		

Sources: Data supplied by Polish, Romanian, and Yugoslav authorities; and staff estimates.

1/ Debt position in relation to that of 31 largest debtor countries as listed in Table 6 of *External Indebtedness of Developing Countries*, plus Poland and Romania. This information is limited to medium- and long-term debt, excluding Fund credit.

ROMANIA

Table 1. Romania: External Debt Outstanding

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

	1976	1977	1978	1979	1980	Est. 1981
Principal outstanding	2,876	3,684	5,170	7,342	9,710	11,531
Convertible	2,812	3,582	5,074	7,173	9,457	11,098
Medium- and long-term	2,422	3,016	3,838	5,085	7,005	8,514
Short-term	115	238	903	1,765	2,124	200
Arrears	--	--	--	--	--	1,800
Sub total	2,536	3,254	4,741	6,850	9,129	10,514
Fund credit	276	328	333	323	328	584
Nonconvertible	64	102	96	169	253	433

Sources: Data supplied by Romanian authorities; and staff estimates.

Table 2. Romania: Composition of Convertible External Debt

	1976	1977	1978	1979	1980
			(In millions of U.S. dollars; end of period)		
Total convertible debt	2,812	3,582	5,074	7,173	9,457
Banks	800	1,419	2,544	3,978	5,297
Other	2,012	2,163	2,530	3,195	4,160
			(In per cent)		
Total convertible debt	100.0	100.0	100.0	100.0	100.0
Banks	28.4	39.6	50.1	55.5	56.0
Other	71.6	60.4	49.9	44.5	44.0

Sources: Total debt - Romanian authorities; bank debt - BIS.

Table 2a. Romania: Composition of Medium- and Long-Term External Debt Outstanding as of December 31, 1980

	Convertible Debt	Nonconvertible Debt	Total Debt
Total	7,333	141	7,474
Trade credits	2,080	107	2,187
Suppliers' credits	(745)	(107)	(852)
Buyers' credits	(1,335)	(--)	(1,335)
Credits for cooperative ventures	725	--	725
Of which:			
Oltcit	(127)	(--)	(127)
Canada	(320)	(--)	(320)
Island Creek	(53)	(--)	(53)
Multilateral credits	980	(--)	980
Syndicated credits	(682)	(--)	(682)
Barclays Bank	[300]	[--]	[300]
Westminister Banks	[100]	[--]	[100]
Citibank - London	[204]	[--]	[204]
Abu-Dhabi	[78]	[--]	[78]
IBRD cofinancing	(298)	(--)	(298)
IBRD	820	(--)	820
IMF	328	(--)	328
Other financial credits	2,400	34	2,434

Sources: Data supplied by Romanian authorities; and staff estimates.

Table 3. Romania: External Debt Service 1/

(In millions of U.S. dollars)

	1976	1977	1978	1979	1980	Est. 1981
Total debt service	656	801	806	1,125	1,385	1,688
Repayment of principal and interest on convertible debt	636	800	795	1,109	1,348	1,646
Repayment of principal on convertible debt	(481)	(562)	(582)	(799)	(827)	(1,075)
Interest payments on convertible debt	(148)	(176)	(128)	(226)	(395)	(416)
Repurchases from the Fund	(--)	(50)	(69)	(65)	(106)	(115)
Fund charges	(7)	(13)	(16)	(19)	(20)	(40)
Repayment of principal and interest on nonconvertible debt	20	1	11	16	37	42

Sources: Data supplied by Romanian authorities; and staff estimates.

1/ Excludes short-term debt

Table 4. Romania: Outstanding External Debt and Net External Debt in Relation to Exports of Goods and Services

	1976	1977	1978	1979	1980	1981
Total debt	43.1	49.7	58.9	71.9	79.9	n.a.
Convertible debt 1/	74.8	87.8	110.7	119.7	128.5	125.1
Nonconvertible debt 2/	2.2	3.1	2.3	4.0	5.3	n.a.
Net convertible debt 1/	63.7	81.6	91.7	98.1	108.1	...
Memorandum items:						
Average debt to export ratio for 31 largest debtors	101.8	111.0	130.4	130.1	...	...
Average net debt to export ratio for 31 largest debtors	84.7	93.1	112.1	111.3	...	...

Sources: Data supplied by Romanian authorities; and staff estimates.

1/ Ratio to convertible earnings from exports of goods and services.
2/ Ratio to nonconvertible earnings from exports of goods and services.

Table 5. Romania: Convertible External Debt Service Ratios 1/

(In per cent)

	1976	1977	1978	1979	1980	Est. 1981
Total debt service	16.9	19.6	17.3	18.5	18.3	19.4
Principal	12.8	15.0	14.2	14.4	12.7	14.1
Of which: Fund repurchases	(--)	(1.2)	(1.5)	(1.1)	(1.4)	(1.4)
Interest	4.1	4.6	3.1	4.1	5.6	5.4
Of which: Fund charges	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.5)
Memorandum item:						
Convertible current account receipts (In US$ million)	3,760	4,080	4,584	5,992	7,362	8,472
Average debt service ratio for 31 largest debtors	15.3	17.3	21.4	24.2	...	...

Sources: Data supplied by the Romanian authorities; and staff estimates.

1/ Ratio to convertible current account receipts.

Table 6. Romania: Projected External Debt Service Payments on Convertible External Debt Outstanding

(In millions of U.S. dollars)

	1982	1983	1984	1985	After 1985
Medium- and long-term debt	1,837	1,754	1,194	913	2,279
Principal	(1,454)	(1,412)	(963)	(717)	(1,644)
Interest	(383)	(342)	(231)	(196)	(635)
Short-term debt	200	...	...	...	...
Principal	(...)	(...)	(...)	(...)	(...)
Interest	(...)	(...)	(...)	(...)	(...)
Arrears	1,800 1/	...	...	...	...

Sources: Data supplied by Romanian authorities; and staff estimates.

1/ No schedule for the payment of arrears has been devised.

Office Memorandum

cc Romania
Yugoslavia
Poland

November 13, 1981

MEMORANDUM FOR FILES

Subject: East Europe

Mr. Tyler and I were the guests of the Federal Reserve Bank of New York today for a working lunch devoted to the current financing problems of Eastern Europe, including Yugoslavia. Mr. Cross was in the chair and the following bankers were present:

Frederick Schwartz, Senior Vice President, Bankers Trust
Bruno Richter, Senior Vice President, Bank of America
William G. Foulke, Jr., Senior Vice President, Chase
Philip Goodwin, Vice President, Chemical
William Hawley, Vice President, Citibank
William Blake, Senior Vice President, Manufacturers Hanover
Werner Stange, Senior Vice President, Morgan Guaranty

We began by explaining the general position as we saw it and then spoke in more detail of the positions and prospects of Romania and Yugoslavia. Later we touched more briefly on Poland and Hungary.

As regards Romania the banks present had few transactions which were in arrears. They had on the other hand a wide variety of stories illustrating Romanian inefficiencies in financial matters. There was no belief that a bilateral approach to banks could produce an agreement. Instead there was a general feeling that some rescheduling of debts due to Governments would have to be arranged after which some settlement with the banks would also be arranged. This follows the precedent of Poland.

On Yugoslavia there was some anxiety lest the import control mechanism was excessively hurting export projects and also some anxiety about recent price performance. There did not appear to be at present any great worry about the ability to service foreign debt or any desire to reduce banks' exposure further.

On Poland the game of bluff continues with some of the banks taking the position that it was still not clear that the Poles could not find the $600 million by December 14 which was necessary to pay off arrears of interest payments. But clearly no-one seriously believed that this was a likely prospect, though some professed to believe that the USSR would not be prepared to allow Poland to default and would arrange an IBEC guarantee for Polish debt. The alternative was that the banks might themselves finance the interest payments due to them but not all were prepared to go down this road. Even if they did it was the general feeling that they would now have to begin to classify outstanding loans to Poland as doubtful debts and would have to make provision for the nonpayment of interest. If the banks were not to finance the interest payments due then Poland could next summer be clearly in default. This would not ease the application process.

On Eastern Europe generally we had the feeling that though banks were increasingly willing to look at countries individually the "market" was forcing them to look at the area as one bloc. This is tantamount to saying that despite their statements the banks themselves regarded the area as one bloc.

The Federal Reserve officials were cautious in their own comments but in their view the meeting would have fostered some feeling of reassurance as regards Romania and Yugoslavia. In both cases, but especially for Romania, the lack of knowledge about current developments and prospects is inhibiting bank lending. Our ability to report that policies are being adjusted and that some progress can be seen already may ease the banks' present negative stance but it is clear that the countries themselves need to pay greater attention to their bilateral relations with the banks.

L.G.

per L.A. Whittome

cc: EED

/ [initials] 30/11 DF will correct errors marked X. cc: YS
Romania
Poland
Hungary

RE: Meeting with IMF and N.Y. Fed concerning East Europe.

At the invitation of Sam Cross of the NY Fed, I attended a luncheon meeting there Friday, Nov 13 with Allan Whittome, IMF European Director, and Geoffrey Tyler who heads up the East European region under Whittome.

The meeting had been called upon Whittome's initiative, and included representatives of several money center banks active in East Europe (see attached list).

The main points were as follows:

Eastern Europe in general

- Whittome sees a disturbing trend of Western banks pulling out short term facilities from East Europe in the wake of the Polish crisis and having severe impacts upon other economies--notably Romania, Yugoslavia, Czechoslovakia--which would otherwise not be having difficulties managing their balance of payments.

Yugoslavia

- Whittome said Yugoslavia had met all its targets thus far, though they may have difficulty meeting them at year's end simply because the IMF did not adjust the monetary targets to reflect 1981's inflation; this will create some pressure on the Yugoslav authorities, and Whittome comments that he is prepared to be somewhat lenient if the targets are exceeded only marginally. The greatest disappointment has been the inflation, which Whittome partially attributes to individual enterprises showing too little self-restraint in raising prices earlier in the year. As to exchange rates, Whittome said, we shall see another 20% depreciation of the dinar before year's end. The current account target of \$1.8 billion deficit will easily be met, Whittome said, by shifting exports which have been going to the East during most of this year to the hard currency markets in the West. X

To my question on the impact of Yugoslavia's import compression measures, which our officers fear are being imposed with too little regard for their effect on production for export, Whittome said this is "not our sort of problem, as we do not usually travel around to see the various enterprises."

Romania:

o Whittome had proposed to the Romanians that the only way to deal with their current financial problems was to sit down with their Western creditors and discuss a restructuring. Whittome had offered to be of help in setting up that kind of meeting. While some Romanian officials were receptive, the proposal was eventually rejected in its entirety, reportedly at insistence of President Ceaucescu, who is adamant that there will be no rescheduling. Whittome says the Romanians have repudiated reports of their interest in having any of their debt rescheduled. On the other hand, Whittome reports that the Romanians have approached at least one major European government (he did not specify but our evidence indicates it is Germany) for a large amount of new money and have been refused, as Whittome predicts will be the case with all Western governments. Whittome says Romania will probably have built up significant arrears by the end of the year with both banks and official creditors. Finally, Whittome stated that, in addition to the data Romania provides for the IFS, they also provide a somewhat more comprehensive version for the Executive Directors and staff, and he added that he saw no reason why we could not request a copy through the U.S. Executive Director. (I have asked Dick Erb for a copy.) I told Whittome I felt countries in Romania's kind of debt difficulties should first turn to their official creditors for relief before expecting private banks to be in a position to provide further help.

Hungarian and Polish IMF applications:

o Due to time needed to process the various steps of these applications, Hungarian membership will commence only around March 1982 and Polish around September 1982.

10/7/81

Revised 11/12/81

Romania--Selected Economic Ratios

(In per cent)

	Prospective use of Fund resources as per cent of quota		Current account 1/ deficit to GDP 2/		Gross investment to GDP	Domestic saving ratio	Public sector surplus to GDP 3/	Net oil imports to total of nonoil imports plus net oil imports 4/		External debt to GDP 5/		External debt service to GDP 5/		External debt service to exports of goods and services	
			Total	Convertible currencies				Total	Convertible	Total	Convertible	Total	Convertible	Total	Convertible
1981	38.1	1978	2.3	2.4	40.9	39.3	0.3	6.0	12.1	16.0	15.7	2.5	2.4	9.8	19.5
1982	111.9	1979	3.4	3.5	40.0	38.5	0.3	3.5	6.4	15.2	14.8	2.3	2.3	11.0	18.5
1983	100.0	1980	4.3	4.3	38.1	36.8	0.2	18.0	31.6	17.3	16.8	2.5	2.4	11.4	18.3
1984	50.0	1981 6/	1.9	1.7	36.0	35.1	--	15.0	29.0	18.9	18.2	3.2	3.2	13.4	21.6
		1982 6/	1.3	0.8	35.8	37.2	--	12.6	22.0	19.0	18.2	3.8	3.7	14.6	23.1
		1983 6/	0.0	0.0	36.3	38.8	--	11.7	24.5	19.3	18.4	4.3	4.2	14.7	23.4

1/ Current account in dollars was transformed into lei via weighted averages of implicit exchange rates.
2/ GDP was derived by adding net foreign interest payments to GNP.
3/ In general, the public sector is in small surplus.
4/ Because of Romania's peculiar position as an importer of crude and an exporter of refined product, the ratio of its net oil imports to the total of its nonoil imports plus its net oil imports is provided in lieu of the ratio of oil imports to total imports. The 1979 outturn reflects the Iranian cutoff of crude oil supplies.
5/ Dollar figures for external debt and debt service were transformed into lei via weighted averages of implicit rates. There is no private external debt.
6/ Vis-a-vis the convertible area, the current account deficit is assumed to be US$1.0 in 1981; US$0.5 in 1982; and US$0.0 in 1983. In all currencies, it is assumed to be US$1.1 in 1981; US$0.7 in 1982; and US$0.2 in 1983.

Romania--Various Economic Indicators

1. Balance of Payments (Millions of U.S. dollars)

	1980	1981 Jan. 1-Sept. 30	1981 Estimate	1982 Forecast
(i) Trade account in convertible currencies	-1,534	-375	-100	500
(ii) Trade account in nonconvertible currencies	-127	-169	-200	-300
(iii) Current account in convertible currencies	-2,399	-1,039	-1200 ? ~~-982~~	-500
(iv) Current account in nonconvertible currencies	-21	-93	-132	-260

2. Gross financing requirement (Millions of U.S. dollars)

	1980	1981 Estimate	1982 Forecast
(i) In convertible currencies	5,077	4,565	4,293
Of which:			
Current account deficit	(2,399)	(1,000)	(500)
Short-term debt due	(1,867)	(2,124)	(200)
Long-term debt due	(811)	(1,205)	(1,718)
Arrears due	(0)	(0)	(1,800)
Required increase in reserves	(0)	(236) 1/	(75) 1/
(ii) In nonconvertible currencies	116	265	460
Of which:			
Current account deficit	(21)	(132)	(260)
Short-term debt due	(71)	(105)	(150)
Long-term debt due	(24)	(28)	(50)

1/ Assumes program targets for reserves are met.

Romania--Various Economic Indicators (continued)

3. Convertible foreign debt (Millions of U.S. dollars)

	end-1979	end-1980	end-1981 estimate
(i) Total amount outstanding	7,173	9,418	11,265
Of which:			
Short-term	(1,765)	(2,124)	(200)
Medium- and long-term 1/	(5,408)	(7,294)	(9,265)
Arrears	(0)	(0)	(1,800)

	1981 Estimate	1982 Forecast	1983 Forecast
(ii) Amount falling due	3,329	3,718	2,314
Of which:			
Short-term	(2,124)	(200)	(0)
Medium- and long-term	(1,205)	(1,718)	(2,314)
Arrears	(0)	(1,800)	(0)

4. International reserves (Millions of U.S. dollars)

	1979	1980	1981 2/ Estimate	1982 2/ Forecast
(i) Including gold valued at SDR 35 per fine ounce	688	489	725	800
(ii) Including gold valued at market price	1,609	2,579	2,204	2,279

5. Export growth (Annual percentage increases)

	1978	1979	1980	1981 Estimate	1982 Forecast
(i) Convertible	10.0	35.3	19.4	15.3	13.2
(ii) Nonconvertible	25.3	5.8	9.9	15.0	15.4

1/ Includes Fund credits. The November 15 purchase of SDR 76 million is excluded.
2/ Assumes that program targets for reserves are met.

Romania--Various Economic Indicators (continued)

6. Prices (Indices, 1979=100)

	1980	1981 Estimate	1982 Forecast
(i) Producer prices	102.0	114.5	119.0
(ii) Consumer prices	101.5	103.4	105.7

7. Money and Credit (Indices, 1979=100)

	1980	1981 Estimate	1982 Forecast
(i) Money plus quasi-money	118.7	139.4	148.4
(ii) Net domestic assets 1/	124.7	144.0	153.1

1/ The break in the time series associated with the exchange rate change of January 1, 1981 was handled by putting 1979 and 1980 data on the new valuation basis before constructing the index.

Mr Whittome

2

cc: Poland
Romania
Hungary
Bulgaria
GDR
Czech.

Office Memorandum

November 9, 1981

MEMORANDUM FOR FILES

Subject: Meeting with Dr. Fink of the Wiener Institut für Internationale Wirtschaftsvergleiche

I met with Dr. Fink for approximately 1 1/2 hours on the afternoon of November 5. We touched on the economic situations in most of the Eastern European countries.

1. General

He said that these countries could generally be classified into one of three groups according to per capita income and the general well-being of their population: among the best of all, by far, were the German Democratic Republic and Czechoslovakia. This was primarily on account of the high level of development (and education) attained in these regions before the second world war and not their recent achievements. Bohemia had always been a very wealthy and advanced section of the Austrian Empire. War losses and reparations (to 1962) were recouped relatively quickly in both countries.

The second group in the early 1970s was thought to include Poland, Hungary, and a bit lower on the scale, the U.S.S.R., while the third group comprised Bulgaria and Romania. There has now been some reordering in the second and third groups. The wealth per capita in Poland has fallen substantially in recent years though it still remains well above that of the U.S.S.R. (by perhaps as much as 30 per cent). Hungarian performance has been strong, moving it to the top of the second group, while either because of exceptional management or miscalcualtions in the first instance, Bulgaria has moved from a low welfare to a medium welfare country. Romania remains the least advanced country. Price flexibility, and particularly adjustment of relative prices and real income to the first and second oil shocks, are closely correlated in Dr. Fink's thinking with "good performance." He estimates that for the CMEA countries oil prices, on average are some 40 per cent below world market prices, though this varies significantly between countries.

2. Poland

Dr. Fink was extremely doubtful that there would be a resolution of the disruptions during the next six months: he thought that the probabilities were one in ten that some compromise could be reached between Solidarity and the government. He noted that Walesa could not control Solidarity members--some respected his appeals for a return to work while others ignored them--so that his bargaining position was limited. Solidarity had also no coherent economic plan for stabilizing the economy--partly because it did not wish to be or appear to be a "second party", threatening the ruling party which would almost certainly result in Soviet intervention. It was also abdicating responsibility by not proposing a plan. Only if Solidarity could bring some order to its rank and file, work out an economic program which was acceptable to its membership--including a reduction in what is perceived to be real income of perhaps 30 per cent--while at the same time not jeopardizing the position of the Party, would such a compromise/resolution be possible.

In the absence of an agreement, Dr. Fink thought things might muddle along much as they are at present, with a continuously declining living standard until such a time as the living standard fell to the Soviet level. (This would still require a decline of 25-30 per cent). At that point the popular support for Solidarity might well vanish since the populace would feel that the Party would at least maintain the Soviet living standard and there was little to lose by going along with the Government.

In his view the Soviets would not intervene as long as the one party system was not really in jeopardy. It had been roughly estimated that Soviet intervention could cost the Soviets \$25 billion--\$10 billion for the invasion and take over; \$10 billion for occupation; and \$5 billion for the need restructuring of the economy.

Dr. Fink noted that net material product had fallen by 2.3 per cent in 1979; 4 per cent in 1980; and 15 per cent this year. Much of this was a result of a fall in investment, and was not reflected in a fall in real personal disposable income. For the first half of 1981 consumer prices had risen by 15 per cent over a year earlier, but wages were up 26 per cent (largely on account of the large rise in the second half of 1980). For the year as a whole, no rise in real wages was expected, with both the CPI and wages increasing by 15 per cent. Of course there was a gross mismatch of supply and demand; long queues; and faltering production, not only on account of strikes but also a lack of spare parts. In the mid-1970s imports had grown rapidly largely on account of the investment boom. The first cutbacks on imports were felt in investment goods; secondly consumer goods were reduced drastically and finally intermediate goods (spare parts) which in 1980 constituted 60 per cent of imports and are vital for production and exports.

According to Dr. Fink, Bank Handlowy is particularly inept, even among Eastern banks, and the Polish investment strategy was ill-conceived: no adjustment in prices or production techniques had been brought about by the first and second oil price shocks, and it was not realized that domestic production could not supply raw materials of an adequate quality to serve as inputs to the imported investment goods; thus the import requirements of the economy--and prospective gains for net exports--were grossly under/over estimated. To get the economy on a sound basis there would have to be a major shift in relative prices.

3. Romania

Dr. Fink thought that the economic situation in Romania was not all that much better than in Poland: the political regime was much more repressive, so the mistmatches in supply and demand led more to queues than to strikes. However, the fundamental situation was similar. Imports were being restrained--reserves had always been inadequate and were especially low now--while efforts were being made to export all goods to foreign markets in which there was demand, to the detriment of domestic consumption. Problems in terms of queues had been apparent in Romania since 1977, and next to Poland, its debt position with the West was most tenuous. Its bankers were quite notorious for mismanagement and underpaying bills (with the result that prices for imports included a premium as a contingency for underpayment equivalent to the last installment). On the import side it had also run into exceptional difficulties : oil production fell (unexpectedly) over the last three years by 20 per cent (between 1977-80) with the result that it produces some 12 million tons and imports a similar amount. In 1979 it imported 500 million tons from the Soviets, and in 1980, some 1.5 million tons, the residual coming from OPEC. Because its imports from the U.S.S.R. are under short-term contract, they carry market prices and not the very favorable prices available for long-term contracts. Domestic oil prices in Romania, nonetheless, were still far too low to promote conservation and in general, the pricing structure was quite inappropriate. In Dr. Fink's view, the Romanians might well give up a good bit of their seeming liberation from the Soviet sphere for cheaper oil imports and additional aid.

4. Hungary

Dr. Fink commended the Hungarian economic performance and the financial management. The prices in Hungary were aligned with world prices--more or less--and they had adjusted to the various oil shocks: the need for a fall in real disposable income on account of the deterioration in the terms of trade had been sold to the populace, and had been brought about peacefully over the last years while other Eastern European countries were still trying to ignore the problem. In fact, if it had not been for the second oil price shock, the initiative to adjust domestic to world prices might have subsided completely. When asked how the Hungarian performance could have been so stellar, but Hungary remained within the second group of countries, Dr. Fink noted the relatively poor initial situation (output was largely agricultural). In his view good performance was reflected by a reasonable match of domestic supply and demand, as witnessed by a lack of queues. However absolute consumption levels were not so high.

Hungary specialized in exports of agricultural goods (fresh and--preferably--processed foods with a higher value added) and had many persons with excellent language skills, by contrast to other Eastern countries. The fact that Hungarian was so unintelligible encouraged the development of languages, and with them, Western contacts, while discouraging the Soviets from keeping as close tabs on political and economic discussions as they did in slavic language countries, notably Poland.

Hungary was not deeply involved in long-term contracts with the East-bloc countries. As a consequence its oil imports from the Soviet Union carried relatively higher prices, but it was freer to carry on trade at market prices for goods that could be sold for hard currency. Although it was claimed that 20 per cent of the Hungarian trade with Eastern countries was transacted in convertible currencies this was perhaps misleading. Clearing accounts were maintained, de facto, and "competitive exports" to an East-bloc partner gave rise to "convertible claims" which would within some period of time be offset by "competitive exports" to Hungary, e.g., exports that were also saleable on the world market, so that the amounts to be cleared were in fact nonexistent or very small.

According to Dr. Fink most things worth reading about Hungary are available in English or German. One book he mentioned of historical interest was by M. Timar, former head of the National Bank, entitled Reflections on the Economic Development of Hungary, 1967-1973 published in Hungary. Recent articles and books include:

> P.G. Hare, H.K. Radice, and N.Swain, Hungary: A Decade of Economic Reform, George Allen and Unwin, London, 1981. (I understand the library has this book on order).
>
> Andreas Wass von Czege, "ReformmaBmahmen 1980: Neuverteilung der Verantwortung und Risiken im ungarischen AuBenhandel", Osteuropa-Wirtschaft 4/1980. 1/

5. Bulgaria

Very little was known about Bulgaria except that its performance had been good; next to Hungary its external debt position was perhaps the best; its bankers were competent. The last book covering the economy was published in the early 1970s, but Dr. Fink had assigned a number of his students recently to write papers on the Bulgarian economy.

He thought that they kept a close eye on price developments, keeping them more in line with world market prices, while restraining wage developments. Exports consisted largely of agricultural products. All oil was imported, but through domestic conservation, consumption was held below imports agreed to under long-term contract with the result that the foreign balance of this small very closed (at least to the West) economy was substantially strengthened in 1980.

6. The German Democratic Republic was not thought to be in a good debt position.

7. Czechoslovakia was in a good debt position because they were extremely loath to borrow. Had they borrowed they would have quickly encountered servicing problems. Their rate of growth was very low.

8. Dr. Fink's paper on Western Debt of the CMEA countries

I asked for a final draft of the paper given by him to Mr. Ungerer. He said that there had been no changes in the draft. However, one might wish to adjust downward the Hungarian external debt figure for 1980 from \$8.4 billion to \$8 billion and adjust upward the Romanian figure from \$8 billion to \$9.4 billion.

D. Ripley DR

cc: Mr. Whittome; Mr.de Fontenay; Mr. Ungerer; Mr. Tyler

1/ Reform measures of 1980: New Distribution of Responsibilities and Risks in the External Trade of Hungary. I was given a xerox of this article.

Mr Whittom

Office Memorandum

cc: [illegible]
Romania
Hungary
Czech.
Bulgaria

November 9, 1981

MEMORANDUM FOR FILES

Subject: Discussions with Mr. Stanzel (Ministry of Finance) and Mr. Loeschner (Kontrollbank) on the morning of November 6, 1981, in Vienna on Eastern European matters

I met with Mr. Stanzel from about 8.30 to 9.30 and with Mr. Loeschner from about 10 to 11 a.m. Mr. Loeschner was accompanied by two junior colleagues, Ms. Aschberger and Mr. Pöschl. During the meeting at the Kontrollbank Mr. Haschek (Chief Executive Officer) and Mr. Androsch walked in and out several times. Mr. Androsch expressed the hope that the Fund make every effort to accommodate the Hungarian request for membership. The meetings were not generally very fruitful.

1. Poland

The Austrian claims on Poland outstanding amounted to some S 25-30 billion (I think these were just export guarantees) so that a default would have rather adverse consequences for the Budget. Export guarantees had been pushed by and provided through Kontrollbank, but the government bore the financial burden. Very limited credits were still forthcoming: recently some S 200 million had been made available for the purchase of food and spare parts in connection with some repayments of credits by Polish firms. The extension of further credits now was primarily a political question.

2. Romania

According to Mr. Stanzel, the Austrian commitment in Romania was, at S 3 billion, very much smaller and would be manageable even if things were to go awry. He thought, by contrast with Dr. Fink, that things in Romania were still in hand and prospects were reasonable. Mr. Loeschner explained later that Citibank had been designated by the Romanians to manage their surplus foreign exchange funds and to pay creditor banks, the reason being that Citibank itself had no claims against Romania, whereas its payments record with other banks was questionable.

3. Hungary

The excellent relations between both the governments and financial sectors were noted by both Messrs. Stanzel and Loeschner. Both agreed that the Hungarians (more specifically the National Bank) were financially very sophisticated, by contrast with other Eastern Europeans. Mr. Loeschner noted that a bank had recently been set up in Hungary, with 50 per cent ownership held by the National Bank, but participation also by a Japanese Bank, Bayerischer Bankenverein, Kreditanstalt, and perhaps others, and the Kontrollbank had been given a line of credit of $10 million (small by its standards) available to 1990 at good terms and in a number of currencies. To Mr. Loeschner the establishment of this bank indicated the outward looking nature of the Hungarian financial sector and its willingness to get involved with Euromarkets. (The Kontrollbank had drawn on this line of credit--not in dollars.)

According to Mr. Stanzel the Hungarians had obtained a substantial degree of economic freedom by following a political line very close to that of Moscow's--they had even participated in the invasion of Czechoslovakia. He felt that Hungary might have suffered fewer purges/rebellions than other countries and that the Jewish community in general had fared better (there were significant measures taken against the Jewish community as late as the late 1960s in Poland, leading to widespread emigration) with the result that the commercial "know-how" was generally at a higher level throughout the economy.

4. Czechoslovakia

There had been many purges in Czechoslovakia, perhaps the last in 1968, with the result that the commercial class had largely been removed from their traditional jobs if not eliminated altogether, to be replaced by party bureaucrats who had little idea of how to make an enterprise go, and were extremely suspicious of Western contacts. As a result, contact with the West was limited and growth was low.

5. Bulgaria

Bulgaria has been a close political ally of the Soviet Union and may have received somewhat more aid. Certainly it is strictly a planned economy and a rigid political system, but coming from as low a level of development as it did, such a system may not have been as difficult to accept in Bulgaria as it was in more developed economies. In any case they are extremely well organized, running for example, a very efficient container-truck system throughout Europe with their own mobile maintenance crews, and their finances are well handled.

D. Ripley DR

cc: Mr.Whittome
Mr. de Fontenay
Mr. Ungerer
Mr. Tyler

Office Memorandum

NOV 9 1981

To: The Managing Director
The Deputy Managing Director

November 9, 1981

From: L.A. Whittome LAW

Subject: Romania

1. The history

On June 15, 1981, a three year stand-by for SDR 1,102.5 million was agreed for Romania; in the same month Romania drew SDR 169.5 million being the balance for which it was eligible and was entitled under the CFF. From the beginning the stand-by was criticized in some quarters as being unnecessarily large and inadequately restrictive.

Nevertheless the objectives of the stand-by were ambitious. They fell into two areas. First there was the patent need to reduce Romania's current account deficit, particularly that part with the convertible currency area. The deficit on current account in convertible currencies rose to \$2.4 billion (about 4 per cent of GNP) in 1980 from \$0.8 billion (about 1.5 per cent of GNP) in 1978. The deterioration was due to the pursuit of a rate of growth, particularly of investment, that had become unsustainable in the face of a sharp deterioration in the terms of trade. 1/ The program took as its objectives the reduction of this deficit to \$1.8 billion (about 3 per cent of GNP) in 1981 and \$1.45 billion (about 2 per cent of GNP) in 1982. In order to monitor external developments in the convertible balance of payments more precisely quarterly ceilings were set on the trade balance, short-term borrowing and official reserves.

The second objective was a reform of the price and exchange rate systems. Producer prices were to be brought more into line with world market prices in 1981 and adjusted appropriately in 1982 and 1983. Beginning early in 1982 retail prices were to be similarly adjusted with the aim of eliminating consumer subsidies over the period of the stand-by. At the same time a drastic simplification of the exchange rate system was envisaged with the infinite number of implicit exchange rates previously existing being reduced to 29 in 1981 and to 20 in 1982, with complete unification of the commercial exchange rate to be achieved by mid-1984 when the program elapsed. The changes in the exchange rate system partly hid the fact that the reform entailed an effective depreciation of the leu with the convertible area of some 20 per cent.

I fear a digression is required in order to allow an understanding of the criticisms that have been leveled at the stand-by. It was criticised first as being unnecessarily large. The argument of the critics was that Romania was able to borrow on the market and that the changes in policy would have been carried out irrespective of the Fund. The contrary view was that

1/ In fact the deterioration in the current account with the convertible area was less than the deterioration in the balance of trade in oil and oil products.

the Fund had an obligation to respond adequately to the request of a member clearly running a large payments deficit and about to institute a fundamental reform of the exchange system. It was also argued that a large amount would provide the Fund with the necessary influence to ensure that the essential price and exchange rate reforms were consistent, comprehensive, and fully carried out. As you will recall, there was a debate on this issue within this building.

The stand-by was also criticised as being inadequately formulated. Here we come to the heart of the difficulty of reconciling the normal Fund approach with the instruments used in planned economies. In a planned economy the planners set output targets normally in volume terms in detail. The financial programs fill a subsidiary role but the norms laid down are of course designed to be consistent with the main plan expressed in physical terms. A decision to secure an improvement in the balance of payments involves--I am unduly simplifying the matter--a decision to divert production from the domestic to the external market. The instruments used are essentially directives. The subsidiary financial plans are then adjusted in order to be consistent. When, however, changes have to be made rapidly, it is likely that the adjustment in the financial aggregates will lag so that instead of domestic incomes being reduced in line with available supply, an overhang of incomes grows up (this is also, for other reasons, a chronic tendency in these economies) with the result that in our terms forced savings arise showing themselves most obviously in queues and in a rise in holdings of cash and savings deposits. As I understand the worry of the critics it is that failure to prevent this build-up of forced savings shows that there is an element of incoherence in the planning process and that therefore the adjustment of the balance of payments cannot be said to be sustainable.

The defenders of the program would not deny that forced saving have been accumulated and are very likely to grow further; nor would they deny a deleterious effect on work incentives of cash payments that do not provide purchasing power nor would they underestimate the diversion of goods from the official to the black market. They would, however, claim that the build-up of forced savings will buy time during which a phased adjustment of the economy can be achieved, beginning with a containment of the balance of payments deficit. They would argue that in the short-term the overhang of forced savings can be tolerated but that it will have to be absorbed in due course if the economy is to function effectively in the medium term. The Polish situation is a forceful reminder of the tensions that must build up when consumers desire to purchase are continuously frustrated even though they have the required financial assets though again it would be absurd not to recognise the significant differences that exist between the regimes of the various East European countries.

My own conclusions on this debate is that, as long as a reasonable deficit on the external current account is financeable, the problem should remain manageable at least within the period of the present stand-by. I believe this to be the case mainly because the present stand-by supports wide-ranging reforms in the price and exchange rate systems that should greatly reduce the overhang by the end of the program.

2. Performance under the stand-by

To date all the quantified performance criteria have been met; indeed the balance of trade targets have been exceeded. In particular as of now it seems probable that the current account deficit in convertible currencies will be reduced to about $1 billion in 1981 (less than 2 per cent of GNP) in contrast to the program objective of $1.8 billion and the 1980 outturn of $2.4 billion (about 4 per cent of GNP). This result has been achieved by a significant reduction in the rate of growth (partly attributable though to agriculture) and, in particular, to an absolute fall in investment.

3. The present problem

The sharp improvement in the current account has been somewhat more than offset by a deterioration of the capital account. The Romanians argue that this has been caused by factors for which they are in no way responsible--in particular the re-evaluation by Western banks of lending to East European countries in the light of Poland, Afghanistan, and the change in climate as regards detente. The fears of the banks were compounded by some bad and inaccurate publicity and have led to large withdrawals of foreign exchange deposits from the Romanian banking system and the curtailment or cancellation of lines of credit previously extended to Romania.

Given the low level of Romania's reserves those actions inevitably led to delays in Romanian payments (totalling some $1.2 billion at end-September 1981). It is certain that a large part of this sum constitutes a restriction on current payments and therefore involves a breach of Romania's commitments under the stand-by. In particular a purchase of SDR 76 million due on November 15, 1981 is precluded unless the management recommends a waiver and the Executive Board accepts the recommendation.

Before considering the courses now open it is proper to warn that the claim of Romanian officials that they are scarcely to blame for what has occurred is somewhat less than the whole truth. They were for instance remiss, given the large current account deficit in 1980, in concentrating, for interest rate reasons, a relatively large proportion (22 per cent) of their convertible currency debt in short-term obligations, in not ensuring that their foreign exchange reserves were larger, in not providing more complete information to the international financial community on a regular basis, and in not being open and correct in their dealing with Western banks.

4. A Waiver?

A waiver can either be recommended, or refused.

(a) a case for recommending a waiver would have to be based on actions being taken by Romania to correct its balance of payments problem and to secure an orderly reduction in arrears.

The Romanians now seem aware of the magnitude of their problems. They have drawn up plans to reduce the current account deficit with the convertible area to $0.5 billion in 1982 through further restrictions on domestic demand. They plan also to open bilateral discussions with their principal creditor banks and hope that these talks will lead to the reopening of short-term and medium-term credits in an amount (gross) of $1.5 billion in 1982. They also expect that in 1982 a somewhat reduced flow of suppliers credits compared with earlier years, gross Fund purchases (SDR 335 million), IBRD disbursements (about $270 million) and a bank advance secured against collateral provided by their gold reserves could together provide a total of some $2.8 billion. If all these plans were fully realized all arrears (expected to amount to a minimum of $2.0 billion by end-1980) could be paid off and obligations falling due in 1982 could be fully met.

If these hopes were realistic there would be a good case for recommending a waiver. The argument would be that Romania has to date met all the performance criteria (other than the arrears provision) that it is now taking further measures to improve its external position and that a refusal to grant the waiver would jeopardize Romania's discussions with the banks.

(b) the case for not recommending a waiver at this time is that the plans and hopes of Romanian officials are but plans and hopes and that we should be acting inconsistently with our principles were we to recommend a waiver in a case involving a very substantial imbalance unless we were to be sure first that the steps being taken to correct the situation were fully adequate and were at least reasonably certain of being implemented. In particular there should be clear evidence that the commercial banks will also play a responsible role.

I do not think that we can on the evidence available come to such a view. The staff team that recently visited Bucharest assured themselves that given past relationships, the broad plans for the economy for 1982 were consistent with the further improvement in the current account with the convertible area foreseen for 1982. Given the nature of the planned system they cannot show this in a way that can satisfy all critics (the discussion earlier in this memorandum on conditionality in planned economies is relevant). It is important also to note that the projected changes in the price and exchange system have to date been carried out on schedule and that the intention to carry these reforms further has been reaffirmed.

Where, however, the case for recommending a waiver breaks down is as regards the arrangements being contemplated to correct the capital account position. The Romanians have for reasons of prestige refused to contemplate even an informal meeting with a small group of the main banks, a course which we had recommended and which the main banks were willing to go along with. Instead they are embarked on a course of bilateral visits which are hardly likely to lead to <u>any</u> conclusion, given that individual banks are unlikely to commit themselves to meaningful action unless they are aware of what their competitors are doing. Moreover, a bilateral approach to a large number of banks runs the built-in risk that somewhat different things will be said (or will have been thought to have been said) to different banks. As a result the Romanians' reputation for open dealing with the banks, which is hardly high now, could be further weakened.

The question of approach, is also of importance as regards the practices of the Fund. A 1970 decision of the Executive Board requires that a member requesting a waiver should provide a plan for the orderly reduction of arrears. Romania would be expected to submit a "satisfactory program" for the elimination of its arrears, which would provide for a "maximum permissible delay to which a payment or transfer could be subjected together with a phased reduction in the outstanding level". I doubt whether the present Romanian approach is likely to lead at all quickly to such a program.

There is secondly the question as to whether the Romanian estimates of the likely capital inflow described in the previous section show a realistic appreciation of the possibilities. No-one can be sure of the answer but it is my firm judgment that in the present climate these estimates are seriously overoptimistic. Given that no program for the elimination of arrears can be said to exist, my conclusion is that there is now no good case for recommending a waiver.

It may be of some use in the talks which we are having with central banks and commercial banks to be able to hold out the possibility that the November drawing can be released when, but only when, a satisfactory agreement to deal with the arrears has been reached. It is essential for us to do everything possible to hasten an agreement with the banks, for it is also an essential precondition to our negotiations for the second year (1982) of the stand-by. Until we have some reasonable idea of the probable capital account outturn in 1982 we have no basis for knowing the required current account objective nor the policies needed to secure it.

My conclusion therefore is that you should decide that grounds do not yet exist for recommending a waiver. On this basis you should inform the Executive Directors of the creditor countries of your decision whilst encouraging them to do all in their power to speed the agreement of their banks with the Romanians. Through a visit of Mr. Tyler to Bucharest you should inform the Romanians of your decision and emphasize in strong terms the need for an agreed arrangement with their creditors. (It is inevitable that the Romanians will learn of this decision with bitterness for they will interpret the refusal to recommend a waiver as desertion by the Fund at a time when a manifestation of its support is vitally required.) In the meanwhile we should consider the implications for the domestic economy of a much more ambitious current account target in 1982. Finally, we should use the opportunity of the forthcoming talks which Mr. Tyler and I will shortly be having with banks on the Eastern European situation to ourselves advocate rapid progress on agreement on arrears.

cc: Mr. Finch
Area Departments
Mr. Carter

Office Memorandum

CONFIDENTIAL

TO : The Managing Director

DATE: November 6, 1981

FROM : Geoffrey Tyler GT

SUBJECT : Romania

There are two matters that arose during my discussion with President Ceauşescu that I did not mention in the back-to-office report.

The first is that the President asked that I personally reconvey to you his invitation that you visit Romania. I took it to be a genuine invitation, not a ritualistic one.

Second, the President asked that I personally assure you of Romania's desire to continue to cooperate with the Fund and to receive your sympathetic consideration of his request that the Fund find ways to support Romania at this present difficult time. As you will see from the back-to-office report, I felt unable to be very encouraging.

cc: The Deputy Managing Director
Mr. Whittome
Mr. Carter

Office Memorandum

CONFIDENTIAL

TO : Mr. Whittome

DATE: November 5, 1981

FROM : Geoffrey Tyler GT

SUBJECT : Romania

I attach a note prepared by Ms. Salop setting out the alternative ways of dealing with Romania's breach of the performance criterion dealing with exchange restrictions. The first is not to grant a waiver at this stage and the second is to do so as early as possible so that the purchase of SDR 76 million otherwise available on November 15, 1981 can be made this year (in November or mid-December).

Despite my strong feeling that a waiver now is the right course, I cannot deny that inaction until more is known of the availability of bank loans and of explicit policies for 1982 is also a logical course to follow. My reasons for supporting an immediate waiver are as follows:

(i) The Romanians have taken advance actions to bring about a much more rapid adjustment than we accepted as reasonable in the original program for the stand-by arrangement. This acceleration is to continue in 1982-83.

(ii) All the quantitative performance criteria have been met so far, some by substantial safety margins.

(iii) Although the Romanians have not communicated with the foreign banks in the most efficient way, they are now under instructions from President Ceauşescu to conduct a full dialogue.

(iv) In a very real sense, the reason for the arrears (and thus for breaching a performance criterion) was virtually entirely outside the Romanian's control. No conceivable program could have obtained an additional improvement in the current account of the convertible balance of payments of almost $2 billion. The reaction of the banks to Poland is pervasive throughout Eastern Europe and in Romania's case there has been the additional element of ill-informed and unfavorable press coverage of its economic situation.

(v) Although the purchase of SDR 76 million is small relative to the need, the confidence factor is surely very important. The banks would quickly know of the Fund's rejection of Romania and this would accelerate the flight of capital.

(vi) We must surely work on the assumption that the stand-by arrangement will continue in 1982. If so, at most we would delay the purchase by three months.

(vii) Both President Ceauşescu and Minister Gigea stressed the importance that they place upon cooperation with and support from the Fund. It would be difficult for them not to feel quite strongly about a denial of a waiver at this critical stage, given the strength of the adjustment they are making.

(viii) A waiver now would be made on the basis of assurances that the 1982 program would take full account of the attainable bank support for 1982. This would support us in the negotiations early in 1982. My belief is that a commitment by the authorities now, included in a letter requesting a waiver, would have real meaning.

(ix) A waiver now would also have to take account of Fund policy concerning external payments arrears, as embodied in Executive Board Decision 3153-(70/95). Paragraph 3 1/ of this decision implies that a letter requesting a waiver should contain some kind of plan for the orderly reduction of the arrears. During the timetable we are dealing with, it would clearly be impossible to come up with a detailed program based on a capital account forecast incorporating agreement with the banks. The best that could be achieved would be a program spelling out the efforts to obtain some targeted amount of assistance and describing in detail the measures being taken to adjust the current account and their implications.

(x) Paragraph 4 of the same decision states 2/ that the arrears must be eliminated within the stand-by period and that their phased elimination should constitute a performance criterion. If it were thought necessary to amend the December 1981 performance criteria to include one on arrears, we could at the same time tighten the quantitative performance criteria for the trade balance and net domestic assets.

(xi) Regardless of whether the flight of capital represents a temporary phenomenon that would be reversed in the future or a nonreversible one-time stock shift that reflects the bankers' reassessment of Romania's desirable debt level, the appropriate response for the Fund is surely not to exacerbate the situation by withdrawing its support but rather to provide the basis for a smoother adjustment than would be possible were Romania not a Fund member.

Of course, some of the above (indeed all of it perhaps) is based on the assumption that the withdrawal of short-term credit by the banks is not warranted in terms of economic developments in the Romanian domestic and external sectors. I am personally convinced that if Romania were not in Eastern Europe and had not had a bad press, the banks would have acted differently. If I am correct in this view, it is surely not for the Fund to follow the lemmings of the international financial community but to try to divert them from their self-destruction. However, I realize that at times our own procedures and precedents force us to act in a way that may not be ideal for the particular case in point.

1/ Under this Decision, Romania would "be expected to submit a satisfactory program for" the elimination of its arrears. "The program.....should provide for a maximum permissible delay to which a payment or transfer could be subjected, together with a phased reduction in the outstanding level."

2/ "Fund financial assistance to members having payments arrears should be granted on the basis of performance criteria or policies with respect to the treatment of arrears similar to the criteria or policies described in the preceding paragraph for the approval of the payments restrictions. In general, the understandings should provide for the elimination of the payments arrears within the period of the stand-by arrangement. Such understandings should be based on the concept of a given level of payments arrears and should be reflected in the performance criteria included in stand-by arrangements in the higher credit tranches."

On a strict reading this appears to refer to a state of affairs existing at the time when the stand-by is negotiated but probably it extends to the situation when a stand-by must be modified.

CONFIDENTIAL

November 5, 1981

Romania: Waiver--Background and Issues

As of September 30, 1981, Romania's delayed payments were in excess of $1.2 billion. While it is unclear precisely how much of this sum is actual arrears and what proportion of the total should be construed as involving a payments restriction, there can be no doubt that a large part of the delays constitutes a "restriction on payments for current international transactions." Accordingly, Romania is precluded from making the November 15, 1981 purchase of SDR 76 million under the stand-by arrangement unless the Executive Board grants a waiver. This memorandum provides background information and outlines some issues relevant to deciding whether to recommend to the Board that it approve such a waiver.

1. Background

a. Performance under the stand-by

All quantitative performance criteria as of September 30, 1981--even the one for gross international reserves--have been met. The trade deficit cv. curr.? in June was only 55 per cent of that allowed by the ceiling, and during the third quarter a small trade surplus was recorded, bringing the cumulative deficit for 1981 to 40 per cent of the ceiling. The present estimate of the current account deficit in convertible currencies for 1981 is $1.0-1.1 billion, compared with the $1.8 billion deficit assumed under the program. Associated with the developments on trade account are slowdowns in the rate of increase of consumption (from the 3.7 per cent originally projected to 2.4 per cent) and investment (from an increase of 4.4 per cent to a decline of 2.3 per cent). Forecast growth in GNP has been reduced from 6.5 per cent to 3.6 per cent, with about half of the diminution attributable to the poor agricultural outturn and half resulting from the additional adjustment measures being taken. The exchange rate and producer price reforms have been implemented and are said already to be showing some positive results.

b. Capital account

Developments on capital account have not mirrored the progress being made on current account. On the contrary, the virtual unavailability of new foreign credits in recent months has prompted a greater adjustment than originally planned and has contributed to the larger-than-expected improvement on trade account. The acceleration in the adjustment process has so far not been sufficient to restore the capital inflow needed to repay credits that have fallen due and that will fall due in the fourth quarter of 1981. It is anticipated that overdue credits could total up to $2 billion at the end of the year.

The following general picture has emerged from discussions with bankers and the Romanians about how the present situation developed. For the bankers, the Afghanistan invasion and Poland's financial and economic difficulties increased the perceived risk of lending to all East European countries. Press reports--including those based on the analysis of Wharton Econometric Forecasting Associates--dubbing Romania the "next Poland" focused the bankers' concern on Romania. These reports were particularly potent in the context of Romania's debt profile, which included some $2.1 billion of short-term debt, and the international financial market mechanism whereby the individual banker--regardless of his assessment of the underlying strength of the Romanian economy--had to be concerned about his fellow bankers' assessments, since Romania's ability to make interest and principle payments depended on the continuing inflow of new credits. With this inflow in doubt, each banker tried to decrease his exposure as quickly as possible. As this process was unfolding, Romania found itself increasingly illiquid and increasingly forced to delay payments to its suppliers and to partner banks abroad, this behavior seeming to corroborate the view that a foreign exchange crisis did indeed exist and that Romania was not creditworthy. According to the bankers, Romania made a major mistake as the process developed by not being sufficiently communicative about what its position was.

c. <u>Romanian response</u>

As indicated in Mr. Tyler's back-to-office report of October 29, 1981, the Romanians intend to have discussions with their principal creditor banks about reopening the lines of credit. The talks are to be on a bilateral basis because the Romanians greatly fear the humiliation and publicity associated with a formal rescheduling and this view apparently colors their attitude to any multilateral discussions with the banks even on a smaller, less formal scale. For 1982, the Romanians hope to be able to secure commitments from the commercial banks for $1.5 billion in gross short- and medium-term credits. With an additional $2.7 billion made up of suppliers' credits, net Fund purchases, IBRD disbursements, and advances against gold collateral, $3.7 billion in payments could be made--including all arrears as of December 31, 1981 and all debts maturing after that date in a timely manner--and a current account deficit of $0.5 billion could be financed. The Romanians have assured us that such a current account target would be feasible although it clearly implies tight domestic

do we have a means of assessing this estimate? do we believe it?

policies. The original current account deficit forecast for 1982 was $1.4 billion; it is estimated that the additional improvement in the current account will cost the economy about 1.2 per cent of GNP.

2. Options for the Fund

a. Delay the waiver

From a mechanistic perspective, there is a strong argument for delaying the waiver. Accordingly, it could be argued that the Fund should wait until more information becomes available about Romania's financial prospects for 1982. Only with such information in hand could we have a reasonably firm idea about the magnitude of the current account deficit that could be financed and, in turn, about the appropriate levels of the underlying macro-aggregates. Perhaps more importantly, at that time we would be in a better position to put forward the "satisfactory program" for the elimination of arrears expected under Executive Board Decision No. 3153-(70/95). On this view, SDR 76 million is a small sum, and the potential financial gain to Romania would not offset the risk the Fund would be taking in terms of prestige and reputation by appearing to condone Romania's amassing of arrears, particularly in that a decision to support Romania could draw to the Fund the unfavorable press coverage that Romania typically receives. It might also be argued that, while the immediate cause of the problem was the banks' refusing to continue to grant credit, Romania's poor relations with the banks were a factor in prompting the magnitude and rapidity of the banks' response to the alarmist newspaper reports.

b. Grant the waiver

The opposite view would also emphasize the publicity likely to be associated with Fund action, stressing, however, the implications for Romania. The denial of a waiver would probably be interpreted by the banks--and the press if they became aware of the facts--as a vote of no confidence by the Fund and could seriously aggravate the present financial difficulties. It is not clear how the World Bank would treat new project loans to Romania in such an event--one goes before its Board in December--but the commercial banks could well delay committing anything to Romania until after the Fund approved the Romanian program for 1982. Given that this program is to depend on the likely capital inflow, which depends on the banks, there would be something of an impasse. This view would also stress that the program with the Fund is otherwise on target or better and that all quantitative performance criteria have been met; that the structural policies, particularly in respect of the exchange rate and price reforms, are being firmly implemented; that the events which caused Romania to need a waiver were largely outside its control; that it is doing its best to reach agreement with the banks, including planning for a very strong improvement in its current account in 1982; and that the very granting of a waiver would facilitate--through the confidence it inspires--the reopening of Romania's credit lines, and, with them, the elimination of the arrears and the payments restrictions.

Seen in this light, the Fund, if it declined to grant a waiver, would appear to be taking flight after the bankers rather than standing firmly behind the member and providing a source of stability and independent judgment. If it were to approve the waiver, the Fund could safeguard its position by securing undertakings from the Romanian Government to take the desired steps. These would largely include clear statements of the Romania's intentions to reach agreement with the banks and to follow domestic policies in 1982 that would be consistent with the available capital inflow.

c. Refuse the waiver ?

November 3, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Leimone, Mr. Erb's technical assistant, came to see me to discuss informally the results of the Romania mission. I told him the basic facts about our discussions in Romania and with the banks. Implicitly he knows that there is an exchange restriction because of arrears and that no decision has been made about whether a waiver will be proposed.

GT

G. Tyler

c.c.: Mr. Whittome

MEMORANDUM FOR THE FILES

Subject: Romania

November 2, 1981

Mr. McGonagoe, of the State Department, who deals directly with Fund matters spoke to me today on the subject of Romania. Without saying anything about the possible need for a waiver if the next purchase is to be made, I was quite open in telling him the facts of the present situation, emphasizing my personal view that whatever the banks might think the Romanian economic policies and their results were basically superior to quite an extent compared with the reasonable program which was contained in the stand-by arrangement. He said that the State Department basically shared this attitude. We spoke about the need for finding some means of restoring bank confidence. In this regard, I emphasized that anything that the U.S. Administration could do to help persuade American banks would surely be useful.

Mr. McGonagoe said that he would be letting Mr. Erb's office know of our conversation.

Geoffrey Tyler

cc: Mr. Whittome

file: EE
cc: Hungary
Poland
YS
Romania
E. German

The Acting Managing Director November 2, 1981

L. A. Whittome

Credit to East European Countries

The most worrisome aspect of my talks in Eastern Europe was the realization of the extent to which banks, affected by their experience in Poland, have been cutting back on credit to East European countries. We know, all too well, the difficulty that this is causing Romania. But its effects are much far reaching. The Hungarians told me that a Swedish bank with whom they had done business for years had withdrawn a deposit of $10 million which had been established on a six monthly basis renewable for five years with a break clause for "unusual circumstances". The Swedish bank has invoked this clause, even though the Hungarians maintain a small gold deposit with that bank equivalent, at today's market prices, to about $10 million. I was also introduced to a Czech who said that the Swiss Banks have begun (I am not clear how widespread this practice has become) to demand full cash deposits in advance of the opening of letters of credit--this is a procedure to which the banks resorted in Turkey only after the situation there had become calamitous. The Yugoslavs also are finding it very difficult to borrow and have begun to press the French, Germans, and British to extend wide categories of trade credits from the present six months to three years. The Hungarians also said that the East Germans had also been affected. The U.K. delegation in Warsaw confirmed this story.

I had some inkling of these troubles before I left and therefore met with Mr. Erb. He half-heartedly defended these practices as a price of "living with the market" but readily agreed that a market which consisted of, at most, a couple of hundred panic stricken bankers was hardly worthy of the name. In the United States the analysis he said had been on the lines that detente had led to a large amount of business being suddenly opened up with Eastern Europe and because this had started from a very low base the rate of growth was sharp.. In the new political climate and after Poland the banks had reassessed the risks and had decided to reduce, in some cases drastically, their exposure.

I shall speak again to Mr. Erb but I wonder whether we should not take a broader initiative. One course could be to contact, through the respective Executive Directors, the central banks in the half dozen largest financial centers (perhaps excluding Japan) and if they are agreeable to send a very small team to these capitals to try and find out in full cooperation with the central banks the situation as the main commercial banks see it and to give the facts as they are known to us about Hungary, Romania, and Yugoslavia. In Warsaw I was co-opted into a meeting in the French Embassy between the Americans, French, Germans, and British at which knowledge of East Europe's financial troubles was traded. The only information that was new was that there had recently been heavy Russian borrowing considerably in excess of what was required for grain. It was not believed that these borrowings would be on loan to the Poles. At this meeting they decided to pick up the subject in the next G-5 meeting but in the meantime strongly encouraged us to go forward on the lines sketched out above.

An alternative approach would be to confine the meeting with the Executive Directors to the provision of information and ask them to contact their authorities. But I fear that this would not lead to either a uniform or rapid follow-up.

The danger of any initiative is that inadvertently it could fuel anxieties; indeed the Hungarians would surely blench at the thought of being grouped with Romania. But the risks of doing nothing are that a spreading number of countries might be forced to take otherwise wholly unnecessary restrictive actions, which is both absurd and clearly contrary to the purposes of the Fund.

I would propose, if you agree, to talk first with Messrs. Erb and Laske, for the United States and Germany have a dominant position. If they believe it worthwhile to proceed, I would get in touch with the central banks, via the Executive Directors, of Belgium, France, Germany, Italy, the Netherlands, Switzerland (via the Embassy), the United Kingdom, and the United States to see if they consider that a small informal visit to their largest banks could be useful. I would not necessarily expect the same answer from each country. In especial it may be easier to deal with the European banks than with the American.

cc: The Managing Director (on return)
Mr. Carter
Mr. Tyler
Ms. Ripley
EED

Office Memorandum

CONFIDENTIAL

October 29, 1981

To: The Acting Managing Director

From: Geoffrey Tyler GT

Subject: Romania - Review of Developments under Stand-By Arrangement

A mission consisting of W. Hermann (EUR), J. Paljarvi (ETR), J. Salop (EUR), L. Pike (Secretary, EUR), and myself was in Bucharest from October 12 to 24, 1981 to discuss developments under the three-year stand-by arrangement that was agreed with the Fund in June 1981 in an amount of SDR 1,101.5 million. Mr. Paljarvi and I informally visited four commercial banks in New York, London, and Brussels on our way to Bucharest, with the agreement of the Romanian authorities. A major subject for discussion in Romania was the emergence of payments arrears, the reasons for this, and the finding of facts which would permit a judgment to be made in Washington as to whether a new restriction on current international payments had been introduced. If this has occurred, the purchase of SDR 76 million that would otherwise become available on November 15, 1981 could not be made without the granting of a waiver.

In addition to the usual discussions with officials, I had extensive discussions with the Minister and Deputy Minister of Finance and the President of the Romanian Bank for Foreign Trade about how to arrive at a reasonable and financially possible solution to the arrears problem. Finally, I had an interview of more than two hours with President Ceauşescu, principally devoted to this matter.

The commercial banks' views on Romania

In the discussions in the three cities mentioned above it was clear that all the banks had experienced delays in having the Romanian Bank for Foreign Trade (RBFT) settle outstanding credits owed to them directly and to their customers. It became clear that the international banking system has been acting to limit sharply the lines of credit that they have in the past made available to the RBFT. The banks admit that the Polish situation has been an important factor behind their actions. However, it is difficult to know to what extent the limitations on credits prompted the delays and to what extent the delays prompted the limitations on credits. In any event, the situation has been exacerbated by what the banks say is a widespread lack of proper communications between the RBFT and the foreign banks (e.g. unanswered telexes and telephone calls) and a feeling that at best the RBFT was engaging in some unorthodox practices. There was a general feeling, stronger in London and New York than in Brussels, that a rescheduling was not far away.

Romania's story

The authorities confirmed the existence of payments arrears comprising, $1,270 million on September 30, 1981, of which $590 million were interbank credits, $350 million unpaid letters of credit, $250 million unpaid collections documents (which probably include some amounts that we would not classify as arrears), and \$80 million delayed freight and insurance payments. There can be little doubt that these arrears constitute a payments restriction and preclude further purchases under the stand-by arrangement unless a waiver is granted.

The Romanians agree that they have not had the open dialogue with the banks that they should have had. However, they contend that, if normal lines of short-term credit had not been withdrawn, they would not have had the problem they now have. They attribute the lack of bank confidence to the Polish situation and an unfair and ill-informed press. To a considerable extent their arguments are valid, although they must surely bear responsibility for their unwillingness to supply hard data to banks and the press and their poor liaison with the banks. Moreover, the problem is not entirely one of short-term credit, since long-term lending is also being curtailed.

The Romanians estimate that the current account deficit in convertible currencies for 1981 will be around \$1.0 billion compared with the forecast of \$1.8 billion contained in the stand-by program. Moreover, they believe--and we would not dispute--that it should be possible to reach approximate current account balance by 1983. There is thus the irony that a sharp loss of confidence is occurring at a time when Romania is making much more rapid adjustment than the Fund had thought necessary. However, facts are facts and there is the danger that withdrawal of foreign credit will precipitate a severe crisis, involving complicated formal rescheduling agreements that the Romanians would find humiliating and that could well mean slower repayments to the banks than a more cooperative and informal debt rearrangement might produce.

Possible solutions

Our judgment is that the convertible balance of payments on current account can be improved substantially by a combination of reduced growth rates of domestic expenditure and special actions. 1/ Thus, the net requirement for capital inflow could perhaps be reduced to around \$0.5 billion in 1982 and zero in 1983. However, gross repayments required to settle maturing debt and arrears, which probably will be between \$1.5 billion and \$2.0 billion at end-1981, and maturing debt will require substantial gross borrowing. The main sources appear to be suppliers' credits, the World Bank, selling or pledging gold, Fund purchases, and credits from the banks.

The Romanians, including President Ceaușescu, were adamant that they will not agree to a formal rescheduling. They believe they can persuade enough banks to support them and thus allow them to ignore those that do not. We do not think this possible without a great deal of discussion with the banks,

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1/ E.g., replacing imported oil by increased domestic gas production (saving about \$0.5 billion in foreign exchange a year starting in 1982), sharply increasing sales of construction work abroad, and using idle domestic capacity to process oil and other raw material such as alumina for other countries on a contract basis.

and in the end even this may not be enough to avoid a formal rescheduling. It would appear that quite a number of banks think this way and a Bank of England official whom I saw shared the view.

In my talks in Bucharest, after discussion with Mr. Whittome, I suggested to the Minister that the best chance was to convene a meeting with a small number of influential banks at which the Romanian position and proposal could be explained. I said that the Fund staff would give all the assistance it could in preparing for the meeting, including drafting a position paper. There is every reason to believe that the Minister and his staff actively accepted this approach. However, the President must have received other advice, for he was quite clear in stating that the approach to banks will be completely bilateral. At a subsequent meeting the Minister of Finance confirmed that "bilateral" could not encompass an informal meeting with several banks.

For the moment, there is a hiatus. The President of the RBFT will be in the United States early in November for a meeting of the joint Romanian-U.S. Economic Committee, and during the visit he will presumably begin to talk to banks. However, past experience suggests that banks will probably be unwilling to give firm commitments individually, at least until they have consulted among themselves. The danger is that delay will lead to a crisis and a bank demand for a formal rescheduling.

Domestic economic developments in 1981

GNP in 1981 is currently expected to be about 3.6 per cent higher than in 1980 compared with a forecast increase to 6.5 per cent in the stand-by program. The slower growth partly reflects weakness in the agricultural sector caused by adverse weather and in industry and construction where supplies of imported and exportable inputs have been reduced. However, the reduction in the rate of consumption from the planned 3.7 per cent to 2.4 per cent and a decline in real fixed investment of 4.4 per cent compared with a planned increase of 4.4 per cent in part reflect deliberate policy adjustments. The program's monetary targets have been met and the budget is probably less expansionary than originally planned. The structural policies in the fields of investment, the price reform, and the exchange rate reform are being implemented. We were assured that these policies would continue as agreed in 1982, including changes in retail prices.

The status of the stand-by arrangement

The next purchase date is November 15, 1981, when SDR 76 million would be available if performance criteria were met. The quantitative ones apparently will be, but the arrears, being an exchange restriction, will prevent the purchase unless a waiver is approved. We shall prepare a memorandum for the consideration of the Managing Director and yourself on the arguments for and against considering a waiver at this stage. As might be expected, President Ceauşescu and Mr. Gigea both pressed very strongly for Fund support, including no delay in the scheduled purchase. Technically, we would not have time to go to the Board early enough to obtain a waiver to enable the purchase to be made on November 15, 1981. If a decision to propose a waiver were to be made after November 9, 1981, it is probable that the earliest date for the purchase would be December 15, 1981. However, if a waiver were to be proposed, that in itself would help Romania presentationally with the banks.

Additional help from the Fund

President Ceauşescu emphasized his desire that Romania and the Fund continue to cooperate. Specifically, he put forward three ways in which we could help. First, he asked that all the remaining amount of the stand-by arrangement be made available during the remainder of 1981 and early in 1982. Second, he raised the possibility of a supplementary credit. Finally, he suggested that we sell Romania back its gold subscription (presumably at SDR 35 per ounce). On the latter, I said it was impossible. On the first two, I said that I could say nothing positive, although theoretically it was not impossible to change the amount and phasing of a stand-by arrangement. In the subsequent discussion with Mr. Gigea, I gained the impression that as a practical matter he was hoping for some front loading in 1982.

At the final meeting with Mr. Gigea he said the President had asked that they be kept informed of the Managing Director's views and intentions. If there were to be a waiver, then a visit to finalize a letter requesting it would probably be necessary. If it is decided not to propose a waiver at this stage, I imagine the Romanians would wish to know personally of the reasons why and what might happen in the future. In either case, a visit could presumably be kept short.

cc: The Managing Director (o/r)
Mr. Habermeier
Mr. Hood
Mr. Whittome
Mr. Finch
Mr. Mohammed
Mr. Nicoletopoulos
Mr. Carter
Paris Office

LAW)

CONFIDENTIAL 2

MEMORANDUM FOR THE FILES

Subject: Romania--Meeting with Messrs. Wang (Advisor) and Tai (Alternate Executive Director for China   October 28, 1981

A meeting took place in my office this morning to discuss the history of the Fund's relations with Romania. Ms. Salop, the desk officer for Romania, also attended the meeting. The Chinese, who had requested the meeting, were interested in the existence of special features that may have characterized the Fund's experience with Romania because of its having a centrally planned economy. They raised questions in three principal areas, viz., the supply of information to the Fund; the terms of conditionality and the performance criteria associated with Romania's stand-by arrangements; and the Fund's attitude toward price and exchange rate policy in Romania.

At the outset, I indicated that cooperation between Romania and the Fund had been good and that over time the policy dialogue appeared to have been fruitful. While the amount of information supplied by the Romanians for the Fund's internal papers had become quite adequate, there still remained some difficulty surrounding the supply of information--not published in Romania or elsewhere--for publication in IFS. While there now exists an IFS page for Romania, I noted that the long period of delay after membership had not served Romania's interests, either in its dealings with the Fund or in terms of its image in private financial markets. With respect to Romania's stand-by arrangements, I indicated, in my view, the degree of conditionality was the same as that associated with Fund programs in other member countries. I explained how and why we had included direct balance of payments tests, including the balance of trade, as well as ceilings on net domestic assets as performance criteria. This discussion naturally led to the current stand-by program and the elements of exchange and price reform it contained. I indicated that the Fund Board favored these measures and that the staff had been recommending them for years, but that ultimately they had been taken by the Romanian authorities without pressure from the Fund. I indicated that we were convinced that they would improve the efficiency of the economy.

GT

Geoffrey Tyler

cc: Mr. Whittome (o/r)
Mr. Rose
Mr. Tun Thin

MEMORANDUM FOR THE FILES

Subject: Romania

October 27, 1981

I had a fairly lengthy conversation with Mr. Polak to describe to him what had happened in Romania. With regard to the negotiations that the Romanians intend to have with the commercial banks, I explained that at the moment it was proposed to have purely bilateral talks and that these would probably not commence for a week or so. Regarding the situation of the Fund and the stand-by arrangement, I said that it seemed quite clear that payments arrears existed and that a performance criteria had been breached. I said that whether or not the Managing Director would propose a waiver to the Board was a question that I could not answer and that I did not think it would be decided until the Managing Director's return.

Mr. Polak said that he was leaving at the end of this week for Israel and Kenya and will not be back in Washington until November 8, 1981. He said, and I agreed, that he did not think there was any point in him making a rush visit to Romania at this stage.

GT

Geoffrey Tyler

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

CONFIDENTIAL

MEMORANDUM FOR THE FILES

Subject: Romania--Meeting with Mr. Peter Bull October 27, 1981

Mr. Paljarvi and I had a discussion at his request with Mr. Peter Bull of the Bank of England at London airport on Saturday, October 24, 1981. During the discussion we explained to him in general terms the current economic situation in Romania and I indicated that it was probable that Romania would be in touch with some British banks in the relatively near future. I said that my personal view was that the economic situation, particularly with respect to the balance of payments, was developing along reasonably satisfactory lines and probably better than we had planned in the stand-by arrangement. At the same time, I said that it was quite clear that banking confidence toward Romania had declined drastically, thereby inducing a very sharp short-term liquidity problem. I went on to say further that my personal view was that it would be advantageous both for Romania and the commercial banks to find a solution to the liquidity problem and the existing arrears which did not involve a formal rescheduling operation with all the creditor banks. I freely admitted that this would be a difficult task in the present circumstances and indeed one that migth prove impossible.

Mr. Bull was in general very pessimistic about the likely developments between Romania and the banks. He said that things had gone so far that it would be difficult to reverse trends. In these circumstances, the possibility of avoiding some kind of rescheduling operation was not great.

He made two points of some interest. One was that the ECGD was having problems with customers whose contracts to Romania they had insured. Mr. Bull gave the impression that the ECGD believes there have been de facto defaults by Romania. The latter insisted to us in Bucharest that all government guaranteed debt had been met promptly. The second point was that Mr. Bull said he believed that Romania had on occasions--presumably in the not so distant past--pledged part of its gold holdings. Mr. Bull said that he thought some of the operations had not been small and my memory is that he mentioned a figure of the order of US$0.5 billion.

GT

Geoffrey Tyler

cc: Mr. Whittome o/r
Mr. Rose

B?

MEMORANDUM FOR THE FILES

Subject: Romania

October 27, 1981

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GT

Geoffrey Tyler

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

The Acting Managing Director October 23, 1981

L.A. Whittome

Romania

Further conversations with Mr. Tyler in Bucharest have only provided a small amount of additional information.

The rough figures of $1 billion for the total of arrears in early October and the estimate of $2 billion by the end of the year may both prove overestimates in the sense that some delayed payments are not technically arrears. This of course does not affect the real dimension of the problem.

Further investigation has strengthened the view that the present crisis is attributable to external actions--essential withdrawal of balances and credits by western banks--which are not primarily attributable to Romanian action or inaction. It is also still the case that corrective measures have to be found through a further sharp contraction in the current account deficit with market economies and through a reopening of lines of credit.

As for the first, the current account deficit with market economies has shrunk from $2.5 billion in 1980 to $1.0 billion this year and will as a result of a sharp further tightening of domestic demand fall to $0.5 billion in 1982. The implications for the domestic economy of this figure are acceptable to the Romanians; indeed they may have no choice. Hopefully this sharp and continuing improvement will provide a basis for the banks to agree on a reopening of credit lines. To this end an informal meeting of some half-a-dozen banks will be held in Bucharest as soon as possible at which we shall be asked to be present. A prior essential is the circulation to participants of a paper setting out what has happened, the measures now being taken, their expected effect, and the Romanians proposals. This paper will have to be written here. A draft will be taken to Bucharest, amended by the Romanians as they consider necessary and then circulated to participants. Mr. Polak has told me that he also will try to attend the Bucharest meeting.

There remains the question of the mid-November drawing which, as agreed, we shall look at when Tyler and his colleagues return. My present view is increasingly that we would be very ill-advised to refuse a waiver which would become publicly known during the critical period when the banks were meeting with the Romanians.

cc: ERD

Office Memorandum

October 22, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Tyler telephoned this morning to say that he and his colleagues were near the end of their fact finding mission. The picture for 1982 that was emerging seemed reasonable and they had this morning been looking at projections for the domestic economy for 1982 which inevitably envisaged a much slower rate of growth than was incorporated in the projections of the original stand-by program. The projections of the domestic economy were consistent with the deficit of the current account with the convertible area of \$ 1/2 billion and we agreed that this represented a huge adjustment effort which should reassure the banks.

Tyler said that the other mission members would all leave on Saturday but he himself had been asked to wait in case a special meeting could be arranged with the President. Such a meeting might take place on Saturday or on the following Monday. He would therefore be back in Washington either on Sunday or on Tuesday. The first task of the mission will be to prepare a paper to be both used for the Board and also for the Romanians to present to the commercial banks. It will undoubtedly be necessary to take a draft of this paper back to Bucharest to discuss it with the Romanians before leaving it for them to circulate to the commercial banks.

Tyler added that the Romanians were deeply concerned about the November drawing. It was understood that the date of this drawing would inevitably slip. He said that he thought that the arguments in favor of going ahead with this drawing were substantial. I said that I very much agreed with this line but that we should need to seek management approval. Finally Tyler added that the figures that he had earlier given me as to the total of arrears looked now to be somewhat exaggerated for they included various debts which were not technically arrears.

/LW

L.A. Whittome

cc: EED

Office Memorandum

October 22, 1981

MEMORANDUM FOR FILES

Subject: Romania

I called on Mr. Erb today to acquaint him in broad terms on where we now stood. I mentioned to him the problem of the November drawing and said that in my personal view which I held strongly the Fund should grant a waiver and allow this drawing to go through for otherwise we shall be pulling the rug from under the feet of the Romanians at a very crucial moment.

Erb mused aloud saying that he was inclined to agree though it would not be too difficult to take an opposite view. He ended by saying that it would help him to agree with the view I put forward if the paper to the Board underlined the fact if indeed it was a fact that Romania was fully living up to all its commitments under the stand-by agreement not only as regards the domestic economy and the balance of payments but also as regards the exchange rate, and price changes. He suggested that our presentation should conclude with the argument that Romania's troubles were due to external circumstances not brought about by their own actions. I said that some such presentation had already been in our minds.

L.A. Whittome

cc: EED

Roumania

INTERNATIONAL MONETARY FUND

GT on return

I have kept J J P informed. He would like to take part (observe?) at a meeting with the banks. I have said fine from our point of view & promised to keep him in touch re date

LAW 21/10

L. A. Whittome

Office Memorandum

October 20, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Tyler telephoned to say that he had today completed a possible scenario for the evolution of the balance of payments in 1982 and had given it to the Romanians who will react to it later this week. The scenario envisages a reduction of the current account deficit with the convertible area to \$ 1/2 billion in 1982 from an expected deficit of \$1 billion in 1981 and a recorded deficit of \$2 1/2 billion in 1980.

He said that the Romanians were concentrating on a meeting with the banks and had posed a number of questions. He himself had concluded that Bucharest would probably be the most convenient venue and that the meeting, provided that it was properly prepared, should not last for more than two days. I said that I agreed with both points. He then said that the Romanians were acutely worried about confidentiality and we both agreed that with good luck this preliminary informal meeting might be able to be kept confidential but the subsequent discussions which would inevitably involve a wider circle of banks would certainly leak. We also agreed that as long as the Romanians put forward a considered proposal then at the very best there might be agreement by the end of this year though such a timetable could well slip and might indeed slip badly. The essential feature should be that only a relatively small number of banks would be concerned. Tyler said that the scenario he had been working on envisaged the restoration of the previously agreed lines of short-term credit together with some medium term lending which would take the form of the contributions already agreed with the Bank and the Fund, some loans against the collateral of gold, and some suppliers credits and perhaps also some small lending from the banks.

We discussed the position with regards to the suppliers credits and Tyler said that as far as he knew delays had been building up but that the main western export credit organisations were still "on cover" to Romania though probably some at least probably including the British and the German were being extremely cautious. We also discussed whether or not it might be possible to confine the number of banks involved to the approximately 40 who have reasonably sizable amounts outstanding. In addition to these 40 there are a fair number of individual banks involved who have relatively trivial sums. I warned him that on the Turkish experience the main banks were very reluctant to consider taking over the exposure of small banks or of providing additional credit which would enable the small banks to be repaid. If we ran into these sorts of difficulties then the agreement on a wide number of banks would be required and the main banks would probably insist on unanimity with the whole negotiation being delayed for many months.

Secondly Mr. Tyler said that the Romanians wished to know the role that the Fund could play. They themselves did not wish to approach banks for they did not want to face the risk of a refusal. He had properly told them that it would be impossible for the Fund to do this for them. However, as he suggested some de facto compromise could be reached. For instance, if we were to be informed of the names of the main banks that would be invited we could speak to each of these banks privately first either directly (having warned the Executive Director concerned) or through the Executive Director in an effort to pave the way for the Romanians. However, the formal invitation would certainly have to come from the Romanians. As regards the British banks I told him that a further conversation with the U.K. office discovered that it was Peter Bull who wished to talk to him and he will contact Bull on his way back to Washington. Tyler's present hope is that he can leave Bucharest either on Thursday evening or on Friday of this week.

L.A. Whittome

cc: EED

Financial Report

Confidential

Vol 6 No 137

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Bucharest blunder

"Pure and absolute fraud". "Stupid, foolish and in every way ignorant". These were some of the terms being used to describe Rumania's latest international financial debacle, which has plunged the country's image to a new low in banking circles.

With hard-currency payments lagging badly (*Financial Report*, no 136, page 3), pressure has been mounting on the Rumanian foreign trade bank to top up its overdrawn accounts with western banks. A fortnight ago the bank ordered First Chicago (one of its five American clearing banks—the others are Bankers Trust, Citibank, Bank of America and Manufacturers Hanover) to sell a "substantial" amount of dollars for European currencies. The exact figure is still unclear, but was certainly not less than \$40m and could well have been nearer \$100m.

The currencies (mainly D-marks and Swiss francs) were to be delivered in various European centres for payment into overdrawn accounts. Following normal procedure, First Chicago took the payment order on trust and handed over the cash. But the dollars never arrived, despite fierce protests.

Bright red faces all round; "It's one thing to be late on short-term credit payments", said one enraged banker, "but defaulting on foreign exchange transactions is quite another matter. This could seize up all their foreign transactions". Over the past two weeks First Chicago and the other American clearers for Rumania have had to go through the painful procedure of disentangling all the payments and stopping those which had not yet been made. Now the whole process has been virtually completed, with some third parties having to settle the various gains and losses through private arrangements. "Virtually everyone is now satisfied they are nearly square", said one bank which was involved to the tune of \$10m, "but the Rumanians must have known this was going to happen. It is unforgiveable".

The latest crisis is bound to exacerbate Rumania's underlying liquidity problems. Overdue payments to the New York banks still stand at around \$500m. With most western banks' goodwill near exhaustion ("they've led everyone down the garden path so many times their credibility is exhausted", commented one) the withdrawal of short-term credits continues. And European companies trading with Rumania on open accounts report that payments are now so delayed they are being forced to call a halt. "We have had to go to Bucharest and thump the desk", says one. But tangible results in terms of hard cash have been sparse.

Even though no formal request has yet been received for a refinancing of short-term debts, many bankers now see this as inevitable within the next few weeks. During the recent IMF/World Bank meeting, Rumanian finance minister Petre Gigea and the new foreign trade bank president Nicolea Eremia held discreet talks with New York bankers to review the options. Refinancing must now be near the top of their list.

After the EMS reshuffle

The markets were expecting it: five times in the past six years (1976-81) there has been an autumn realignment either in the snake or the EMS. But this seems to be the first time that finance ministers can parade big political plus points as a result of the adjustment: a cut in interest rates in both revaluing and devaluing countries.

Foreign exchange dealers say the shake-up was timed just right. The EMS was not fully stretched between the D-mark and French franc on the Friday before (although the D-mark was past its alarm bell divergence limit). And the dollar was weak. This allowed the D-mark to revalue against the American currency as well as allow the Bundesbank to lower its special Lombard rate on the back of inflation-fighting currency appreciation.

As traders bought back French francs at the new lower rate, the franc was at its new upper limit against the D-mark on Monday and Tuesday last week, forcing the Banque de France to buy back marks and sell francs. This was a welcome replenishment to reserves, although obviously highly unprofitable, since the D-marks it was buying were now worth much more than those it had been selling to prop up the franc in the weeks before the realignment.

Despite the size of the realignment—the

Office Memorandum

October 19, 1981

MEMORANDUM FOR FILES

Subject: Romania

Mr. Tyler telephoned from Bucharest this morning to say that he had had a meeting with the senior representatives of the Planning Ministry this morning at which he was told that it would not be possible to put forward considered projections for the required capital inflow in 1982 until the 1982 Plan figures were available. It was not expected that these figures would be ready until mid-November. He said that he had replied that a delay of three weeks was extremely awkward as the foreign exchange position was continually deteriorating. As a result the Planning Ministry agreed to try and work through the figures to give at least tentative estimates by the end of this week.

We then discussed meetings with the commercial banks and Mr. Tyler said that he thought that the Romanians would take the initiative on the lines that we had suggested and indeed he said that he had had a private meeting with the Deputy Minister of Finance this morning during which he was asked several questions as to the proper way of proceeding. There was also the question of a meeting between Mr. Tyler and the U.K. commercial banks. On this I said that I thought the time pressure would probably not allow this to take place and moreover to see only the U.K. banks when we know the banks in other capitals were also experiencing great anxiety was an awkward procedure. After some discussion it was left that Mr. Tyler will make sure that on his way back to Washington he contacts Mr. Bull.

LAW

L.A. Whittome

cc: EED

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

OCT 15 1981

copy sent to EED

CABLE ADDRESS
INTERFUND

Dear Mr. Bituleanu:

I am enclosing two copies of the report on the recent mission of Mr. Rainer M. Widera to Romania under the Bureau's Central Bank Bulletin Project.

The main purposes of this mission were to familiarize the compilers of balance of payments statistics with the basic principles and the classification scheme of the fourth edition of the Fund's Balance of Payments Manual and to review the present methods of collecting and compiling balance of payments statistics in Romania. The report stresses the need for improvements in the recording of transportation services; for identifying direct investment income and capital, and unrequited transfers; for the classification of transactions by sector with respect to other investment income, other goods, services, and income, unrequited transfers, and other long-term and short-term capital; and for the inclusion in the balance of payments statements of income and capital flows of foreign bank branches operating in Romania.

I trust that you will find the report useful. If you have any questions or comments on it, please do not hesitate to write to me.

In view of the fact that the statistical sources in Romania are well developed, you should not encounter any major difficulties in implementing the recommendations made in the attached report and I look forward to receiving from you soon on a regular basis, balance of payments information as requested under the terms of Section 5 of Article VIII of the Fund's Articles of Agreement.

Finally, Mr. Widera has asked me to convey his personal thanks to you, Mr. Mada, Mr. Tocitu, and other members of your staff for the kind hospitality and cooperation extended to him during his mission.

Sincerely yours,

W. Dannemann

Werner Dannemann
Director
Bureau of Statistics

Enclosure

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

INTERNATIONAL MONETARY FUND

BUREAU OF STATISTICS CENTRAL BANK BULLETIN PROJECT

Report on the Balance of Payments Statistics of Romania

(June 22 - 30, 1981)

Prepared by Rainer M. Widera

September 28, 1981

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Introduction

The purposes of this visit were (1) to familiarize the compilers of balance of payments statistics with the basic principles and the classification scheme of the fourth edition of the Fund's Balance of Payments Manual, (2) to gather information on the sources of data and to review the present methods of collecting and compiling balance of payments statistics in Romania, (3) to recommend methods for overcoming conceptual and coverage deficiencies in the data, and (4) to investigate the possibility of the Romanian authorities' sending balance of payments data to the Bureau of Statistics for publication in International Financial Statistics and in Balance of Payments Statistics.

Discussions were held with Messrs. Tocitu, Mada, Vasile, and Frehden from the Ministry of Finance, Mrs. Popescu from the Romanian Bank for Foreign Trade (RBFT), and Mr. Puscarciuc from the Ministry of Foreign Trade. (The discussions were based on balance of payments data submitted by the Romanian authorities to the European Department of the Fund.) On the question of sending balance of payments data to the Bureau of Statistics, Mr. Eremia, Director of the Ministry of Finance, explained that he could not make any commitments at the present time, and he proposed that the matter of sending data to the Bureau be taken up again during future consultation missions.

I. Present Organization of Balance of Payments Compilation

Romania's balance of payments statistics are compiled by a small division of the Ministry of Finance, headed by Mr. Tocitu. The data are based mainly on trade figures of the Ministry of Trade, the exchange record of the RBFT and the records of the National Bank. Currently, the balance of payments statistics are based on the third edition of the Manual, but the conversion of the presentation of data to the format of the fourth edition of the Manual should cause no major difficulties.

The statements are prepared monthly, but are intended for internal use only. Comprehensive balance of payments statistics have never been published. The statements are compiled both in terms of the domestic currency (in lei) and in U.S. dollars. Prior to 1981, the transactions in convertible currencies were converted into lei via the official rate for the U.S. dollar, which is 4.47 lei per U.S. dollar. Transactions in nonconvertible currencies of the CMEA-countries were converted into lei via the official rate for the Russian ruble, which is 6.67 lei per ruble. As of the beginning of 1981, the authorities have begun using the commercial rates for the U.S. dollar, which is 15 lei per U.S. dollar, and for the Russian ruble, which is 15 lei per ruble. Approximately 60 percent of Romania's merchandise transactions and 90 per cent of all other transactions are conducted in convertible currencies (see Appendix III).

The main areas for future improvement relate to the classification of data and are as follows:

(1) Separate identification of shipment, passenger services, and port services;

(2) Separate identification of other goods, services, and income, and unrequited transfers;

(3) Separate identification of direct investment income and capital;

(4) Sectoral breakdown of other goods, services, and income, unrequited transfers, and other long-term and short-term capital;

(5) Inclusion of trade bills denominated in foreign currencies and held by the RBFT under reserves;

(6) Exclusion of bilateral payments agreement balances from reserves.

The main coverage deficiencies in the data exist in the area of unrequited transfers and with regard to the income and capital flows of foreign bank branches operating in Romania.

During the discussions, the Romanian officials expressed considerable interest in improving their balance of payments statistics in line with the recommendations of the Fund's Manual. They also expressed the hope that a staff member of the Balance of Payments Division of the Ministry of Finance would be accepted for the next IMF Institute course on balance of payments methodology.

II. The Sources and Coverage of Balance of Payments Statistics

The sections below provide information on the current sources and coverage of balance of payments statistics and on the practices followed in the compilation of the data. The item numbers refer to the standard components in the Fund's Report Form 1, which calls for data on the standard components of balance of payments transactions. Figures for aggregates of standard components and individual standard components are given in the Appendices on pages 21 to 25. Most of the data are derived from the exchange record of the RBFT, a government-owned bank, through which most of Romania's foreign transactions are settled. Its foreign exchange assets in convertible currencies represent the bulk of Romania's foreign exchange reserves. The RBFT is also engaged in the financing of Romania's exports and imports and in lending on behalf of the government. There are two other government-owned banks engaged in lending abroad, viz., the Investment Bank and the Bank for Agriculture and Food Industry (BAFI). The central bank of the country is the National Bank which holds Romania's gold reserves and small amounts of foreign exchange deposits abroad. The National Bank is the fiscal agent for all transactions with the Fund.

1. Merchandise (items 1 and 2)

The figures on exports and imports f.o.b. are derived from trade data, which are compiled every 10 days by the Ministry of Foreign Trade on the basis of customs declarations. Annual data are published in the Central Directorate of Statistics' Statistical Yearbook, where exports are valued f.o.b. at the customs border of Romania and imports are valued f.o.b. at the border of the exporting country. In order to derive the data required for the balance of payments, adjustments are made by the Ministry of Finance (1) to include goods that change ownership, but do not cross the border, such as marine products, and (2) to exclude goods that cross the border without changing ownership, such as goods for processing and repair, returned exports, and shipments to diplomatic establishments.

The merchandise data exclude certain goods (mainly steel) that are imported and exported under special credit arrangements with CMEA-member countries. Under these arrangements, goods are provided under the obligation to return goods of the same sort and volume without any fees being charged. Merchandise data also exclude household effects of migrants and gifts in kind by parcel post.

2. Transportation (items 3-8)

At present, the authorities are not in a position to differentiate between (1) freight, insurance, and other distributive services performed on merchandise (shipment, items 3 and 4), (2) services performed in transporting passengers between economies (passenger services, items 5 and 6), and (3) other transportation services such as the leasing of rolling stock, the sale of bunker fuel and stores, and the maintenance and repair of carriers (other transportation, items 7 and 8).

The data included under the transportation category are derived from (1) invoices for merchandise and (2) the exchange record of the RBFT and cover the difference between the c.i.f. and f.o.b. value of merchandise under c.i.f. contracts and, indistinguishably, all receipts and payments of the Romanian railroad, the national airline (TAROM), Romanian shipping and trucking companies, and agents of foreign carriers. The difference between the c.i.f. and f.o.b. value on invoices for exports and the receipts of carriers are taken as a measure of transportation services rendered to nonresidents, while the difference between the c.i.f. and f.o.b. value on invoices for imports and the payments of carriers are taken as a measure of transportation services received from nonresidents. The data under the transportation category are overstated to the extent that (a) transportation services performed by nonresident carriers on exports c.i.f., which should not be included in Romania's balance of payments statement, are recorded as credits (derived from the invoices) and as debits (derived from the exchange record entries for payments of agents of foreign carriers) and (b) transportations services performed by resident carriers on imports c.i.f., which also should not be included in Romania's balance of payments statement, are recorded as debits (derived from the invoices) and as credits (derived from the exchange record on receipts of domestic carriers).

The data derived from the exchange record understate earnings on transportation services rendered and expenditures on transportation services received to the extent that receipts and payments reflect settlements of accounts in which reciprocal claims of domestic and foreign carriers (mainly in the case of railroad enterprises) are netted out.

Currently, the provision of fuel to foreign carriers is included under merchandise exports (item 1), instead of other transportation (item 7), while payments and receipts for communication services are included under the transportation category, instead of other services (items 31 and 32).

It is proposed that the carriers should be asked to supply detailed information on the type of services performed or received, and on the payments involved (see page 11).

3. Travel (items 9 and 10)

The data, which are derived from the exchange record of the RBFT and from information provided by the Ministry of Tourism, cover purchases of foreign exchange from foreign travelers, including students, and sales of foreign exchange to Romanian individuals for travel abroad. Foreign students are always treated as nonresidents, even if they stay for more than one year in the country.

4. Direct investment income (items 11-14)

At present, there are eight joint-ventures with foreign capital participation and three branches of foreign banks operating in Romania. Conversely, the RBFT holds shares in three financial joint-ventures abroad. The direct investment income flows generated in these enterprises are not identified separately in the statements.

Reinvested earnings on direct investment (items 11 and 12). No data are available for the branches of foreign banks in Romania, but data on unremitted earnings attributable to the direct investors are received from the joint-ventures in Romania and from the RBFT and are included indistinguishably under other services (items 31-32).

Other direct investment income (items 13 and 14). Data on distributed earnings (remittances of profits and dividends) are derived from the exchange record of the RBFT and are included indistinguishably under other services (items 31-32). Interest paid by Romanian joint-ventures on loans received from the foreign direct investor are included under other investment income (items 19 and 20).

5. Other investment income (items 15-20)

At present, the authorities are not in a position to provide the sectoral breakdown (resident official, including interofficial; foreign official; and other) recommended by the Manual.

Resident official, including interofficial (items 15 and 16). Data on interest received and paid by the government on loans extended and received, respectively, are derived from the exchange record of the RBFT. Data on interest received and paid by the National Bank are derived from records of the National Bank. The data are included under other investment income (items 19 and 20).

Foreign official (items 17 and 18). Data on interest received from or paid to foreign governments and international organizations, respectively, by the government-owned enterprises, the RBFT, the Investment Bank, and the BAFI are derived from the exchange record of the RBFT and are included under other investment income (items 19 and 20).

Other investment income (items 19 and 20). The data are derived from the exchange record of the RBFT and the records of the National Bank, and cover indistinguishably all interest, including interest on direct investment capital, paid and received by the government, the National Bank, the RBFT, the Investment Bank, the BAFI and the government-owned enterprises.

6. Other goods, services, and income (items 21-31)

At present, no distinction is made between the official and private components of other goods, services, and income.

Interofficial (items 21 and 22). Data with regard to aid services provided by the Romanian government to foreign governments or vice versa are derived from the exchange record of the RBFT and are included under other services (items 31 and 32).

Other, resident official (items 23 and 24). Data on the expenditures of Romania's diplomatic missions abroad are derived from the exchange record of the RBFT and are included under other services (items 31 and 32).

Other foreign official (items 25 and 26). Data on the expenditures of foreign diplomatic missions in Romania are derived from the exchange record of the RBFT and are included under other services (items 31 and 32).

Labor income (items 27 and 28). Data on that part of labor income earned by Romanian seasonal workers in other CMEA-countries and by seasonal workers from CMEA-countries in Romania that is transferred to their respective home countries are derived from the exchange record of the RBFT and are included under other services (items 31 and 32).

Property income (items 29 and 30). Data on payments and receipts for intangible assets such as royalties and copyrights are derived from the exchange record of the RBFT and are included under other services (items 31 and 32).

Other private goods, services, and income (items 31 and 32)
The data are derived from the exchange record of the RBFT and cover, indistinguishably, data on official and private goods and services, including processing and repair fees, on labor and property income, and on unrequited transfers. Data on communication services, which should be classified under these items, are included under the transportation category (items 3-8).

7. Unrequited transfers (items 33-44)

Currently, data on unrequited transfers and the individual standard components of this category are not separately available.

Migrants' transfers (items 33 and 34). Data on the value of household effects and on financial claims and liabilities of migrants have not yet been incorporated in the balance of payments statements, but the amounts involved are probably insignificant.

Workers' remittances (items 35 and 36). The data appropriate to these items are probably insignificant and the amounts are indistinguishably included in other services (items 31 and 32).

Other private transfers (items 37 and 38). Data on inheritances and gifts in cash, on remittances received by foreign students from abroad, and on remittances to Romanian students abroad are derived from the exchange record of the RBFT and are included under other services (items 31 and 32). The coverage of this item is incomplete, because personal gifts in kind are not recorded in the balance of payments statements.

Interofficial transfers (items 39 and 40). Cash grants, grants of goods between governments, and contributions by the Romanian Government to the administrative budget of international organizations are derived from the exchange record of the RBFT and are included under other services (items 31 and 32). The coverage of this item may be incomplete to the extent that services received or rendered by the Romanian government from or to foreign governments without a quid-pro-quo are not included in the balance of payments statements.

Other transfers of resident official or foreign official (items 41-44). Data on taxes and fees received by the Romanian government from nonresidents other than foreign governments and on taxes and fees paid by residents other than the government to foreign governments are included under other services (items 31 and 32). Data on pensions and other social benefits are also included under other services (items 31 and 32). The exchange record of the RBFT is the source of the data.

8. Direct investment capital (items 45-52)

At present, no distinction is made between direct investment and other capital.

Direct investment abroad (items 45-48). Direct investment capital abroad is held by the RBFT in foreign banks. Data on changes in equity capital and reinvested earnings of these banks are received from the RBFT. The data are currently classified as long-term credits extended and are included in long-term capital.

Direct investment in Romania (items 49-52). Data on transactions in direct investment capital held by foreigners in Romanian joint ventures are derived from the exchange record of the RBFT and the domestic enterprises themselves. Data on the supply or withdrawal of direct investment capital, such as equity capital, reinvested earnings, and long-term loans extended by the foreign direct investor, are classified as long-term credits received and are included in long-term capital. Short-term loans extended by the foreign direct investor are included under short-term credits received and are included in short-term capital. The coverage of this category is incomplete to the extent that capital supplied by foreign banks to their branches in Romania is not yet incorporated in the balance of payments statements.

9. Other long-term capital (items 53-83)

At present, the authorities do not differentiate between direct investment and other capital. They are also not in a position to provide a sectoral breakdown of long-term capital into transactions of (1) the resident official sector, which comprises the government and the central bank, (2) the deposit money banks sector, which would comprise the specialized banks, as defined on the country page in IFS and the branches of foreign banks, and (3) other sectors, which comprise the government-owned enterprises and individuals.

Portfolio investment (items 53-61). Data on any transactions appropriate to this category are not available.

Other long-term capital of the resident official sector (items 62-68). Data on drawings and repayments on loans extended (items 62 and 63) and received (items 66 and 67) by the government and on capital subscriptions to international organizations (item 64) are derived from the exchange record of the RBFT and are indistinguishably included under the category of long-term capital.

Other long-term capital of deposit money banks (items 69-76). Data on drawings and repayments of loans extended (items 69 and 70) and received (items 74 and 75) by the RBFT in connection with the financing of exports and imports, data on loans received (mainly from the IBRD) by the Investment Bank and the BAFI (items 74 and 75), and data on marketable long-term trade bills denominated in convertible currencies held by the RBFT, which should be classified under reserves, are derived from records of the RBFT and are indistinguishably included under the category of long-term capital. Data on long-term capital transactions of the branches of foreign banks operating in Romania are not yet recorded in the balance of payments statements although appropriate to this category.

Other long-term capital of other sectors (items 77-83). Data on suppliers credits extended (items 77 and 78) or received (items 81 and 82) by the government-owned enterprises are derived from records of the RBFT and are indistinguishably included under the category of long-term capital.

10. Other short-term capital (items 84-97).

At present, the authorities are not in a position to provide a sectoral breakdown of short-term capital into transactions of (1) the resident official sector, (2) the deposit money banks sector, and (3) other sectors.

Other short-term capital of the resident official sector (items 84-88.) Data on any transactions appropriate to this category are not available.

Other short-term capital of deposit money banks (items 89-92). Data on short-term loans extended (item 89) and received (item 92) by the RBFT, deposits received the RBFT (item 92), and marketable short-term trade bills denominated in foreign currencies held by the RBFT, which should be classified under reserves, are indistinguishably included under the category of short-term capital. Changes in bilateral payments agreement balances (items 89 or 92) and liabilities of the RBFT vis-a-vis the International Bank for Economic Cooperation (IBEC) (item 91), which had previously been shown in the reserves category, have been reclassified to this category. For further explanation see page 18. Data on changes in foreign assets and liabilities of the three branches of foreign banks operating in Romania, appropriate to this category, have not yet been incorporated in the balance of payments statement.

Other short-term capital of other sectors (items 93-97). Data on trade credits extended (item 93) and received (item 96) by the government-owned enterprises are derived from records of the RBFT and are indistinguishably included in the category of short-term capital.

11. Reserves (items 98-111)

Monetary gold (items 98-100). The data are derived from records of the National Bank, which holds the monetary gold of Romania. Transactions with domestic producers and users are reflected in the data at a price of SDR 35 per fine troy ounce of gold. The counterpart entries to the monetization and demonetization of gold (item 99) are currently included under merchandise exports and imports (items 1 and 2).

Special drawing rights (items 101-103). The data are derived from the records of the National Bank, which keeps accounts on SDRs.

Reserve position in the Fund (items 104 and 105). The data are derived from the records of the National Bank, which keeps accounts on the reserve position in the Fund.

Foreign exchange assets (items 106-107). The data are derived from the records of the RBFT and the National Bank. The data under change in holdings (item 106) refer to changes in stocks net of valuation changes of foreign assets in convertible currencies held by the RBFT and the National Bank, and exclude changes in holdings of marketable trade bills in convertible currencies held by the RBFT, which should be included in this category.

Other claims (items 108-109). Data on any transactions appropriate to this category are not available.

Use of Fund credit (items 110-111). The data are derived from the records of the National Bank, which keeps accounts on the use of Fund credit.

III. The Availability of Stock Figures

The following section deals with the availability of stock figures for balance of payments items in Romania. The item numbers refer to the standard components of the Fund's Report Form 2 which calls for data on end-of-period stocks of assets and liabilities.

1. Direct investment capital (items 45-52)

Up to now, stock figures on direct investment abroad and direct investment in Romania have not yet been compiled separately, although information on equity capital, reinvested earnings, long-term loans, and short-term loans extended by the direct investor to the direct investment enterprise is available from balance sheets of the relevant enterprises.

2. Other long-term capital (items 53-83)

Stock figures on loans extended and received by the government (appropriate to the resident official sector, items 62-68), loans extended and received by the RBFT, loans received by the Investment Bank and the BAFI (appropriate to the deposit money banks sector, items 69-76), and suppliers' credits extended and received by the government-owned enterprises (appropriate to other sectors, items 77-83), could be derived from records of the relevant entities engaged in these transactions.

3. Other short-term capital (items 84-97)

Stock figures on bilateral payments agreement balances and liabilities vis-a-vis the IBEC, loans or deposits received by the RBFT from abroad (appropriate to the deposit money banks sector, items 89-92), and trade credits extended or received by the government-owned enterprises (appropriate to other sectors, items 93-97) could be derived from the records of the RBFT and the government-owned enterprises.

4. Reserves (items 98-111)

Stock figures on monetary gold (item 98), SDRs (item 101), the reserve position in the Fund (item 104), the use of Fund credit (item 110), and small amounts of foreign exchange deposits held by the National Bank (item 106) can be derived from records of the National Bank. The holdings of monetary gold are currently valued at SDR 35 per fine troy ounce of gold.

Stock figures on the bulk of Romania's foreign exchange assets in the form of deposits, investments, and trade bills (item 106) can be derived from the records of the RBFT.

IV. Areas for Improvement and Recommendations

The section below provides information on the areas where the current compilation and classification practices can be improved. They also provide recommendations for the future reporting of balance of payments data in the format of the fourth edition of the Manual by the Romanian authorities to the Fund. As in the previous sections, the item numbers refer to the standard components of the Manual as stated in the Fund's report forms.

1. Merchandise (items 1 and 2)

At present, the data on exports include the counterpart entries to purchases of gold by the National Bank from domestic producers and the sale of fuel to foreign carriers. The import data include the counterpart entries to sales of gold by the National Bank to domestic users. The compilers have been informed that this treatment is not in accordance with the recommendations of the fourth edition of the Manual. Gold transactions of the National Bank with other domestic sectors should be recorded as monetization and demonetization of gold in the reserves category (item 99). The sale of fuel to foreign carriers should be classified under other transportation (item 7).

In the future, the coverage of the merchandise items should be expanded to cover (1) goods which are imported and exported under special credit arrangements, (2) household effects of migrants, and (3) personal gifts in kind. The information on goods imported and exported under special credit credit arrangements, described on page 3, or under arrangements between affiliated enterprises on the transfer of equipment should be requested directly from the domestic parties involved. The value assigned to these transactions should be as close as possible to the market value. The offsetting entries to goods exported or imported under special credit arrangements should be shown in the capital account as drawings and repayments on loans and the offsetting entries to transfers of equipment between affiliated enterprises should be recorded under direct investment capital.

The information on household effects of migrants, as well as the information on personal gifts in kind could be derived from customs declarations. The counterpart entries should be shown under migrants' transfers and other private unrequited transfers, respectively.

2. Transportation (items 3-8)

This category could be significantly improved by compiling separate data on (1) freight and insurance receipts and payments for goods (shipment), (2) passenger services, and (3) port services, including charter services. Most of these data could be obtained from the carriers of goods and passengers directly, because the exchange record of the RBFT provides only figures on net payments and receipts of the carriers as described on page 4.

According to the recommendations of the Manual, the following information is needed to compile separate data for shipment, passenger services, and other transportation:

Item	Information	Source
Shipment, credit	Freight receipts of Romanian carriers on exports and other foreign-owned goods	Domestic carriers
	Insurance receipts of Romanian insurers on exports and other foreign-owned goods	Domestic insurers
Shipment, debit	Total value of freight and insurance services in respect of Romania's imports	Customs declarations and estimates (for explanation see below)
	Less: Freight and insurance receipts of Romanian carriers and insurers on imports	Domestic carriers and insurers

Item	Information	Source
Passenger services, credit	Passenger fares received by domestic carriers from non-residents for international travel	Domestic carriers
Passenger services, debit	Passenger fares received by agents of foreign carriers from residents for international travel	Agents of foreign carriers
	Payments for passenger fares to foreign carriers abroad	Exchange record
Other transportation, credit	Port services (fuel, supplies, maintenance, and repair) provided to foreign carriers	Agents of foreign carriers
	Receipts from abroad for port services	Exchange record
	Receipts for the leasing of rolling stock	Romanian railroad
Other transportation, debit	Port services received by domestic carriers abroad	Domestic carriers
	Payments for the leasing of rolling stock	Romanian railroad

The total value of freight and insurance services in respect of Romania's imports, which is needed for the compilation of the debit entries under shipment, should be calculated as the sum of the following two components: (1) The difference between the c.i.f. and f.o.b. values which are stated separately on invoices for goods which are imported on a c.i.f. basis and (2) Estimates on the value of freight and insurance costs for that small part of Romania's imports which are delivered on an f.o.b. basis. The estimates can be based on the ratio of c.i.f. and f.o.b. values for those goods which are imported on a c.i.f. basis.

Payments and receipts for communication services are currently included under this category and should be reclassified under other goods, services, and income (item 31 and 32). The provision of fuel to foreign carriers which is recorded under merchandise exports (see page 10) should be included under this category in other transportation (item 7).

3. Travel (items 9 and 10)

An effort should be undertaken to distinguish between students who stay less than one year and those who stay one year and longer in Romania. The latter group should be treated as residents of Romania for balance of payments purposes. This would mean that instead of including their expenditures in Romania under travel, their receipts from abroad and their remittances abroad should be recorded under other private unrequited transfers.

4. Direct investment income (items 11-14)

This category might be significantly improved by compiling separate data on distributed and reinvested direct investment income. Distributed income should cover receipts and payments of dividends and interest. Reinvested income should cover that part of operational earnings that is not remitted, but is attributable to the direct investor. When calculating operational earnings, it should be born in mind that capital gains and losses resulting from the realization of valuation changes should be excluded. Remittances that do not reflect operational earnings should be recorded as a disinvestment of direct investment capital. The information should be derivable from the enterprises' accounts.

Up to now, data on construction services have been included under other goods and services. The recommendations of the Manual (see paragraph 63) imply, however, that a notional enterprise has to be raised in the country where the services are performed and that the foreign supplier of the construction services has to be regarded as having a direct investment in that notional enterprise. The eventual transfer of equipment to the country where the services are performed has to be treated as an inflow of direct investment capital to the notional enterprise, while the withdrawal of that equipment, after the termination of the project, has to be treated as an outflow of direct investment capital. The net earnings on the construction project, i.e., the gross earnings minus salaries and wages, expenditures for material, and depreciation on the equipment, represent the entrepreneurial income of the notional enterprise which is payable to the nonresident owner. In essence, the foreign contractor operating in a given country has to be awarded a resident status in that country in respect of his construction activity. Depending on the nature of the contractors' transactions with nonresidents (including the head office), appropriate entries would have to be made in the balance of payments.

In order to illustrate the aforesaid, let us assume that an enterprise X in Romania is engaged in construction in country B. The value of the equipment employed by X in B is 100. The construction period is 9 months. The enterprise X receives 200 in payment after the work is finished. X pays 50 in salaries in foreign currencies to Romanian workers in country B of which 30 is spent in B and 20 remitted to Romania. X pays 30 in salaries to local workers of country B and has expenditure of 60 for material in country B. Depreciation on the equipment is estimated at 20 and the net earnings on the project are, therefore, 40. The present and recommended treatments of these transactions in Romania's balance of payments statement are as follows:

Item	Amount	Present treatment	Treatment in accordance with the Manual
1. Transfer of equipment by X to country B	100	not recorded	credit entry under export of merchandise; debit entry under direct investment abroad: equity capital
2. Wages and costs of material	140	credit entry under reserves; debit entry under goods and services	
3. Depreciation on equipment	20	not recorded	credit entry of 40 under direct investment income; and credit entry of 20 under direct investment abroad: equity capital; debit entry of 60 under reserves
4. Payment received for the construction work	200	credit entry under other goods and services; debit entry under reserves	
5. Remittance of Romanian workers from B to Romania	20	credit entry under other goods and services; debit entry under reserves	credit entry of 50 under labor income; debit entry of 30 under labor income; and debit entry of 20 under reserves
6. Withdrawal of equipment from B to Romania after termination of the project	80 (100 less deprecia-tion)	not recorded	credit entry under direct investment abroad equity capital; debit entry under import of merchandise

5. Other investment income (items 15-20)

In the future, investment income flows other than direct investment income flows should be recorded according to the sectoral breakdown (resident official, including interofficial; foreign official; and private) recommended by the Manual. According to the definitions used in the Manual, interest received or paid by the government and the central bank should be classified as resident official investment income (items 15 and 16). All interest earned or paid by the RBFT, interest paid by the Investment Bank and the BAFI and all interest earned or paid by the government-owned enterprises in connection with suppliers' or trade credits should be attributed (1) to the foreign official sector (items 17 and 18) if the interest is received from or paid to a foreign government or international organization or (2) to the private sector (items 19 and 20) if the interest is received from or paid to foreign enterprises (including commercial banks).

6. Other goods, services, and income (items 21-32)

Significant improvements with regard to this category would be the exclusion of the remittance of profits and dividends paid and received on direct investment capital and the exclusion of unrequited transfers. Furthermore, a breakdown of this category into official and other private transactions would be desirable.

According to the Manual, official transactions should be split into transactions between the domestic government and foreign governments (interofficial, items 21 and 22), transactions between the domestic government and foreign nonofficial sectors (other resident official, items 23 and 24), and transactions between domestic nonofficial sectors, including government-owned enterprises, and foreign governments (other foreign official, items 25 and 26).

Private transactions refer to transactions between the domestic nonofficial sectors, including government-owned enterprises, and foreign nonofficial sectors. A breakdown should be provided into labor income (items 27 and 28), property income (items 29 and 30), and the residual other goods, services, and income (items 31 and 32).

Data on communication services should be reclassified from the transportation category to other private goods, services, and income (items 31 and 32). Insurance payments and receipts should be included under other goods, services, and income (items 31 and 32) to the extent that they do not represent payments for the direct insurance of merchandise appropriate to shipment (items 3 and 4). Pensions reflect insurance payments (appropriate to items 31 and 32) only if they are paid by separately organized funds, otherwise they should be recorded under unrequited transfers. Data on construction services which are included under this category should be reclassified under direct investment income (see page 13).

7. Unrequited transfers (items 33-44)

A major improvement in the current presentation of data would be the separate identification of private and official unrequited transfers, which are included under other goods, services, and income.

Private transfers refer to transfers between domestic nonofficial sectors such as individuals and government-owned enterprises on the one hand and foreign nonofficial sectors on the other. The coverage of private transfers should be expanded to include data on remittances of foreign students who stay for more than one year in Romania, personal gifts sent in kind (both appropriate to items 37 and 38), and migrants' transfers (items 33 and 34). According to the Manual, migrants' transfers should be recorded in the balance of payments in the following way:

Item	Recording according to the Manual
Household effects of emigrants (immigrants)	credit (debit) entry under merchandise exports (imports) debit (credit) entry under migrants' transfers
Financial claims of emigrants (immigrants) on their former economy (e.g., direct investment capital, bonds, deposits)	credit (debit) entry in the capital account under direct investment, portfolio investment or other capital debit (credit) entry under migrants' transfers
Financial liabilities of emigrants (immigrants) to their former economy (mainly loans received)	debit (credit) entry under short-or long-term assets (liabilities) under other capital credit (debit) entry under migrants' transfers

For official transfers, a breakdown should be provided in the same way as for other official goods, services, and income (items 21-26) into interofficial, other resident official, and other foreign official. Pensions or other social benefits should be included under official transfers only if they are paid out of schemes integrated with the government budget or out of social security funds. These funds represent schemes imposed, controlled, or financed by the public authorities for purposes of providing social security benefits for the community, which are separately organized from the other activities of the public authorities.

8. Direct investment capital (items 45-52)

Data on direct investment capital should be provided separately. Direct investment capital should cover the acquisition or sale of the equity in an enterprise in which the investor has or intends to have on effective voice in the management, and the supply to or withdrawal from such an enterprise of all other capital by the investor, such as reinvested earnings and long-term and short-term loans. This category should cover data on the supply or withdrawal of capital by foreign banks to or from their branches in Romania, and the supply or withdrawal of equipment in connection with construction services or under other arrangements between affiliated enterprises.

9. Other long-term capital (items 62-83)

A sectoral breakdown (resident official sector, deposit money banks, and other sectors) of this category should be provided.

For the resident official sector, the data should refer to long-term loans, i.e., loans with an original maturity of more than one year extended or received by the government. If the authorities initiate long-term borrowing abroad in order to avoid the use of reserves for redressing a balance of payments deficit, data on drawings on such loans should be shown separately under drawings on loans received by the resident official sector (item 66). In the aggregated presentation of balance of payments data in Table 1 in the Appendix, these drawings are classified as Exceptional Financing (item F).

In the case of debt relief in the form of rescheduling of debt repayments, repayments of loans and interest payments which are not made when they fall due have to be treated as if the obligation had in fact been satisfied, but a new one created to take its place. In the balance of payments, these transactions should be reflected by showing entries under repayments on loans and under investment income and offsetting entries under drawings on loans. As debt relief received is regarded as a form of exceptional financing, the data on liabilities incurred by the rescheduling of loans should be separately recorded as "loans for balance of payments financing" under drawings on loans received (item 66).

For deposit money banks, the data should refer to long-term loans extended or received by the RBFT (in connection with the financing of exports and imports), the Investment Bank, and the BAFI.

Marketable trade bills in foreign currencies held by the RBFT should be reclassified from other long-term capital to reserves. In the case of long-term borrowing abroad by the RBFT for purposes of financing a balance of payments deficit, data on drawings on such loans should be shown separately under item 74. The coverage of this category should be expanded by also including data on long-term capital transactions of branches of foreign banks operating in Romania. These data should be obtained from the branches directly.

For other sectors, the data should refer to long-term suppliers' credits extended or received by the government-owned enterprises.

10. Other short-term capital (items 84-97)

In future, a sectoral breakdown of this category should be provided in the same way as for other long-term capital.

For the resident official sector, data on short-term loans received by the government for balance of payments financing should be shown separately under other loans received (item 87).

For deposit money banks, the data should refer to short-term assets of the RBFT that are not classified as reserves, short-term liabilities of the RBFT for loans or deposits received from abroad, and short-term capital transactions of the branches of foreign banks operating in Romania, which have not yet been included in the statements. The latter data should be obtained from the branches directly.

Separate data should be made available on assets (appropriate to item 89) and liabilities (appropriate to item 92) of the RBFT from bilateral payments agreement balances, on changes in liabilities of the RBFT vis-à-vis the IBEC (appropriate to item 91) and on drawings on short-term loans received by the RBFT for balance of payments financing (appropriate to item 92).

Liabilities of the RBFT to the IBEC, through which all transactions in nonconvertible currencies with CMEA-member countries are settled, may be regarded as liabilities constituting foreign authorities' reserves (appropriate to item 92) because these liabilities represent assets of other CMEA-countries that can be used by them to pay off liabilities towards any other CMEA-member.

Marketable short-term trade bills denominated in foreign currencies held by the RBFT should be reclassified from this category to foreign exchange assets in the reserves category.

For other sectors, the data should refer to trade credits extended or received by the government-owned enterprises.

11. Reserves (items 98-111)

Monetary gold (items 98-100). The recording of gold transactions by the Romanian authorities in their balance of payments statements has widely deviated from the Fund's methodology. The examples given below describe the recording procedures recommended in the fourth edition of the Manual:

a. Purchase of gold by the National Bank from domestic producers:

(1) credit entry under counterpart to monetization of gold (item 99)
(2) debit entry under change in holdings of monetary gold (item 98)

b. Purchase of gold by the National Bank from foreign nonmonetary authorities:

(1) credit entry under counterpart to monetization of gold (item 99)
(2) debit entry under merchandise imports (item 1)
(3) credit entry under change in holdings of foreign exchange assets (item 106)
(4) debit entry under change in holdings of monetary gold (item 98)

c. Purchase of gold by the National Bank from foreign monetary authorities:

(1) credit entry under change in holdings of foreign exchange assets (item 106)
(2) debit entry under change in holdings of monetary gold (item 98)

For sales of gold, credit entries in examples a-c become debit entries, and vice versa.

d. Increase (decrease) in the value of monetary gold held by the National Bank:

(1) credit (debit) entry under counterpart to valuation changes of gold (item 100)
(2) debit (credit) entry under change in holdings of monetary gold (item 98)

In view of the fact that the Fund has not yet taken a decision with regard to the valuation of stocks of gold, the recommendation given under d above is currently not being implemented. Since the ratification of the Fund's amended articles of Agreement in April 1978, the Fund's practice is, however, to value all gold transactions at the price evidenced by the act of sale rather than at the former official price of SDR 35 per troy ounce.

<u>Foreign exchange assets: (items 106-107)</u>. The data should cover all marketable foreign assets denominated in convertible currencies of the National Bank and the RBFT, including trade bills, but excluding bilateral payments agreement balances. Changes in claims of the RBFT on the IBEC in nonconvertible currencies may be shown under this item because they can be used multilaterally to finance payments imbalances with CMEA-member countries.

V. Final Remarks

The recommendations made in this report may be viewed as basic guidelines which may be revised or improved as the circumstances demand. It is fully recognized that the recommendations can be implemented only gradually. The Fund's Bureau of Statistics is ready to extend further assistance as may be needed to improve the quality of the balance of payments statistics.

Table 1. Balance of Payments of Romania for 1978-1980
Aggregated Presentation
(In millions of U.S. dollars)

	1978	1979	1980
A. Current Account, excl. Group F	-759	-1653	-2420
Merchandise: exports f.o.b.	8,007	9303	11024
Merchandise: imports f.o.b.	-8,628	-10519	-12685
Total balance	-621	-1216	-1661
Other goods, services, and income: credit	765	907	1136
Other goods, services, and income: debit	-903	-1344	-1895
Total: goods, services, and income	-759	-1653	-2420
Private unrequited transfers	...	...	...
Total, excl. official unrequited transfers	-759	-1653	-2420
Official unrequited transfers	...	...	...
B. Direct Investment and Other Long-Term Capital, excl. Group H	242	947	1773
Direct investment	...	...	...
Portfolio investment	--	--	--
Other long-term capital	242	947	1773
Resident official sector	...	...	...
Deposit money banks	...	...	...
Other sectors	...	...	...
Total, Groups A plus B	-517	-706	-647
C. Other Short-Term Capital, excl. Groups F through H 1/	85	71	-323
Resident official sector	...	...	...
Deposit money banks	...	...	...
Other sectors	85	71	-323
D. Net Errors and Omissions	65	-77	--
Total, Groups A through D	-367	-712	-970
E. Counterpart Items	...	33	33
Monetization/demonetization of gold	...	...	...
Allocation/cancellation of SDRs	--	33	33
Valuation changes in reserves	...	...	...
Total, Groups A through E	-367	-679	-937

Table 1 (Concluded). Balance of Payments of Romania for 1978-1980
Aggregated Presentation
(In millions of U.S. dollars)

	1978	1979	1980
F. Exceptional Financing	402	750	772
G. Liabilities Constituting Foreign Authorities' Reserves 2/	103	96	-47
Total, Groups A through G	138	167	-212
H. Total Change in Reserves	-138	-167	212
Monetary gold	-23	-10	-3
SDRs	8	-1	1
Reserve position in the Fund	--	--	-39
Foreign exchange assets	-128	-148	201
Other claims	...	...	...
Use of Fund credit	5	-8	52

Source: Data supplied by the Romanian authorities to the European Department.

1/ Excluding changes in bilateral payments agreement balances, which are indistinguishably included under Group G.
2/ Including changes in bilateral payments agreement balances appropriate to Group .

Table 2. Balance of Payments of Romania for 1978-1980
Detailed Presentation
(In millions of U.S. dollars)

	1978	1979	1980
Current account	-759	-1653	-2420
Goods, Services, and Income	-759	-1653	-2420
Total Credit	8772	10210	12160
Total Debit	-9531	-11863	-14580
1. Merchandise: exports f.o.b.	8007	9303	11024
2. Merchandise: imports f.o.b.	-8628	-10519	-12685
Transportation: credit	336	367	444
Transportation: debit	-471	-744	-892
3 and 4. Shipment	...	...	...
5 and 6. Passenger services	...	...	...
7 and 8. Other transportation	...	...	...
9. Travel: credit	247	303	324
10. Travel: debit	-63	-74	-73
11 and 12. Reinvested earnings on direct investment income	...	...	...
13 and 14. Other direct investment income	...	...	...
15 and 16. Other investment income of resident official	...	...	...
17 and 18. Other investment income of foreign official	...	...	...
19. Other investment income: credit	56	77	73
20. Other investment income: debit	-224	-435	-850
21 and 22. Interofficial, n.i.e.	...	...	...
23 and 24. Other resident official, n.i.e.	...	...	...
25 and 26. Other foreign official, n.i.e.	...	...	...
27 and 28. Labor income, n.i.e.	...	...	...
29 and 30. Property income, n.i.e.	...	...	...
31. Other goods, services, and income: credit	126	160	295
32. Other goods, services, and income: debit	-145	-91	-80
Unrequited transfers	...	...	...
Total Credit	...	...	...
Total Debit	...	...	...
33 and 34. Migrants' transfers	...	...	...
35 and 36. Workers' remittances	...	...	...
37 and 38. Other private transfers	...	...	...
39 and 40. Interofficial transfers	...	...	...
41 and 42. Other transfers of resident official	...	...	...
43 and 44. Other transfers of foreign official	...	...	...

Table 2 (Continued). Balance of Payments of Romania for 1978-1980
Detailed Presentation
(In millions of U.S. dollars)

	1978	1979	1980
Capital Account	694	1730	2420
Capital, Excluding Reserves	832	1864	2175
Direct investment abroad (items 45-48)	...	...	...
Direct investment in Romania (items 49-52)	...	...	...
Portfolio investment (items 53-61)	...	...	...
Other long-term capital	242	947	1773
Drawings on loans extended	-483	-486	-382
Repayments on loans extended	137	177	201
Drawings on loans received	1174	2065	2805
Repayments on loans received	-586	-809	-851
Other long-term capital of resident official sector (items 62-68)	...	...	...
Other long-term capital of deposit money banks (items 69-76)	...	...	...
Other long-term capital of other sectors (items 77-83)	...	...	...
Other short-term capital	590	917	402
Drawings on loans extended	-45	-155	-109
Repayments on loans extended	89	46	153
Drawings on loans received	685	1628	2245
For balance of payments financing	402	750	772
Other	283	878	1473
Repayments on loans received	-242	-698	-1840
Changes in bilateral payments agreement balances and liabilities to the IBEC	103	96	-47
Other short-term capital of resident official sector (items 84-88)	...	...	...
Other short-term capital of deposit money banks (items 89-92)	...	...	...
Other short-term capital of other sectors (items 93-97)	...	...	...

Table 2 (Concluded). Balance of Payments of Romania for 1978-1980
Detailed Presentation
(In millions of U.S. dollars)

	1978	1979	1980
Reserves	-138	-134	245
Monetary gold	-23	-10	-3
98. Total change in holdings	-23	-10	-3
99. Counterpart to monetization/demonetization	...	...	...
100. Counterpart to valuation changes	--	--	--
Special drawing rights	8	32	34
101. Total change in holdings	8	-1	1
102. Counterpart to allocation/cancellation	--	33	33
103. Counterpart to valuation changes	...	...	...
Reserve position in the Fund	--	--	-39
104. Total change in holdings	--	--	-39
105. Counterpart to valuation changes	--	--	--
Foreign exchange assets	-128	-148	201
106. Total change in holdings	-128	-148	201
107. Counterpart to valuation changes	...	...	...
Other claims	--	--	--
108. Total change in holdings	--	--	--
109. Counterpart to valuation changes	--	--	--
Use of Fund credit	5	-8	52
110. Total change in holdings	5	-8	52
111. Counterpart to valuation changes	...	...	...
112. Net Errors and Omissions	65	-77	--

Table 3. Balance of payments of Romania for 1980
Convertible and nonconvertible currencies
(in millions of US dollars)

	Total	Convertible currencies	Nonconvertible currencies
Current Account	-2420	-2399	-21
Merchandise: exports f.o.b.	11024	6503	45[illegible]
Merchandise: imports f.o.b.	-12685	-8037	-4[illegible]
Other goods, services, and income: credit	1136	859	277
Other goods, services, and income: debit	-1895	-1724	-171
Capital Account	2175	2154	21
Long-term capital: credit	3006	2851	155
Long-term capital: debit	-1233	-1041	-192
Short-term capital: credit	2351	2215	136
Short-term capital: debit	-1949	-1871	-78
Reserves	245	245	--
Net errors and omissions	--	--	--

Office Memorandum

October 16, 1981

MEMORANDUM FOR FILES

Subject: Romania

I have carefully kept Mr. Polak fully informed of developments in Romania and of our thinking. He is very much in agreement.

L.A. Whittome

cc: EED

Office Memorandum

October 15, 1981

MEMORANDUM FOR FILES

Subject: Romania

I phoned Mr. Tyler today to tell him that after discussions with the Managing Director and the Executive Directors I thought we now had the green light to suggest to the Minister that Romania should call an informal meeting of a handful of banks probably in some neutral location. The banks should be chosen on the basis that they had a leading position in their own financial centers, because they had had large exposure to Romania, and because they were thought to be financially involved in Romania's future. I said that the advice I had received from the banks was that it was essential that the meeting be well prepared and that a paper be circulated in advance of the meeting. I said to Mr. Tyler that I thought this paper would have to be largely written by ourselves and that it might take the form of a suitably amended version of the paper that he would in any case have to write for the Board. I said also that the banks had stressed that cash flow projections covering at least 1982 had to be provided. At this point Mr. Tyler said that this posed a series of difficulties and after some discussion we jointly concluded that it would have to be done on the basis of two or three hypothesis.

For his part Mr. Tyler said that he felt that the Romanians had only now taken on board the implications of the cessation of capital inflow for domestic activity in 1982 and that they had been shocked by the conclusions that they had been forced to draw. He also said that the size of the arrears was rising weekly and would probably amount to some $2 billion by the end of this year.

L.A. Whittome

cc: EED

The Managing Director October 14, 1981

L.A. Whittome

<u>Romania</u>

Mr. Tyler telephoned this morning to report on discussions in Bucharest to date. He said that the size of the problem could now be seen to be substantially greater than we had been told for delayed payments total some $1 billion.

Although discussions are in a preliminary stage it appears that the real economy has been moving very much along the lines programmed and that the balance of payments on current account with the convertible area has been improving noticeably more rapidly than had been forecast. The deficit for 1981 is now likely to be around $1 billion against the $1.8 billion that was targeted (in 1980 the deficit was $2.4 billion). This result has been achieved primarily by a dramatic fall in imports partly compensated by increases in imports from the Comecon area and partly met by a run down of stocks.

The difficulties apparently arose because of widespread reductions and in several cases cancellations of short-term lines of bank credit previously extended to Romania as well as a more minor adverse development of leads and lags. The main cause seems to have been worries consequent on the Polish crisis. It is apparent that a problem of this size cannot be regularized very rapidly. The Romanians at the Deputy Minister level said today that if the banks would restore the previous level of their credits the situation could be regularized by next March on the basis of paying interest but not meeting capital repayments in the interim. However, I suspect that the implicit balance of payments forecast laying behind this statement may well be optimistic and it is surely in the present mood of the banks wildly optimistic to assume that lines of credit will be fully restored.

In the circumstances we must strongly encourage the Romanians to continue to make drastic efforts to improve their current account position but there is a pressing need also for discussions with the banks. The Romanians shy away violently from any mention of rescheduling but some arrangement has to be made with the banks; it matters not what it is called. Subject to your approval I will contact some very senior bankers and suggest that an informal meeting be arranged between the Romanians, who should probably host the meeting and be represented by their Minister, and the main banks involved. I think that we have an essential role to play at such a meeting. I think also that the background material for this meeting should be a suitably bowdlerized version of the paper that we shall anyway be preparing for the Board. This paper should be put forward in the name of the Romanian authorities. The purpose of the meeting would be to lay the ground for some restoration of credit lines and to obtain a clearer idea of the size of the adjustment effort required of Romania in 1982.

It was interesting that at your lunch today no Director reacted adversely to the suggestion of our involvement at a meeting between the banks and the Romanians.

cc: Deputy Managing Director
Mr. Finch
Mr. Carter

Office Memorandum

TO : The Managing Director

DATE: October 14, 1981

FROM : L.A. Whittome

SUBJECT : Romania

Mr. Tyler telephoned this morning to report on discussions in Bucharest to date. He said that the size of the problem could now be seen to be substantially greater than we had been told for delayed payments total some $1 billion.

Although discussions are in a preliminary stage it appears that the real economy has been moving very much along the lines programmed and that the balance of payments on current account with the convertible area has been improving noticeably more rapidly than had been forecast. The deficit for 1981 is now likely to be around $1 billion against the $1.8 billion that was targeted (in 1980 the deficit was $2.4 billion). This result has been achieved primarily by a dramatic fall in imports partly compensated by increases in imports from the Comecon area and partly met by a run down of stocks.

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It was interesting that at your lunch today no Director reacted adversely to the suggestion of our involvement at a meeting between the banks and the Romanians.

cc: Deputy Managing Director
Mr. Finch
Mr. Carter

Office Memorandum

TO : Mr. Whittome

DATE: October 14, 1981

FROM : A. Mountford AM

SUBJECT : Romania--Current Account Deficits in Convertible Currencies

	In millions of US$; - is deficit
1978	-779
1979	-1,668
1980	-2,399
1981 (forecast)	-1,825
1982 (forecast)	-1,450
1983 (forecast)	-1,000

WITHDRAWAL NOTICE

PROJECT

Project number	2008-006
Project name	European Dept/Front Office
Project tab number	358
Project box number	3

DOCUMENT

Series / File	EUR/AI/Country Files/Romania
Original box /file No	73/4
Date	October 20, 1981
Type	Summary minutes
From	
To	
Subject / Title	Romania-Review of stand-by arrangement minutes of meeting number 11
Number of pages	6
Classification	SECRET
Authority	European Department Office of Executive Director for Netherlands Policy Development and Review Department

COMMENTS

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

Entered by vsmallen Entered on 3/28/2008

Area Department Heads October 13, 1981

Brian Rose

<u>Romania--Briefing Paper</u>

As I promised at the meeting on October 6, I am attaching a copy of the Romanian briefing paper.

Attachment

cc: EED

RECEIVED
I.M.F.

1981 OCT 12 PM 1:20

CABLE
ROOM

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ORIG: EUR

248331 IMF UR
RCA OCT 12 1318
248331 IMF UR
11541D INTER R

INTERFUND
WASHINGTON DC

TYLER PAHLJARVI SALOP HERMANN AND PIKE ARRIVED BUCHAREST.

TYLER

Called: Mrs. Tyler EUR
Ms. Symons EUR

248331 IMF UR
11

Corrected: 10/9/81

October 8, 1981

ROMANIA

(In millions of U.S. dollars)

	1980	June 30, 1981
Current account deficit, convertible currencies	2,399 1/	816 2/
Official reserves, convertible currencies	489	586
Effective exchange rate index	100 3/	109 4/

1/ US$2,420 million in all currencies.
2/ Estimated on the basis of end-June data on exports, imports, and interest payments. In all currencies, the estimate is US$1,011 million.
3/ As of January 1, 1981.
4/ Based on the commercial exchange rate.

Romania--Surveillance Brief

The commercial rate of exchange is lei 15 = US$1. There are also 26 separate exchange rates for exports and 2 separate exchange rates for imports. These are to be reduced to 17 and 1 respectively on January 1, 1982. Because the leu is tied to the dollar, its effective value has risen in 1981 vis-a-vis the currencies of its European trading partners, with whom it conducts about 40 per cent of its non-CMEA trade.

seriously worried & they are
very much to avoid a rescheduling
if so cover'd arrears
& talk to banks in fact & figures
bureau against gold began to be looked at
only clear delays between banks (cap transactions)
always some delays to suppliers

R
80 debt in hard cy

	77	78	79	80
	3.4	5.0	6.7	7.9
H	4.5	6.5	7.3	8.4

Debt service as % of conv X
GDR 54% in 79
H 37% in 79

77	78	79
19%	20%	22%

Gross debt as % of conv Y
130% in 79 (Poland 332
GDR 223

Corrected: 10/9/81

October 8, 1981

ROMANIA

(In millions of U.S. dollars)

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Mr. Whittome

MEMORANDUM FOR FILES

Subject: Romania

Mr. Storf, of the Deutsche Bank in Frankfurt, called on 8 October 1981. As previously agreed with Mr. Rose, I told him the following: (1) Mr. Tyler was stopping in Europe to talk to some commercial bankers, on his way to Romania for talks about Romania's present liquidity difficulties; the choice of bankers had been those suggested by the Romanians; (2) It was hoped that the Romanians would agree to Mr. Tyler having talk with bankers in various European banking centers after his consultations in Romania; (3) Deutsche Bank might well be one of the banks that Mr. Tyler was able to talk to, in which case the Fund would be in touch with them, probably in the week of October 19-23.

Mr. Storf was content with this arrangement.

A. Mountford AM

cc: Mr. Whittome
Mr. Tyler (o.r.)
Ms. Salop

10/8/81

Romania--Selected Economic Ratios

(In per cent)

	Prospective use of Fund resources as per cent of quota
1981	58.8
1982	91.2
1983	100.0
1984	50.0

	Current account 1/ deficit to GDP 2/		Gross investment to GDP	Domestic saving ratio	Public sector surplus to GDP 3/	Net oil imports to total of nonoil imports plus net oil imports 4/		External debt to GDP 5/		External debt service to GDP 5/		External debt service to exports of goods and services	
	Total	Convertible currencies				Total	Convert-ible	Total	Convert-ible	Total	Convert-ible	Total	Convert-ible
1978	2.3	2.4	40.9	39.3	0.3	6.0	12.1	16.0	15.7	2.5	2.4	9.8	19.5
1979	3.4	3.5	40.0	38.5	0.3	3.5	6.4	15.2	14.8	2.3	2.3	11.0	18.5
1980	4.3	4.3	38.1	36.8	0.2	18.0	31.6	17.3	16.8	2.5	2.4	11.4	18.3
1981 6/	3.0	2.8	33.6	35.1	--	14.2	26.4	17.9	17.4	2.8	2.8	13.2	21.6
1982 6/	2.3	2.1	34.8	37.2	--	14.8	27.9	19.4	18.8	3.4	3.3	13.6	22.9
1983 6/	1.4	1.4	35.4	38.8	--	14.0	27.6	20.0	19.4	3.7	3.6	13.7	23.2

1/ Current account in dollars was transformed into lei via weighted averages of implicit exchange rates.
2/ GDP was derived by adding net foreign interest payments to GNP.
3/ In general, the public sector is in small surplus.
4/ Because of Romania's peculiar position as an importer of crude and an exporter of refined product, the ratio of its net oil imports to the total of its nonoil imports plus its net oil imports is provided in lieu of the ratio of oil imports to total imports. The 1979 outturn reflects the Iranian cutoff of crude oil supplies.
5/ Dollar figures for external debt and debt service were transformed into lei via weighted averages of implicit rates. There is no private external debt.
6/ Vis-a-vis the convertible area, the current account deficit is assumed to be US$1.8 in 1981; US$1.4 in 1982; and US$1.0 in 1983. In all currencies, it is assumed to be US$1.9 in 1981; US$1.6 in 1982; and US$1.0 in 1983. The debt and debt service projections reflect these assumptions.

Brief for Mr. Whittome on Romania

1. Staff mission

A staff mission is to arrive in Bucharest on October 12, 1981 to examine a possible exchange restriction that may have arisen because of delays in payments, to discuss performance under the current stand-by arrangement, and to have preliminary discussions regarding the 1982 program.

2. Delays in payments

A pattern of delays in payments by Romania to foreign suppliers and banks has developed in recent months. The sum of the payments subject to delay is unknown to us at this time. The Romanians ascribe the delays to an unanticipated shortfall in their foreign exchange position which arose because of a lengthening of the period of payment by their foreign customers and a deterioration in their ability to borrow in private capital markets. Once begun, these two factors tended to feed on each other. The Romanians contend that the actual delays involved are short; that the press has exaggerated the seriousness of the situation; that Romania's debt is manageable; and that Romania is not seeking a debt rescheduling. The Romanians have no intention of temporarily using their gold 1/ holdings to ease the liquidity shortage. They propose to correct the situation by further increasing exports and decreasing imports--particularly in the fourth quarter of 1981--even if this means sacrificing some growth in national income.

3. Performance under the stand-by

The performance criteria for end-June were all met. Short-term foreign debt and gross reserves were within the required limits but not by large margins. The trade deficit with the convertible area was US$437 million, well below the US$800 million limit. For the rest of 1981, the only problem appears to be in meeting the end-December minimum for gross reserves. Between end-June and end-December Romania will have to increase its gross reserves by US$139 million to be in compliance with the stand-by agreement, while the November drawing under the stand-by arrangement would not exceed US$86 million at the current SDR exchange rate.

4. Recent economic developments

Underlying the more favorable than expected outcome on trade account for the first six months of 1981 were an 18 per cent increase in exports and an 11 per cent decrease in imports compared with trade with the convertible area in the first six months of 1980. Total imports were virtually unchanged from the first half of 1980, suggesting a major shift--of about US$500 million--in imports from the convertible to the nonconvertible area. Over the same period, total exports grew by about 11 per cent, implying that exports to the nonconvertible area remained at the level of the

---

1/ The national valuation was US$148 million for end-July 1981 when holdings were 3.668 million fine ounces. At the recent London price of US$409.28 per fine ounce, the stock would be valued at about US$1.5 billion.

first six months of 1980. During the Annual Meeting the Romanians indicated that the deficit with the nonconvertible area that emerged during the first half of 1981 would not be reversed in the second half.

Information about the domestic economy is more limited. Gross industrial production grew by 5.7 per cent on an annual basis in the first half of 1981, compared with 6.5 per cent in 1980 as a whole. The slowing down of industrial expansion was, no doubt, related to the decrease in the volume of imports--particularly from the convertible area. The line of causation was probably in two directions, with the limitations on new investment projects reducing the demand for both imports and domestic production of investment type goods and with the devaluation and other import-reducing measures depressing the rate of growth of output through the dislocations they engendered. While the Romanians have indicated that industrial output is developing as planned, the difficulties being encountered in foreign capital markets suggest that imports and the rate of growth of industrial output are likely to fall further in the second half of 1981. For agriculture, we have no data yet, but the Romanians informed us that prospects look promising for grapes, sunflower seeds, sugar beets, and wheat, while the maize harvest is very poor. On balance this is an unfavorable development since maize is by far the most important crop.

5. Program for 1982

At the moment, of course, the overriding concern is to calm the financial markets. This will require an ambitious current account target for 1982 and a macroeconomic policy package that will be viewed as consistent with this target. Other critical elements in the program for 1982 will be the magnitude of the increases in retail prices and the exchange rate for crude oil. With respect to the former, the authorities have indicated that retail prices are to rise by 8 per cent over the 1981-85 period and that, while a firm decision has not yet been taken, in 1982 retail prices will rise at a rate higher than average. In addition, the previously agreed steps toward unifying the exchange rate must be implemented.

10/7/81

Office Memorandum

4

TO : Mr. Tyler

DATE: October 8, 1981

FROM : A. Mountford AM

SUBJECT : <u>Romania--Briefing Paper</u>

After talking to Mr. Mookerjee, I discussed with Mr. Carter the meaning of the Managing Director's second comment on page 4 of the briefing paper (attached). In essence, Mr. Carter believes the Managing Director wanted to stress that any decision to recommend a waiver would come from him. Accordingly the Manging Director's comments do <u>not</u> mean that preparation of a draft letter should be delayed until the mission's return to headquarters.

Attachment

cc: Mr. Whittome
Mr. Mookerjee
Ms. Salop

I think we must see Joanne before she goes

I think this a most uncertain basis for reversing the MD, but GT will need to be clear (I have already told him on the telephone what is in the brief, but not the cover note)

1. Payments delays

The mission will discuss the reasons for the delays, the various forms that they have taken, the policies involved and what steps are being taken to remedy the situation. The mission will not itself make a decision on whether an exchange restriction exists, except after consultation with Washington. However, if the evidence (including any obtained from the discussions with commercial banks in New York and Europe) suggests that a restriction does exist, the mission willl explore the kind of action needed to regularize the situation. If adequate steps are being taken to regularize the situation within a reasonable period, and provided the stabilization program is on track, the mission will present the situation for decision by the Managing Director. If requested, the mission will assist the authorities in preparing a draft letter to the Managing Director requesting a waiver under the stand-by arrangement, but with the understanding that a decision to recommend the request to the Board can come only from him.

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Leave that for the head-quarters if the request appears justified.

(Leave tha for the head-quarters if the request appears justifie

2. Performance in 1981

The mission will discuss the main developments in the economy in 1981, including the balance of payments and trends in output and expenditure. It is vital to obtain information about the period since June and about current trends. It will also discuss the reforms of producer prices and the exchange rate system introduced on January 1, 1981 and their impact on the pattern of production and the balance of payments. In discussing the balance of payments, special attention will be paid to any new measures designed to increase exports to the convertible area or to reduce demand for imports. The mission will judge to what extent these measures have placed the external improvement on a sustainable basis.

SEC-17/OCR REV 1
4-23-80

IMF OFFICIAL MESSAGE

WASHINGTON, D.C. 20431

2

ADDRESS

MR. GEOFFREY TYLER
CONNAUGHT HOTEL
LONDON

MARK XX FOR SERVICE

(x) TELEX
( ) FULL RATE
( ) CODE

DISTRIBUTION

DO NOT TYPE HERE

TEXT

YOU HAVE AN APPOINTMENT ON OCTOBER 9 AT 9.30 A.M. WITH MR. CLEEMPUT, DIRECTOR FOR INTERBANK RELATIONS, KREDITBANK, ARENBERG STRAAT NO. 7, BRUSSELS (NEAR THE NATIONAL BANK). GOOD LUCK.

PATRICK

TEXT MUST END HERE

SPECIAL INSTRUCTIONS

DRAFTED BY: P.de Fontenay EXT. 72878 DEPARTMENT: EUR DATE: 10.7.81

NAME (TYPE): NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

FOR CABLE ROOM USE ONLY

No. of words ______ Log ______ Route ______ Operator ______

SIGNATURE: ______ SIGNATURE: ______

Office Memorandum

October 7, 1981

MEMORANDUM FOR THE FILES

Subject: Romania

I talked to Mr. Laske this morning and filled him in on the position in regard to Romania. I also told him about Mr. Tyler's mission to the commercial banks and to Bucharest and outlined some of the alternative procedures available to deal with the next purchase.

I called on Mr. Erb this afternoon and also filled him in on the Romanian situation and what we were doing about it. He told me that he and Mr. Sprinkel had had no more success than we had in obtaining from the Romanian Minister coherent and detailed explanation of what had happened. We talked at some length around the situation and I took the general line that there was not much further to be done until Mr. Tyler's return, though I did mention some of the alternative possibilities that would then exist in regard to the November purchase.

I then asked Mr. Erb whether he had been informed of the meeting that the Managing Director and Deputy Managing Director had with the U.S. Ambassador-Designate to Romania on September 24; I had suspected from my contact with the State Department that he had not been informed. Mr. Erb confirmed this and said (without rancor) that he had been rather put out. I explained to him that we in the European Department were well aware that the proper procedure for contact with the U.S. Government was that everything other than routine factual enquiries should be channeled through his office and I conjectured that the State Department had made the appointment directly with the Managing Director's office where there had no doubt been some misunderstanding. Mr. Erb will take the point with Mr. Dale, whom I have put on notice, and will probably circulate a memorandum to Department Heads asking for a re-establishment of the procedures used by Mr. Cross and previously Mr. Dale himself. I have also warned Mr. Carter of this problem though I said I thought there was no need to bring this particular case to the personal attention of the Managing Director.

Brian Rose BR

cc: EED

~~Mr. Rose~~
4Arl

MEMORANDUM FOR THE FILES

October 6, 1981

Subject: Romania-Visit to Brussels

Mr. Coene, Assistant to Mr. de Groote, rang to say that the latter was wondering what was the purpose of the visit to Brussels. I explained the reason to him including the fact that if possible and if desired by Krediet Bank, I would drop off at Brussels on the way back to discuss economic developments in Romania. Mr. Coene said that the was sure Mr. de Groote would welcome the visits.

GT

Geoffrey Tyler

cc: Mr. Rose
Ms. Salop

Cc: EED(2)
LAW
Area Depts.

Mr Dale

OCT 6 1981

INTERNATIONAL MONETARY FUND

October 6, 1981

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE

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

I believe the attached brief is appropriate. But I think you should read it with care because the possibility of an eventual waiver-- to be decided upon after the mission returns-- is discussed. The issue is, I think, the precise stance the mission should take in the present state of partial information on the possibility of a wiaver.

You should know, in view of the sensitivity of the subject, that the visits to commercial banks are at the suggestion of the Romanians and the specific banks to be visited are agreed with the Romanians. It was on this specific basis that I approved visits to banks.

Office Memorandum

TO : The Acting Managing Director

DATE: October 6, 1981

FROM : Brian Rose BR

SUBJECT : Romania--Briefing Paper for Review of Stand-By Arrangement

I am attaching a draft brief for the mission which will visit Romania to discuss various aspects of the stand-by arrangement, and in particular a probable introduction of a new exchange restriction that would prevent further purchases under the current stand-by arrangement. The draft has been cleared with Mr. Cutler (TRE), Mrs. Lachman (LEG), and Mr. Mookerjee (ETR).

Mr. Tyler and Mr. Paljarvi will be leaving Washington on the afternoon of Tuesday, October 6, 1981 and will, before proceeding to Bucharest, have discussions with commercial banks in three countries. Other members of the mission, however, will not be leaving until Friday, October 9. It is therefore not essential, though obviously desirable, that the draft be approved before Mr. Tyler's departure.

As I mentioned to you on the telephone, I think it would be helpful to Mr. Tyler if we could transmit to him the Managing Director's personal views later this week.

Attachment

cc: The Managing Director (o/r)
Mr. Carter

INTERNATIONAL MONETARY FUND

Romania

Briefing Paper - Review of Stand-By Arrangement

Prepared by the European and Exchange and
Trade Relations Departments

Approved by Brian Rose BR and Subimal Mookerjee SM

October 6, 1981

I. Introduction

A mission consisting of G. Tyler (EUR), W. Hermann (EUR), J. Paljarvi (ETR), J. Salop (EUR), and as secretary, L. Pike (EUR) will visit Bucharest from October 12, 1981 for about a week to discuss performance under the current stand-by arrangement and to examine a possible exchange restriction that may have arisen because of delays in current payments. On their way to Bucharest, Mr. Tyler and Mr. Paljarvi will visit New York, London, and Brussels for informal discussions with commercial banks on the Romanian economy and current Romanian payments practices.

On June 15, 1981 the Executive Board approved a stand-by arrangement for Romania for a period of three years in an amount of SDR 1,102.5 million. An initial purchase of SDR 140 million was made in June, 1981. The next phased purchase, equal to SDR 76 million, is scheduled to be available on November 15, 1981. Subsequent purchases after December 31, 1981 cannot be made until, inter alia, suitable performance criteria for 1982 have been established and Romania has consulted with the Fund on all aspects of the program. Discussions for this consultation are expected to take place early in 1982.

II. Background to the Discussions

For 1981, the program has a major aim of reducing the current account deficit of the balance of payments in convertible currencies to US$1.8 billion compared with a deficit of US$2.4 billion in 1980. To this end, growth rates of consumption and investment have been reduced below the levels of the late 1970s and various ongoing structural policies have been introduced including price reforms and exchange rate reforms. The stand-by arrangement includes quantitative performance criteria on (i) the trade balance in convertible currencies, (ii) outstanding short-term debt in convertible currencies, (iii) gross convertible international reserves and (iv) net domestic assets of the banking system. In addition, there is the standard performance criterion governing the trade and payments system.

The performance criteria for end-June 1981 were all met, and that dealing with the convertible trade balance comfortably so. Targets for outstanding short-term foreign debt and gross reserves were within the required limits but not by any great margins. At the Annual Meeting, the Romanian delegation said that they expected the end-September data would be within the specified limits although they had some worries about being able to meet the target for gross convertible international reserves at end-December 1981 (see below).

Although the current account appears to have developed satisfactorally, there have been difficulties on capital account. First, the authorities say that some payments for Romanian exports have been delayed (we do not know why) and other exports are being taken only on credit terms whereas in the past they were paid for in cash. Second, the Romanians themselves have found the terms for borrowing in international capital markets harder than they had anticipated or found convenient. The combination of a diminished foreign exchange inflow and of tightness in capital markets led to a widespread pattern of delayed payments by Romania. The sharply negative response by foreign banks was aggravated by two additional factors. First, the Polish debt problems have made bankers cautious about lending to Eastern Europe. Second, there have been various adverse press reports on Romania's payments prospects. These reports received wide acceptance because the Romanians are excessively secretive about developments in their external payments balance.

It is possible, indeed probable, that the Romanian delays in making current payment involve an exchange restriction. If this is the case, a waiver under the stand-by arrangement would be required before any further purchases could be made, which we could of course not propose until action is taken to redress the present situation. Inability to make the purchase potentially available on November 15, 1981 would seriously exacerbate the existing liquidity deficit facing Romania.

III. Scope for the Discussions

The mission will have the following three main tasks:

(i) to ascertain the facts regarding the delays in making current payments and the reasons for the present difficulties so that a decision can be made in Washington as to whether a new exchange restriction has been introduced;

(ii) to discuss economic developments so far in 1981 and expectations for the remainder of the year; and

(iii) to have preliminary discussions regarding the 1982 program, including measures to prevent a repetition of payments delays.

1. Payments delays

The mission will discuss the reasons for the delays, the various forms that they have taken, the policies involved and what steps are being taken to remedy the situation. The mission will not itself make a decision on whether an exchange restriction exists, except after consultation with Washington. However, if the evidence (including any obtained from the discussions with commercial banks in New York and Europe) suggests that a restriction does exist, the mission willl explore the kind of action needed to regularize the situation. If adequate steps are being taken to regularize the situation within a ~~reasonable period~~, and provided the stabilization program is on track, the mission will present the situation for decision by the Managing Director. If requested, the mission will assist the authorities in preparing a draft letter to the Managing Director requesting a waiver under the stand-by arrangement, but with the understanding that a decision to recommend the request to the Board can come only from him.

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rapidly

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Leave that for the headquarters if the request [illegible] first.

(Leave that for the head-quarters if the request appears justified)

2. Performance in 1981

The mission will discuss the main developments in the economy in 1981, including the balance of payments and trends in output and expenditure. It is vital to obtain information about the period since June and about current trends. It will also discuss the reforms of producer prices and the exchange rate system introduced on January 1, 1981 and their impact on the pattern of production and the balance of payments. In discussing the balance of payments, special attention will be paid to any new measures designed to increase exports to the convertible area or to reduce demand for imports. The mission will judge to what extent these measures have placed the external improvement on a sustainable basis.

3. Program for 1982

It is probable that only broad indications of targets for 1982 can be given at this stage in view of the normal timetable for finalizing annual plans. Moreover, the payments problems that have emerged are certain to have complicated the planning process this year.

In the discussions, the mission will stress the need for achieving a further substantial decrease in the current account deficit in convertible currencies in 1982. To restore outside confidence in the Romanian economy and to encourage foreign banks to lend to Romania, such an improvement will have to be seen to be sustainable in the medium-term. The mission will emphasize the necessity to give first priority to the convertible balance of payments even though this may mean a further reduction in growth rates of output and domestic expenditure. Domestic policies, including credit policy and incomes policies, must support the external efforts.

As the Managing Director stressed to the Minister of Finance at the Annual Meeting, the mission will, with respect to price policies, emphasize the views expressed in the Executive Board that the promised continuation of the producer price reform must take place, including a significant increase in oil prices. Equally, the mission will stress the need to introduce the promised reform of retail prices on January 1, 1982, to an extent that will substantially reduce consumer subsidies. The mission will also remind the authorities of the understanding under the stand-by arrangement to continue with the exchange rate unification begun on January 1, 1982.

4. Information and publicity

The mission will urge the authorities to increase and speed up the supply of information to the Fund for publication in IFS and GFS. It will also stress to the authorities the view that they themselves should be more active in publicizing economic developments and policies so that the international community, including the commercial banks, is aware of the steps being taken to stabilize the economy. Recent events underline the need for such action in Romania's own interest.

I.O.

October 6, 1981

MEMORANDUM FOR FILES

Subject: Romania

I had a discussion this morning with Mr. Humphrey of the World Bank regarding Romania. I explained to him the problem that had arisen because of the delays that are occurring in Romania's foreign payments and the way in which we were proposing to handle it. We also had a brief discussion about what the Romanians had told us both at the Annual Meeting. There was not much difference except that the Romanians were much less frank with the World Bank about the problem of payments delays.

Mr. Humphrey said that the Bank was having some procedural problems with respect to two matters that they had to take up with Romania. He said that anything that I could do during the mission to help speed things along would be appreciated. The first problem has to do with Romanian reluctance to answer a questionnaire on the investment program; the Bank needs answers so that they can continue with their analysis of the current Five-Year Plan. The second matter concerned a study that the Bank wished to do on the energy sector. This was referred to in the staff paper on the original request by Romania for a stand-by arrangement. I undertook to emphasize the importance that the Fund staff attached to both these matters in the context of the stand-by arrangement.

GT

G. Tyler

cc: Immediate Office
Ms. Salop

Office Memorandum

TO : The Acting Managing Director DATE: October 5, 1981

FROM : Brian Rose

SUBJECT : Romania--Briefing Paper for Review of Stand-By Arrangement

As discussed earlier today, I am attaching a draft brief for the mission which will visit Romania to discuss various aspects of the stand-by arrangement, and in particular a probable introduction of a new exchange restriction that would prevent further purchases under the current stand-by arrangement. The draft has been cleared with Mr. Cutler (TRE), Mrs. Lachman (LEG), and Mr. Mookerjee (ETR).

Mr. Tyler and Mr. Paljarvi will be leaving Washington on the afternoon of Tuesday, October 6, 1981. Other members of the mission, however, will not be leaving until Friday, October 9. It is therefore not essential that the draft be approved before Mr. Tyler's departure.

Attachment

cc: The Managing Director (o/r)
Mr. Carter

BR OK by re
5/10

OCT 5 1981

Office Memorandum

TO : The Acting Managing Director

DATE: October 5, 1981

FROM : Brian Rose BR

SUBJECT : Romania

As you know, there have been persistent reports of delays in international payments by Romania and of withdrawal of short-term credit facilities to that country by commercial banks. The delays in payments may well, indeed probably, constitute an exchange restriction and hence a breach of the standard performance criterion on the trade and payments system contained in the stand-by arrangement. If this is so, Romania could not make its next purchase of SDR 76 million, which is potentially available on November 15, 1981. This would further exacerbate the external liquidity squeeze that Romania is experiencing.

During the Annual Meeting, Mr. Whittome agreed with the Finance Minister, Mr. Gigea, that we would send a mission as soon as possible to review the situation and, if a waiver is justified, obtain it from the Board in order to permit Romania to make the November 15 purchase on time. This will necessitate circulating a paper before the end of October. If you agree, the mission will arrive in Bucharest on October 12, 1981. As well as dealing with the possible exchange restriction, it would review economic performance in 1981 and have preliminary discussions about the 1982 program.

It was also agreed with Mr. Gigea that it would be helpful if the staff could have informal discussions with a few commercial banks. From the Romanian point of view, such talks could inform the banks of the progress Romania is making in improving the current account and perhaps encourage them to be more sympathetic to Romania. From our point of view, it could give us more information on payments delays. If you agree that we can approach some banks, Messrs. Tyler and Paljarvi (ETR) would visit New York, London, Brussels, and Frankfurt on their way to and from Bucharest. Mr. Hermann and Ms. Salop (EUR) would join them in Bucharest.

The timetable is very tight. A draft briefing paper will be with you shortly. In the meantime, we must quickly contact some banks if we are to arrange meetings with them. Could you please indicate whether you approve of (a) the mission and (b) informal visits to commercial banks?

cc: The Managing Director (o/r) ✓
Mr. Carter

cc. EED

Office Memorandum

TO: The Acting Managing Director

DATE: October 5, 1981

FROM: Brian Rose BR

SUBJECT: Romania

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cc: The Managing Director (o/r)
Mr. Carter

CC: ADM
SEC

For the record, I understand that seeing banks, and the identification of the particular banks to see, was agreed with the Romanians. Approved. 10/5/81

Mr. Whittome
W

MEMORANDUM FOR FILES

Subject: Romania

October 5, 1981

Present: Mssrs. Gigea, Eremia, Marin, Tocitu, Ionescu-Liviu, and Contineanu met with Mssrs. Whittome, Schmitt, and Tyler on October 1, 1981.

Mr. Whittome began by describing his understanding of the improvement that had occurred in the current account and also the difficulties in making short-term payments to foreign banks. He pointed out that delays in payments might be a restriction and if so could prevent the November purchase under the s.b.a. He suggested that a mission visit to Romania to ascertain facts with a view to obtaining any necessary waiver before November 15, 1981. If the Romanians thought it helpful the staff could perhaps talk with several banks in New York and Europe, first to find the problems and after the discussions in Bucharest to explain developments to the banks. Such steps would be taken only with the approval of the Romanian authorities.

Mr. Whittome then put forward two thoughts. The first was that a more difficult capital account presumably necessitated a better current account than originally planned and this could have implications for growth in 1982. The second was the possibility of in some way utilizing gold in a temporary fashion to ease the liquidity squeeze.

Mr. Gigea said that developments in Romania were no special cause for concern. Industrial and agricultural output were on target. With the latter, wheat, sugar, sunflower, and grapes had done well although corn output was down. Investment was being restricted and directed to productive sectors especially coal mining. Oil consumption was at the 1979 level. Foreign trade targets were being met. The payments problem had begun when Western companies had delayed payments for Romanian exports and also asked for credit rather than cash terms (especially for fertilizer, timber, and food products). The amount involved was about US$300 million. In turn Romania had been forced into the same situation. Romania did not want a debt rescheduling. Debt was manageable and there was no parallel with Poland. The press had greatly exaggerated the situation. Delays were short. If necessary the rate of growth would be adjusted.

For the period ahead, export targets had been increased and should be realized. Natural gas exploitation was being increased substantially (by 30-35 trillion cubic meters (p.a.?)). Imports were being cut.

On retail prices, Mr. Gigea said the Five Year Plan allowed for an 8 per cent increase and in 1982 the increase would be above the average rate, although an exact figure could not be given.

It was agreed that the mission could begin talks on Monday, October 12, 1981. The staff could talk with commercial banks but it should be made clear to them that it was not at Romania's request and that no rescheduling was in prospect. Mr. Gigea said that Romania had no thought of using gold. Regarding performance criteria, the only problem in 1981 would be the end of December gross reserves figure.

Mr. Whittome ended by saying the present situation emphasized the need for adequate reserves and a free flow of information.

Geoffrey Tyler

cc: Mr. Whittome

Mr. Whittome

MEMORANDUM FOR FILES

October 5, 1981

Subject: Romanian Meeting with the Managing Director

Mssrs. Gigea (Minister of Finance), Popescu (President of Investment Bank), Eremia (President of the Romanian Bank for Foreign Trade), and Mada (Ministry of Finance) meet with the Managing Director on Friday, October 2, 1981 at 9:10 a.m. Also present were Mssrs. Schmitt and Tyler.

Mr. Gigea began by saying that the economy was basically in good health with both industry and agriculture doing well. However, there was a temporary problem in meeting foreign payments. Partly this was due to delays in payments to Romanian exporters and requests for export sales on credit, especially for fertilizer and timber. The problem was aggravated by high raw material and oil prices. Romania was acting to increase foreign exchange receipts by a general export drive and by increased exploitation of natural gas, where output was being increased by 30-35 trillion cubic meters. Exports in the fourth quarter of 1981 will be above the original plan. Mr. Gigea also mentioned the adverse impact of bad press reports and the Polish situation.

The Managing Director said that he was also worried about adverse press reports. He emphasised the need to avoid criticism regarding external transactions by acting in a normal fashion. He believed the debt situation was managable but difficult. It would help the Romanian image if more publicity could be given to the adjustment effort. By showing that the adjustment program was proceeding as planned Romania could show a malicious world that a socialist country can improve itself. An improved current account would help calm markets.

The Managing Director then emphasised the need to continue with the price reforms, referring particularly to the need to increase domestic producer prices for oil and to increase retail prices so as to reduce substantially consumer subsidies.

In summary, the Managing Director said that Romania should be vigilant with its image, it should stick to its program, (for example with respect to oil prices and retail prices) and should reduce the balance of payment deficit even if this needed lower growth.

The meeting ended at 9:30 a.m.

GT

Geoffrey Tyler

cc: Mr. Whittome

λAW

MEMORANDUM FOR THE FILES

Subject: Meeting with the Romanian Delegation October 1, 1981

PRESENT: Romanians: Messrs. Eremia, Tocitu, Marian (interpreting)

Fund: Messrs. Schmitt, Paljarvi (ETR), Ms. Salop

1. Mr. Eremia began with the following sketch of what happened to cause the difficulties in financial markets:

A. Generally speaking, developments in foreign markets have been worse than anticipated. Continued high inflation rates, high interest rates, and recession have made for a poor climate for exports. The first two factors also had a direct impact on Romania's cash flow.

b. Starting with the end of the second quarter, some of Romania's customers asked to delay payments for up to six months. These requested delays totaled about US$200 million and had been unanticipated; hence they had not been taken into account in drawing up the foreign exchange plan.

c. In response, the Romanians began to be late in paying their suppliers. They successfully negotiated delays with some suppliers, but not with all. The negotiations were conducted between the enterprises involved. Despite these efforts, a "bad atmosphere" was created, largely because the suppliers complained to their banks.

d. During this period, Mr. Eremia had meetings with various bankers wherein he tried to explain the situation. The Romanians, having come away from these meetings with an understanding of the gravity of the situation, resolved to take measures to eliminate the payments delays by the end of the year. To this end, exports will be pushed even harder in the 4th quarter, which usually has the best performance anyway because of enterprises' desires to fulfull their production and export targets.

e. With respect to export prospects, the corn harvest--it now turns out--is very poor (there was a drought at the critical moment). Wheat, surgar beets, sunflowers, and grapes are very good. Reliance for increasing exports will mostly be on reducing domestic consumption--by enterprises--of gasoline and petroleum products. For the medium-term, natural gas production will be increased (out of existing reserves). This will allow imports of crude oil to be decreased.

2. Mr. Schmitt summarized the Romanians' position. This led to some clarification and the following scenario emerged:

a. There were three interdependent difficulties which caused the liquidity problem: delayed payments by Romania's customers; adverse attitude toward Romania by the bankers; and world market conditions which prevented exports from expanding more rapidly. 1/

1/ Note that convertible exports in the first six months were 50.8 per cent of the forecast for 1981 as a whole. For total exports, the corresponding proportion was 46.8 per cent. Convertible exports were up 18 per cent over the first half of 1980.

b. The immediate response of the Romanians included: delays in payments to suppliers and to banks; some diversion of domestic suppliers to exports; and some shift in imports to the nonconvertible area.

3. With respect to the reported "roll-over" request, Mr. Eremia stated that Romania had not requested anything by way of a rescheduling. Rather, they had sought--as is normal practice with short-term debt--to establish its " revoling" character. (Mr. Tocitu indicated that of the US$2.1 billion short-term debt outstanding at the beginning of 1981, US$0.4 billion was to have been repaid and US$1.7 billion to have been renewed). The "roll-over" reports in the press were the result of Mr. Marin's having been misquoted by the man who interviewed him.

4. Mr. Eremia said that it was his intention to look into the Romanians' foreign banking practices and to implement reform measures where necessary. He also agreed with Mr. Schmitt to the effect that, had the implications of the delays in payments been known in advance, the Romanians would have responded to their shortfall in foreign exchange in a different manner.

5. The actual figures are not available yet, but there do not appear to be any problems with meeting the performance criteria.

J. Salop JS

cc: Mr. Whittome
Mr. Rose
Mr. Schmitt
Mr. Tyler
Mr. Paljarvi

Romania
Yugoslavia
Turkey

THE WORLD BANK
INTERNATIONAL MONETARY FUND

Boards of Governors • 1981 Annual Meetings • Washington, D.C.

October 1, 1981

MEMORANDUM FOR FILES

Subject: Romania, Yugoslavia, and Turkey

Mr. Loehnis and Mr. Gilchrist called today for a general discussion of the three countries. (Present were Mr. Schmitt, Mr. Hole, Mr. Dakolias, and Mr. Manison.

Brian Rose BR

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October 1, 1981

MEMORANDUM FOR FILES:

2

Subject: Meeting with Members of Romanian Delegation
Washington, D.C., September 30, 1981, 3 pm.

Present: Mr. Eremia, President, Romanian Bank for Foreign Trade
Mr. Tocitu, Ministry of Finance
Mr. Marian, Investment Bank
Mr. Schmitt, IMF
Ms. Salop, IMF
Mr. Paljarvi, IMF

The main topic of discussion at the meeting was the current economic situation in Romania, in particular certain reported difficulties faced by Romania in international financial markets. Here is a summary of the situation as it emerged from explanations by Messrs Eremia and Tocitu.

During the first three quarters of the year the real side of the Romanian economy has developed approximately according to plans. A deviation of some importance has been a bad crop of corn caused by a severe drought at a crucial time. However, harvests of other agricultural products have been very good. It was stressed that there have been no deviations from the Fund program. Developments in the international economy on the other hand have been less favorable than expected. In particular the anticipated recovery from recession has failed to materialize, prices of imports to Romania have continued to rise and interest rates have reached peak levels.

Most importantly, the international financial markets turned pessimistic on Romania. According to Mr. Eremia the difficulties started when some important customers requested a change in the method of payment for their imports from Romania. This involved switching from the normal cash payment to delayed payment facilities up to 180 days. These unexpected delays were effected both for payment of exports delivered in 1980 (totaling more than US$100 million) and those shipped in during the first half of 1981. The foreign trade companies were at present engaged in negotiations with the customers concerned to reduce the delays. So far these negotiations had not been uniformly successful. Also the Romanian authorities have tried to obtain some credit facilities to pay for oil imports, but the negotiations on these have not yet been completed.

The cash flow problem caused by the need to grant unforeseen export credits could in the short run only be resolved by delaying payments on imports. The total amount of such delays had currently reached US$200 million. It was acknowledged that the payments delays might have taken the forms of using overdraft facilities in excess of limits, delays in reconstituting overdrafts and the practice of check kiting. Why Romania did not borrow more from the banks to cover the gap did not become clear from the discussion. Possible explanation was that the terms for taking on new short term debt would have been exceptionally onerous at the time of the current high interest rates and since Romania already needs to renew US$1.7 billion of its convertible short term debt of US$2.1 billion outstanding at the beginning of 1981. It was stressed by the Romanian representatives that there had been no delays in making payments of financial credits. The existence of ceilings on short term debt under the stand-by arrangement had not been a consideration in not borrowing more. The problems that these factors posed for the creditworthiness of Romania were aggravated by some other events. The Polish situation had made the bankers nervous and it had become a common practice to look for the "next Poland." Also an interview of Mr. Marin, the successor of Mr. Eremia as Director at the Ministry of Finance with a reporter of the Financial Times, had resulted in some misunderstandings with high cost to Romanian creditworthiness. In the article it was stated that Romania was contemplating a rollover of short term debt. The Romanian representatives at the meeting stated that Romania had never asked for a rescheduling of any credits or for delaying payments to any commercial bank.

It was recognized that aside from the efforts to negotiate with Romania's trading partners to obtain timely payments for exports and some more credit facilities to pay for imports, very little can be done in the very short run to ease the tight cash flow situation with the current sentiment in the financial markets concerning Romania. Efforts were being made to cut domestic consumption of certain products, in particular diesel and heating oil, to release more for exports. The recent decision to speed up exploitation of existing natural gas reserves could produce some savings in the oil import bill only in the longer run. The Romanian officials did not see any possibility of cutting back on imports during 1981 and were not prepared to discuss policy alternatives for 1982.

J. Paljarvi
Economist

cc: Mr. Mookerjee
Mr. Schmitt
Mr. Tyler
Ms. Salop