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July 19, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Romania - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Romania, which has been tentatively scheduled for discussion on Wednesday, September 5, 1984. A draft decision appears on page 17.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Brehmer (ext. (5)8805), Mr. Prust (ext. (5)7884), or Mr. Reitmaier (ext. (5)8817).

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INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for the 1984 Article IV Consultation

Prepared by the European Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by L. A. Whittome and Subimal Mookerjee

July 18, 1984

I. Introduction

A staff team consisting of Messrs. Brehmer, Prust, Reitmaier, Thomsen, and Ms. Walters as secretary (all EUR) visited Bucharest May 15-29, 1984 to conduct Article IV consultation discussions. ^{1/} The Romanian delegation was led by Mr. Marin, Director in the Ministry of Finance. The mission was received by Mr. Gigea, the Minister of Finance, Mr. Dumitrescu, the Governor of the National Bank, and Mr. Urdea, Deputy Minister of Finance.

As of June 30, 1984 the Fund's holdings of lei subject to repurchase amounted to the equivalent of SDR 1,048 million or 200 percent of the new quota of SDR 523.4 million, including holdings related to purchases under the compensatory financing facility (SDR 230 million or 44 percent of the new quota) and under enlarged access (SDR 461 million or 88 percent of the new quota).

Romania continues to avail itself of the transitional arrangements under Article XIV.

Total gross disbursements by the World Bank to Romania amounted to US\$352 million in calendar year 1983 and are projected to fall to US\$115 million in calendar year 1984. No new loans have been committed for about two years. In the summer of 1983 Romania requested a resumption of borrowing from the Bank under the Special Action Program. The IBRD responded that this needed to be contingent on agreement on debt reporting and procurement procedures, and the provision of more information on the investment program and other key areas of country and sector policy. It would also depend on a resumption of normal project borrowing, but as yet the Government has not come forward with any such project proposals. An

^{1/} To enhance the staff's understanding of the working of the Romanian economic system, a visit to Romania was made from February 22 to March 2, 1984 by a staff team consisting of Messrs. Brehmer, Prust, Reitmaier (all EUR), Mrs. Puckahtikom (ETR), and Miss Windsor (RES) as secretary.

IBRD mission visited Romania in late April 1984 to begin the process of reviewing the investment program; the main review may take place later this year.

II. Background

Following a severe deterioration in its external position in 1978-80 Romania entered into a three-year stand-by arrangement in June 1981 for an amount of SDR 1.1 billion or 300 percent of the old quota of SDR 367.5 million. This arrangement was in support of a policy of demand restraint and measures to promote efficient resource allocation, including increases in energy and other prices, and an exchange reform. After an interruption of drawings pending the conclusion of rescheduling agreements in 1982, substantial purchases under the arrangement were resumed in late 1982. Important parts of the 1983 economic program were agreed at that time and in early 1983, including two devaluations, full unification of the commercial rates of exchange, pegging of the leu to a basket of currencies, and increases in interest rates and energy prices. Further measures were to be agreed later in the year as a condition for the release of the final two purchases under the 1983 program. Romania met all quantitative performance criteria in 1982 and 1983 (except the gross reserve target) and achieved an impressive turnaround in the external current account. But, with declining convertible non-oil exports, the current account improvement was based on a sharp curtailment of imports with negative consequences for economic growth.

Against this background, Directors noted during the September 1983 Board discussion of the staff report for the last Article IV consultation that a prompt implementation of further policy action was needed, particularly to depreciate the exchange rate and raise interest rates further. Directors also stressed the need for a continued strategy to reduce energy consumption further and maximize domestic energy production, partly with the help of appropriate pricing policies.

Romania agreed to introduce a further significant devaluation as well as measures designed to address the problem of the underpricing of capital and further increases in crude oil prices, and in January 1984 the remaining two purchases under the 1983 program were released following a review of the stand-by arrangement by the Executive Board. At this review, Directors emphasized the need for further adjustment measures, in order to make the improvement of the current account durable, to improve resource allocation, and to help restore creditor confidence. The Romanian authorities requested the cancellation of the existing stand-by arrangement as of January 31, 1984. They have stated that at present they are not planning to request a new stand-by arrangement with the Fund.

III. Recent Developments and Prospects

1. External developments

a. The convertible balance of payments

(1) 1983

In 1983 the convertible current account surplus increased for the third consecutive year to US\$0.9 billion. Despite further debt rescheduling agreements with commercial banks and governments, debt repayments remained heavy and the inflow of new credit low. There was approximate balance in the overall payments position. The Romanian authorities have stated that remaining arrears, to nonguaranteed suppliers, were eliminated.

The convertible trade surplus at US\$1.7 billion was somewhat higher than planned. Continuing the trend of the previous year, the deficit on oil trade was, as planned, reduced by almost one half to less than US\$0.5 billion due to curbs on oil imports for domestic use. The surplus on non-oil trade at US\$2.2 billion was also broadly as planned but its composition differed markedly from original expectations. As in 1982, the level of non-oil trade declined in U.S. dollar terms. The value of non-oil exports fell by 9 percent, compared with an originally planned increase of 2 percent, reflecting reduced exports of machinery and equipment, manufactured consumer goods, and agricultural items. There are indications that the decline resulted partly from lower exports to developing countries than in 1982. The authorities estimate that average unit values for non-oil exports declined by 5 percent in dollar terms, implying a fall in non-oil export volume of about 4 percent. With declining non-oil exports, achievement of the trade balance target required a further compression of non-oil imports whose dollar value fell by 7 percent instead of increasing as planned by 20 percent. Taking account of declining unit values in U.S. dollar terms, the authorities estimate that non-oil import volume fell by about 2 percent. Developments in 1983 brought the cumulative decline in non-oil imports since 1980--the year in which major import cuts were first made--to over one half in dollar terms but somewhat less in volume terms; there were substantial declines in all categories. Almost all of the decline in 1983 was accounted for by finished goods as a result of which imports of items classified as "capital goods" were virtually eliminated. ^{1/}

The services balance recorded a somewhat reduced deficit in 1983 of US\$0.8 billion, almost entirely because of a decline in gross interest payments, also to a level of US\$0.8 billion. This reflected the reduction in foreign debt and international interest rates.

^{1/} Actual imports of capital goods may in fact have been somewhat higher since some such imports may be classified as intermediate goods in the Romanian data (see RED).

The capital account in 1983 recorded a net outflow of US\$0.6 billion. Of newly maturing repayments on medium- and long-term debt of US\$1.2 billion, about US\$750 million was rescheduled by banks and governments. New medium- and long-term capital inflows were relatively small at US\$0.5 billion, of which the majority was accounted for by the World Bank and the remainder by suppliers. Similarly, new short-term borrowings were limited, to less than US\$0.3 billion. But the substantial repayment of short-term suppliers' credits contracted in 1982 and downpayments under the 1982 reschedulings, and the net extension of short-term credit by Romania to foreign customers of almost US\$0.3 billion made for a large net outflow of US\$0.8 billion on the short-term capital account.

There was some increase in foreign reserves to US\$658 million, although this level was US\$179 million below the target that had been stipulated under the 1983 program. The reserves were equivalent to less than two months of 1983 convertible imports but exceeded the end-1983 outstanding stock of short-term debt (US\$0.4 billion). Total external debt in convertible currencies fell by US\$0.9 billion to US\$8.9 billion at end-1983, partly reflecting currency valuation changes. The ratio of debt service to exports of goods and services in convertible currencies fell to 23 percent in 1983.

(2) 1984

For 1984 the Romanian authorities project a further, relatively modest, increase in the current account surplus to just over US\$1 billion. Despite the authorities' intention not to seek any further debt relief, the total net capital outflow is likely to rise only slightly, mainly because of an expected sharp reduction in net short-term outflows. The inflow of new credit from abroad is projected to remain small reflecting a cautious approach on the part of both the Romanian authorities and foreign creditors, although creditor confidence appears to have improved somewhat, notably for short-term credit. The forecast small overall surplus, together with the final purchase of SDR 184 million from the Fund in January 1984 under the 1983 Fund program, is expected to permit an increase in international reserves of about US\$100 million.

The authorities' trade forecasts are for little change in the balance on either oil or non-oil trade. However, in contrast to actual developments in 1983, the levels of both non-oil exports and imports are expected to rise--by 4 percent and 7 percent, respectively, in dollar terms. In both instances, price changes are expected to account for 2 percentage points of the increase. During the discussions, the staff questioned the consistency of these forecasts on the grounds that the current low level of non-oil imports compared with 1980 was likely to inhibit growth of output in general, and exports in particular. The results in the first quarter of 1984--when the value of non-oil imports and exports fell by 10 percent and 5 percent, respectively, compared with one year earlier--lend some support to this view.

The Romanian authorities contended that 1980 was not the most appropriate base year for assessing the adequacy of imports, partly because of unusually high food imports at that time. Moreover, in the meantime there had been a lasting reduction in the ratio of imports to output through import substitution, and improvements in the use of raw materials and intermediate goods. They also suggested that it would be unwise to base a prognosis for the whole year on the first quarter's results alone.

Only a small reduction in the deficit on services to US\$0.7 billion is officially forecast for 1984. A modest decline in interest payments and an increase in tourist receipts are expected to be largely offset by increased net payments on account of other services, including transportation, which reflects mainly the increased level of merchandise trade.

New borrowing abroad is forecast to decline further, to about US\$0.6 billion evenly distributed between short and long term, while newly maturing repayment obligations on medium- and long-term debt will be only a little below their 1983 levels. However, the heavy short-term outflows that occurred in 1983 should be replaced by a small net inflow. A sharp turnaround is forecast in the short-term extension of credit--from a net outflow of almost US\$0.3 billion in 1983 to a net inflow in 1984 approaching US\$0.2 billion, as the authorities expect a reduced need for extending credit to encourage export sales. The staff has some doubts as to whether such an abrupt increase in the proportion of exports sold for cash can be achieved in so short a period.

b. Nonconvertible balance of payments

The Romanian statistics record that the current surplus on the nonconvertible balance of payments fell substantially in 1983 to about US\$0.2 billion largely because of a lower trade surplus; the authorities had originally expected a small current deficit. The recorded value of exports in U.S. dollars fell slightly while that of imports was little changed; no estimates are available of the change in volume terms.

As a result of a continuing extension of credit by Romania, the overall surplus in nonconvertible currencies was less than US\$0.1 billion, reflecting a decline by US\$90 million in debit balances under bilateral payments agreements with Fund members and a small deficit in overall transactions with CMEA countries.

In 1984 the Romanian authorities foresee a deficit of US\$150 million on their nonconvertible trade largely as a result of an expected increase in imports of 11 percent, calculated in U.S. dollars. In the first quarter of 1984 imports were recorded to be over 20 percent higher than in the corresponding period of 1983 and exports increased by 18 percent over the same period, compared with a planned increase for the whole year of only 4 percent. As a result, the recorded trade balance remained in surplus.

2. Demand and supply

According to provisional official estimates, GNP grew by 3.5 percent in 1983 or slightly faster than in the preceding three years. With net agricultural output declining by almost 4 percent because of a prolonged drought, this was almost entirely the result of an above-plan increase in net output in the industrial sector of 5.7 percent. Industrial activity includes energy production which rose by some 2 percent because of higher output of natural gas and coal. However, domestic energy use rose by only about 0.5 percent and imports of crude oil for domestic use fell from about 4 million tons in 1982 to some 1.5 million tons. This implied a continuing decline in the ratio of domestic energy use to GNP of the same broad magnitude as in earlier years which was partly achieved by stringent controls on consumption by the household sector. Aggregate domestic demand is provisionally estimated to have grown by only 1.5 percent *entirely on account of higher investment and stockbuilding.*

The staff raised questions on some aspects of these official estimates. In the first place the buoyant performance of the industrial sector is hard to reconcile with the continuing low level of non-oil imports which declined by 21 percent in 1980-83 in current dollar terms. ^{1/} According to staff estimates this cumulative decline was mostly accounted for by a decline in the volume of convertible imports of industrial inputs excluding oil (-45 percent). The staff also noted that changes in the available data on the production of specific commodities in the industrial and agricultural sectors were difficult to reconcile with the aggregate national accounts data. In manufacturing industry, while gains were recorded in the output of some items (tractors, natural gas, and coal), there were declines in other important items, such as steel, cement, cars, and textiles. Similarly, in agriculture there was a much larger decline in the production of cereals (12 percent), the most important single crop, than indicated in the national accounts for net agricultural output overall. The staff also found it difficult to explain the fact that the growth in output greatly exceeded that in domestic demand at a time when net exports were broadly unchanged. It is noteworthy that the official demand estimates incorporate a further substantial increase in stocks, which may have included goods that remained unfinished because of lack of imports.

The Romanian representatives said that the main factor underpinning the favorable growth performance in 1983 was the improvement in efficiency. They explained that the aggregate data on output of selected industrial and agricultural items were insufficiently comprehensive to form the basis for an overall judgment: output of a number of other items not covered in this information had risen substantially. They also said that the estimates of domestic expenditure, including that for

^{1/} Since Romania's oil imports are to a considerable but not fully known extent destined for refining for export, oil imports are excluded here for the purposes of analysis. The lack of a price deflator for nonconvertible trade makes it impossible to derive a reliable estimate of the change in total imports in volume terms.

stockbuilding, were likely to be revised upward, thereby removing the apparent inconsistency between the changes in output and demand in the preliminary data.

The authorities project a further increase in the growth of domestic output in 1984 with GNP and national income both forecast to rise by 7.3 percent. This forecast assumes a sharp improvement in the agricultural outturn because of the return of more normal weather conditions and increased irrigation. The contribution of net agricultural output growth (8.7 percent) to the overall growth rate between 1983 and 1984 is projected at about 1.5 percentage points. Industrial production is forecast to increase by almost 9 percent, accounting for 5 1/2 percentage points of GNP growth. The forecast for industry rests largely on an assumption of rapid increases in labor productivity (8 percent) and efficiency in the use of material inputs and the realization of the projected expansion of energy production by 5 percent, reflecting partly a recovery of crude oil production. The growth in domestic energy use is to be confined to 2.3 percent, with the burden of further energy conservation being more broadly distributed than in the years before. This implies a further considerable improvement in the efficiency of energy use.

The authorities recognize that their output targets are ambitious. They have allocated a substantial proportion of the forecast increase in output to a "planned reserve," which may not be fully realized. So far, definite commitments with respect to the use of output have only been made for an increase in aggregate domestic expenditure of 3.7 percent. Fixed investment is to grow by 9 percent in real terms and consumption after two years of stagnation by 2 percent.

The staff believes that output in 1984 is likely to fall short of the authorities' targets. As may well have been the case in 1983, the relatively low level of non-oil imports could constrain output, particularly in the industrial sector, and the labor productivity target could prove overambitious. Performance in the first quarter of 1984, when gross marketable industrial production rose by some 4 percent, lends some support to the staff's skepticism of the industrial output and productivity targets for the year as a whole. In addition, the authorities' forecast of a 6 percent increase in crude oil output appears optimistic following a rather steady decline since 1980. Similarly the agricultural production forecast which is based in some cases on dramatic increases in yields, may be difficult to achieve, especially in view of recent measures imposing quantity restrictions on sales by private producers in peasant markets and the setting of maximum prices for such sales far below those prevailing previously.

IV. Economic Policies

1. Pricing and incomes policies

a. Price developments

After a long period of virtual stability, prices were permitted to rise relatively rapidly in 1981 and 1982 with increases in the retail and producer price indices averaging over 10 percent annually. In part, this reflected the effects of the gradual exchange rate unification started in 1981, and large increases in the prices of natural gas and refined petroleum products. There were also increases in the prices of food and other consumer goods. However, in early 1983 policy priorities changed with emphasis on price stability. The estimated implicit GNP deflator rose by less than 1 percent in 1983, partly reflecting reductions in prices of private sales of agricultural goods. The increase in both the retail and producer prices indices, both of which have a much narrower coverage than the GNP deflator, fell to about 5.5 percent on an annual average basis, most of which reflected the full-year effects of measures introduced during 1982 and further increases in prices of natural gas. The authorities expect only a minimal change in the overall price level in 1984. No further increases in the prices of natural gas or refined petroleum products are planned.

b. Price reform

The decision to keep domestic prices stable seriously circumscribed the effectiveness of the price reform measures introduced in 1983 and at the beginning of 1984 ^{1/} not only in the allocation of current resources but also in the selection of investment projects. The effects of these measures on costs have not generally been passed on by the enterprises immediately affected. Although explicit subsidies have become relatively unimportant in Romania, the cost changes resulting from the above measures have been absorbed by selective reductions in enterprises' profit rates and apparently also in their obligations to make tax and profit payments to the budget, as well as by increases in productivity. The budgetary cost of these measures may to some extent have been met by increased payments to the budget from enterprises whose profits have increased, including exporting enterprises benefiting from the devaluations. The benefits of higher export prices accruing to direct exporters in terms of lei are generally not being passed on to the domestic producers of intermediate inputs used by exporting firms. It is also doubtful whether plan provisions governing the physical flow of goods are adapted in response to the increases in export and domestic prices that are being permitted. In particular, plan targets may allow

^{1/} Besides the exchange rate adjustments and increases in interest rates and energy prices, these included the introduction of a capital charge on January 1, 1984 on direct investment financing from the budget and a shortening of the amortization schedules for capital goods in the machine building industry. Amortization schedules for other sectors are to be revised in the course of 1984 and 1985.

only a limited and delayed expansion in the volume of exports in response to the devaluations. In this context it should be noted that in Romania's economic system the main response to price reform must come through modifications in the central plan, as enterprises have only limited autonomy regarding pricing, their financial position, and investment.

The Romanian representatives observed that the slowdown in the pace of price adjustment was in part for social reasons. In addition, to allow an automatic pass-through of cost increases to prices would diminish the incentive for enterprises to improve productivity. In the view of the Romanian authorities, the comparatively low level of productivity in many branches of the economy had to be addressed directly. This was being done by various means including measures to promote more efficient use of material inputs, to improve product quality, and to provide wage incentives for attaining productivity targets. Regarding the selection of investment projects, the Romanian representatives said that, where projects involved a substantial component of internationally traded goods, either as inputs or outputs, appraisal is conducted at shadow prices which are based on the international price of the relevant commodities.

c. Incomes policies

The staff is uncertain of the authorities' intentions regarding incomes policies. Introduction of a new system of wage determination started in September 1983 and is to cover the whole labor force by August 1984. The Romanian authorities said that earnings are to be strictly related to plan fulfillment so that it would be impossible for increases in real earnings to exceed those in productivity. However, after being approximately constant in 1983, real average net remuneration is planned to rise in 1984 by over 10 percent which exceeds the planned increase in productivity for 1984.

2. Exchange and trade policy

Under the 1983 Fund program and in response to a considerable loss of market shares for non-oil exports, the commercial exchange rate of the leu was devalued on January 1 and July 1, 1983, and on January 1, 1984, by a total of 30.4 percent, measured against the U.S. dollar. In addition, the peg of the leu to the U.S. dollar was replaced by a peg to a basket of six important currencies on July 1, 1983. ^{1/} These measures substantially removed the real effective appreciation of the leu that had occurred since the major exchange rate alignment on January 1, 1981.

Assessment of the appropriateness of the present level of the exchange rate is made difficult by the fact that the utility of the measure of the real effective exchange rate is limited by a number of factors, including an understatement of the true rate of inflation by domestic price indices, and the relative unresponsiveness of these indices to changes in market conditions in Romania. In any case, the discussions

^{1/} At the same time, the remaining special rates for exports were unified with the commercial rate.

revealed that the effectiveness of the devaluations has been limited by a number of factors discussed in Section IV.1.b. above. The Romanian representatives said that devaluation has been only one of a number of factors assisting Romania's external adjustment. Other factors include productivity-raising measures, improvements in product quality, and the introduction of new products.

In addition to the commercial exchange rate Romania has a noncommercial rate of exchange which applies mainly to individual tourism. Both rates are pegged to the same basket and adjusted weekly in order to keep the nominal value of the leu against the basket virtually unchanged. The authorities are broadly satisfied with the present composition of the basket.

From July 1 to December 31, 1983 the margin between the noncommercial and commercial rate was about lei 4 per U.S. dollar. The noncommercial rate was not adjusted when the commercial rate was devalued on January 1, 1984 and the margin between the two rates has since been between lei 7 and lei 8 per U.S. dollar. At end-June 1984 the noncommercial rate was lei 14.3 per US\$1 and the commercial rate lei 22.0 per US\$1.

The staff team reminded the Romanian authorities of their obligation to remove by July 1, 1984 the multiple currency practice subject to approval under Article VIII, namely, the maintenance of a noncommercial rate which is more appreciated than the commercial rate. This obligation has not yet been met.

Romania has experienced an increase in the barriers to its exports as a result of a general intensification of trade restrictions worldwide in the period under review. On the other hand, Romania maintains comprehensive exchange restrictions in accordance with Article XIV. The only noteworthy change was the elimination, in early 1984, of the restrictions on making transfers of balances by Brazil under payments arrangements that Romania maintains with Brazil: indeed, the staff has been informed that settlements of outstanding balances under the arrangement take place at 90-day intervals. As regards countertrade, the Romanian representatives maintained that such trade applies solely to certain Romanian imports of machinery and equipment, amounts to less than 10 percent of total imports, and largely takes place under long-standing cooperative agreements between Romania and foreign enterprises. In their view, the importance of countertrade has declined in recent years in relation to total imports partly because of the sharp decline in imports of capital goods. The staff team referred to scattered information suggesting a greater role for countertrade than could be inferred from this statement. Moreover, the practice of requiring economic sectors to achieve a given balance in foreign trade could provide an inducement for countertrade. The Romanian representatives said that these targets were applied flexibly.

3. Financial policies

Financial policies under the Romanian system of central planning are directed at implementing the financial plan for the economy. The latter is drawn up in conjunction with the plan for the real economy and is designed to accommodate rather than influence the planned development of real variables. In view of the subordination of fiscal and monetary operations to the overall provisions of the financial plan (in interaction with the physical plan), budgetary and monetary developments in the Romanian system do not have the same policy significance as in market economies. Budgetary and monetary policies in Romania are determined simultaneously. For example, decisions concerning budgetary financing of enterprise investment, taxation, and subsidies influence the planned amount of bank credit to the enterprise sector. Monetary policy instruments have been rarely applied except in 1983 and early 1984, when interest rates were raised. This was meant to influence the selection of investment projects and may also have helped reduce enterprise excess liquidity. The central authorities and the banks closely monitor the execution of the financial plan in relation to actual developments under the real plan. Among the monetary variables that are closely watched are enterprise deposits and currency in circulation. An excessive growth in the former variable could prompt the central authorities to require early repayment by enterprises of bank credit. The Romanian representatives also pointed to the possibility of removing an excessive increase in the currency in circulation by sales from stocks by enterprises to households. Given the wide discretion the central authorities have in directing financial flows, the stance of fiscal and monetary policy, and indeed its significance, is difficult to judge.

a. Budgetary developments

State revenue and expenditure (general government definition) declined substantially over the past four years, as foreign exchange rate subsidies were gradually reduced with the stepwise unification of commercial exchange rates (completed on July 1, 1983), and expenditure responsibilities for investment were shifted from the budget to enterprises. This made possible a decline in revenue which was somewhat slower than that of expenditure, giving rise to increasing budget surpluses. The surpluses are deposited with the National Bank.

In 1983, state expenditure declined by 8 percent and state revenue by 6.5 percent, leaving a budget surplus of lei 22.6 billion or 3 percent of GNP. The drop in revenue reflected a general decline in profits and discretionary reductions in tax rates designed both to strengthen self-financing of enterprises and to facilitate their absorption of cost increases.

The state budget for 1984 provides for an increase in revenue of 12 percent. Since not all of an expenditure reserve is expected to be spent, the increase of expenditure is expected to be near that of revenue and the surplus at least as large as in 1983. The budget plan for 1984 includes only few specific tax measures. The capital charge on investment

financing from the budget which was introduced on January 1, 1984 and which becomes payable only after completion of the project, will yield only modest amounts in 1984. On the expenditure side, outlays for the financing of the national economy are expected to rise by 13 percent in 1984, the increase being concentrated on investment financing.

b. Monetary developments

In 1983, growth in the average stock of broad money slowed to a rate of 5.6 percent, because of a more moderate growth in enterprise deposits, which was attributed mainly to the increase in interest rates in early 1983, encouraging a greater use of enterprises' own funds.

For 1984, the authorities foresee an average expansion of broad money of about 4 percent compared with a projected increase in nominal GNP of over 7 percent. Credit to enterprises and households would rise by about 5 percent compared with 8 percent in 1983. The authorities believe developments in the first quarter of 1984 to be broadly consistent with the full-year projections.

V. Medium-Term External Outlook and Debt Profile

The official medium-term projection of external developments for the period 1984-89 shows a steady increase in the convertible current account surplus and low external borrowing in line with the policy objective of a rapid reduction in external debt (Table 6). Discussions of the scenario focused on two questions: (1) the realism of planning for annual current account surpluses in 1984-89 considerably in excess of the 1983 result; and (2) the appropriateness, from the point of view of achieving optimal economic growth, of aiming at a very rapid reduction in external debt.

Regarding the first question, the staff team pointed out that the officially projected growth in non-oil imports would leave the volume of such imports in 1989 still about 25 percent below the level of 1980. In the staff's view non-oil imports which were at a greatly depressed level in 1983 would most probably need to be higher to attain the projected growth of non-oil exports (notwithstanding the structural downward shift in the import/output coefficient), unless there is rapid growth in imports from the nonconvertible area. The staff team also considers the assumed improvement in the oil balance too optimistic in the face of the limited room for expansion in domestic oil production. The oil deficit which had amounted to US\$500 million in 1983 is to be virtually eliminated by 1989 as a result of an expected volume growth over the six-year period of 27 percent for oil exports but of only 2 percent for oil imports. With present policies and supply constraints it is not clear to the staff how the assumed restoration of growth in non-oil exports can be achieved. The staff is also doubtful about the official expectation that the assumed growth in non-oil exports in 1984-85 can be realized without any significant net extension of export credit in these years following net outflows of such credit of about US\$500 million a year in 1982-83.

Regarding the second question, the staff team drew attention to the sharp reduction in the debt service ratio (including Fund repurchases) to 12.4 percent by 1989 and further to less than 8 percent in 1990 following the repayment of the debt rescheduled in 1982-83. The level of external debt in convertible currencies would fall from US\$8.8 billion at end-1983 to US\$2.9 billion at end-1989; by then, more than half of total convertible debt would be owed to international institutions (of which US\$1.6 billion to the IBRD) and only about 9 percent to commercial banks. The realization of such a low level of debt is partly due to the fact that only a limited amount of trade-related borrowing from government agencies and suppliers is envisaged in the period 1984-89 and no medium- or long-term borrowing from commercial banks.

The Romanian representatives explained that the declared policy of reducing foreign debt did not preclude gross borrowing from any source. At present, however, the Government is reluctant to engage in significant borrowing abroad largely because of the currently high cost of such borrowing (although there are probably several high-yielding projects justifying borrowing even at the present rates) and the desire to avoid a recurrence of the financial difficulties of recent years. The staff team suggested that, notwithstanding these reservations, it might be wasteful for Romania, at its present stage of development, to forego the growth opportunities afforded by a greater-than-envisaged recourse to external credit, always provided an efficient use of borrowed resources can be assured.

Romania's ability to attract foreign credit and the effectiveness with which that credit is used to promote domestic growth and strengthen its debt servicing capacity will be influenced by its ability to implement structural reforms to permit a more efficient allocation of resources. The staff notes that, provided that these conditions are met and foreign creditors extend their willingness to lend to Romania to medium- and long-term maturities, there is considerable scope for further borrowing abroad consistent with the policy objective of reducing foreign debt and debt service. For example, a significant increase in the longer-term capital inflow by US\$500 million a year in 1985-89 above the figures in the official scenario would allow a more rapid growth of imports resulting in a stable current account surplus of around US\$1 billion per annum. To support the export projection this scenario also allows for net export credit extended to be about US\$200 million per annum higher in 1984-85 than assumed in the official scenario. All told, there would be a reduction in convertible external debt to US\$5 billion by end-1989 with a debt service ratio of 16 percent in that year.

VI. Staff Appraisal and Proposed Decision

Under the umbrella of the recent stand-by arrangement, Romania concluded debt rescheduling agreements and brought about an impressive turnaround of the convertible current account position in the three years 1981-83. In 1983 the convertible current account surplus rose to US\$0.9 billion, bringing the improvement since 1980 to the equivalent of 5.5 percent of GNP, a record matched by few debtor countries. The turnaround was achieved partly by restrictive energy and incomes policies and efforts to increase efficiency. But to a major extent it relied on an administrative curtailment of imports. By 1983 convertible non-oil imports in terms of U.S. dollars had fallen to half of their 1980 level, the reduction being particularly pronounced for intermediate and capital goods. In the view of the staff, this must have been an important factor behind the 19 percent decline in convertible non-oil exports since 1981 and is likely to have also affected GNP growth to a greater extent than is evident from the respectable rate of 3.5 percent officially recorded for 1983. Similarly, the projected growth in real GNP in 1984 of 7.3 percent appears to be based on too-optimistic assumptions regarding both productivity growth and agricultural yields and takes insufficient account of constraints on production emanating from the low level of imports.

The convertible current account surplus needs to remain large in 1984 (US\$1 billion) because of the large debt service payments, the decision not to seek further debt rescheduling, and the expected continued low inflow of new credit, mostly project-related or in the form of short-term trade credit. Given the authorities' willingness to accept large curtailments of imports, the staff believes that there is a fair chance that the projected convertible current account surplus will be attained in 1984. However, the staff fears that the envisaged recovery of convertible trade will again not be reached. The projected annual increase in non-oil exports of 4 percent is hard to reconcile with the 5 percent decline in the first quarter of 1984. At the same time there was a substantial shortfall of non-oil imports from the growth target for the year as a whole. The staff also doubts that the assumed increase in the share of exports sold for cash, implicit in the projected reduction in net export credit extended, is achievable in the short span of one year.

Against this background, the staff believes--and the Romanian authorities broadly agree--that establishment of steady export growth and further improvement of efficiency must be given high priority if the recent achievement of current account surpluses is to be sustainable over the medium term. However, present policies do not appear to be sufficient to achieve this goal particularly in view of the obstacles to the expansion of exports and to the effectiveness of the structural price reform measures taken in the recent past. So far, domestic prices have shown little response to the structural price reform measures in 1983 and January 1984, comprising three devaluations of the leu and increases in the cost of capital and in the prices of natural gas and crude oil. This is attributable to the Government's decision in early 1983 to keep the average level of prices stable for the time being. This is being achieved largely through a reduction in profit margins, productivity-raising

measures, selective tax relief for enterprises, and the setting of maximum prices for sales in peasant markets far below those prevailing previously. The staff is concerned about the possible negative impact of the latter measure on private agricultural output.

The three devaluations of the leu, together with the replacement of the peg to the dollar by a peg to a basket (in July 1983), have substantially removed the real effective appreciation since early 1981. However, real effective exchange rate calculations have to be treated with caution partly because domestic prices do not fully reflect market conditions. In addition, the effectiveness of the devaluations has been severely constrained by the official policy of domestic price stability (preventing a pass-through of the effects of the devaluation to final prices) and by the system of economic planning which limits the flexibility of the export sector in expanding exports in response to the devaluations. Moreover, the response of enterprises has suffered from the ability of the authorities to "shave off" extra profits accruing to exporting firms and from the limited autonomy of enterprises with respect to their investment and other matters. The staff urges the Romanian authorities to reduce these constraints substantially. The necessary improvement in the allocative function of domestic prices will require much greater flexibility in setting prices and plan targets for exports and domestic sales. Greater autonomy in decision making for export firms may also be helpful. However, the staff welcomes the various measures the authorities are pursuing to improve the efficiency of resource allocation including the replacement of the system of guaranteed minimum wages by a new system of wage determination tied to productivity performance, the ongoing reduction in raw material consumption per unit of output, and the use of international prices in the selection of investment projects involving a large component of internationally traded goods.

As with the devaluations, the indications are that the effect on costs of the increase in capital costs (comprising two increases in bank interest rates, the introduction of a capital charge on direct budgetary financing of investment, and a shortening of depreciation schedules) has generally not been passed on to final prices.

The staff is well aware that it can be argued that an efficient centrally planned economy does not require the allocative function to be found in flexible factor prices. However, even if this contention were accepted, it seems to the staff undeniable that in such an economy the central planners are much more likely to be able to take correct decisions if the facts available to them include accurate information on the relative profitability of enterprises and sectors.

Financial policies reflect to a large extent decisions taken with respect to the real economy. In 1983 steps were taken to remove excess liquidity in the enterprise sector. In 1984 the growth of broad money is expected to be lower than the projected rapid growth of GNP. The revised 1984 budget shows an expected surplus of at least the same level as in 1983 (2.9 percent of GNP).

The official medium-term scenario for 1984-89 assumes large and rising convertible current account surpluses, low external borrowing, and, by the end of the decade, the elimination of net external debt as well as a low debt service ratio. Convertible non-oil imports are assumed to grow, but by 1989 their level is still expected to be considerably below that of 1980. A more rapid growth of imports would, in the view of the staff, be required to achieve the predicted growth of exports. Provided that foreign borrowing is put to productive use, and the allocative system is improved, the staff also feels that it would be appropriate for a developing country like Romania to utilize the scope it has for further medium- and long-term borrowing abroad but not to the extent of preventing a desirable further reduction in foreign debt and a lowering of the debt service ratio.

The staff sees no justification for the maintenance of a separate exchange rate for noncommercial transactions. The staff does not recommend approval of the multiple currency practice which continues to exist as a result of Romania's failure to unify the noncommercial exchange rate and the commercial exchange rate of the leu given the absence of any indication by the Romanian authorities that they intend to take this step.

The staff welcomes the elimination of the restrictive features of the bilateral payments arrangements with Brazil and urges the authorities to intensify their cooperation to eliminate, or remove, the restrictive features of remaining bilateral payments arrangements with other members of the Fund. This is especially important with respect to restrictive arrangements that have not been approved or for the time being are covered by temporary approvals, under Article VIII, on the side of Romania's partners.

The analysis of the staff of economic developments and prospects has been limited by a number of statistical shortcomings. These include apparent inconsistencies within the national accounts, lack of data on the volume and prices of foreign trade, including trade with the nonconvertible area, the direction of foreign trade with important partners and domestic prices. The staff urges Romania to make a major effort in improving the statistical information in these respects in order to permit a proper economic analysis.

The Romanian authorities agreed that the next Article IV consultation with Romania be held on the standard 12-month cycle.

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to exchange measures of Romania subject to Article VIII, Section 3, in concluding the 1984 Article XIV consultation with Romania and in light of the 1984 Article IV consultation with Romania conducted under Decision No. 5392-(77/63), adopted April 9, 1977 (Surveillance over Exchange Rate Policies).

2. Comprehensive restrictions on the making of payments and transfers for current international transactions are maintained by Romania in accordance with Article XIV. The multiple currency practice of Romania resulting from differential exchange rates for its currency with respect to commercial and noncommercial transactions is subject to approval under Article VIII, Section 3, and the Fund urges Romania to eliminate this practice as soon as possible. Moreover, the Fund encourages Romania to continue its efforts to reduce reliance on bilateral payments arrangements with other Fund members and welcomes the removal of restrictions on the making of transfers of balances under a remaining bilateral payments arrangement.

Table 1. Romania: Balance of Payments Summary
(In millions of U.S. dollars)

	1980	1981	1982	Program Forecast	Outturn 1983	Official Forecast 1984	First Quarter 1983	1984
All currencies								
Exports, f.o.b.	11,024	12,367	11,559	12,500	11,512	12,000	2,720	3,098
Imports, f.o.b.	-12,685	-12,264	-9,745	-11,050	-9,643	-10,400	-2,153	-2,466
Trade balance	-1,661	103	1,814	1,450	1,869	1,600	567	632
Services balance	-759	-936	-774	-716	-709	-640	-159	-250
Current balance	-2,420	-833	1,040	734	1,160	960	408	382
Capital balance	2,222	-533	-226	-789	-1,038	-942	-284	-393
Errors and omissions	--	--	37	--	-32	--	--	--
Overall balance	-198	-1,366	851	-55	90	18	124	-11
Convertible currencies								
Exports, f.o.b.	6,503	7,216	6,235	6,600	6,246	6,500	1,419	1,562
Imports, f.o.b.	-8,037	-7,012	-4,710	-5,000	-4,558	-4,750	-963	-1,033
Trade balance	-1,534	204	1,525	1,600	1,688	1,750	456	529
Services balance	-865	-1,022	-870	-800	-766	-720	-177	-246
Current balance	-2,399	-818	655	800	922	1,030	279	283
Capital balance	2,154	-570	117	-804	-881	-974	-226	-273
Errors and omissions	--	--	35	--	-29	--	--	--
Overall balance	-245	-1,388	807	-4	12	56	53	10
Nonconvertible currencies								
Exports, f.o.b.	4,521	5,151	5,324	5,900	5,266	5,500	1,301	1,536
Imports, f.o.b.	-4,648	-5,252	-5,035	6,050	-5,085	5,650	-1,190	-1,433
Trade balance	-127	-101	289	-150	181	-150	111	103
Services balance	106	86	96	84	57	80	18	-4
Current balance	-21	-15	385	-66	238	-70	129	99
Capital balance	68	37	-343	15	-157	32	-58	-120
Errors and omissions	--	--	2	--	-3	--	--	--
Overall balance	47	22	44	-51	78	-38	71	-21

Source: Data supplied by the Romanian authorities.

Table 2. Romania: Balance of Payments, Convertible Currency

(In millions of U.S. dollars)

	1980	1981	1982	Program Forecast 1983	Outturn	Official Forecast 1984	First Quarter 1983	Quarter 1984
Current account (for details, see Table 3)	-2,399	-818	655	800	922	1,030	279	283
Capital account, net	2,154	-570	117	-804	-881	-974	-226	-273
Medium- and long-term capital, net	1,810	896	602	-265	-99	-1,053	273	-198
Credits received	1,920	1,001	752	-72	137	-805	318	-120
Receipts Of which:	2,747	2,107	2,833	1,247	1,348	315	351	114
Under								
rescheduling								
arrangements	(--)	(--)	(2,176)	(832)	(845)	(--)	(...)	(--)
Payments	-827	-1,106	-2,081	-1,319	-1,211	-1,120	-33	-234
Credits extended	-110	-105	-150	-193	-236	-248	-45	-78
Receipts	104	141	143	157	115	152	27	32
Payments	-214	-246	-293	-350	-351	-400	-72	-110
Short-term capital, net	344	-1,466	-485	-539	-782	79	-499	-75
Credits received	355	-1,482	-133	-571	-542	-99	-480	-65
Receipts Of which:	2,124	643	956	385	399	300	102	210
Under								
rescheduling								
arrangements	(--)	(--)	(542)	(...)	(131)	(--)	(...)	(--)
Payments	-1,769	-2,125	-1,089	-956	-941	-399	-582	-275
Credits extended ^{1/}	-11	16	-352	32	-240	178	-19	-10
Receipts	91	101	--	232	188	428	55	76
Payments	-102	-85	-352	-200	-428	-250	-74	-86
Errors and omissions, net	--	--	35	--	-29	--	--	--
Overall balance	-245	-1,388	807	-4	12	-56	53	10
SDR allocations	33	32	--	--	--	--	--	--
Monetary movements, net ^{2/}	212	1,356	-807	4	12	56	-53	-10
Monetary gold	-3	4	--	--	4	--	--	-3
SDR holdings	1	--	-12	--	12	--	12	-2
Special escrow deposit ^{3/}	--	--	-316	316	316	--	316	--
Foreign exchange	162	-81	-25	-258	-88	-100	-47	-173
Use of Fund credit	52	290	301	334	132	44	-9	168
Purchases	(159)	(402)	(346)	(400)	(198)	(190)	(--)	(-190)
Repurchases	(-107)	(-112)	(-45)	(-66)	(-66)	(-146)	(-9)	(-22)
Arrears	--	1,143	-755	-388	-388	--	-325	--

Source: Data supplied by the Romanian authorities.

1/ Including US\$120 million in 1982 as payments reflecting a build-up of advance import deposits and US\$50 million in 1983 as receipts reflecting a drawdown of these deposits.

2/ Increase in assets (-).

3/ Established in 1982 for the downpayment (made in 1983) under the 1982 rescheduling agreement with commercial banks. In their own balance of payments presentation the Romanian authorities treat this as a capital account item.

Table 3. Romania: Current Account, Convertible Currency, 1980-84

(In millions of U.S. dollars)

	1980	1981	1982	Program Forecast	Outturn 1983	Official Forecast 1984	First Quarter 1983 1984	
Exports, f.o.b.	6,503	7,216	6,235	6,600	6,246	6,500	1,419	1,562
Oil	2,153	1,931	1,532	1,800	1,963	2,040	390	583
Non-oil	4,350	5,285	4,703	4,800	4,283	4,460	1,029	979
Imports, f.o.b.	-8,037	-7,012	-4,710	-5,000	-4,558	-4,750	-963	-1,033
Oil	-3,738	3,359	-2,462	-2,300	-2,457	-2,500	-521	-637
Non-oil	-4,299	3,653	-2,248	-2,700	-2,101	-2,250	-442	-396
Trade balance	-1,534	204	1,525	1,600	1,688	1,750	456	529
Oil	-1,585	1,428	-930	-500	-494	-460	-131	-54
Non-oil	51	1,632	2,455	2,100	2,182	2,210	587	583
Tourism	208	190	116	155	102	128	14	19
Receipts	236	208	121	165	112	140	17	21
Payments	-28	-18	-5	-10	-10	-12	-3	-2
Transportation and telecommunications	-458	-346	-139	-220	-159	-195	-28	-22
Receipts	335	372	294	350	214	230	70	62
Payments	-793	-718	-433	-570	-373	-425	-98	-84
Interest on debt	-788	1,047	-917	-805	-737	-675	-201	-261
Receipts	48	68	45	85	62	75	15	14
Payments	-836	1,115	-962	-890	-799	-750	-216	-275
Other services	173	181	70	70	28	22	38	18
Receipts	240	223	120	180	125	120	49	24
Payments	-67	-42	-50	-110	-97	-98	-11	-6
Services balance	-865	1,022	-870	-800	-766	-722	-177	-246
Current balance	-2,399	-818	655	800	922	1,030	279	283

Source: Data supplied by the Romanian authorities.

Table 4. Romania: Principal Indicators
of Developments in the Real Economy, 1979-84

	Outturn					Official Forecast	First Quarter	
	1979	1980	1981	1982	1983 <u>1/</u>	1984	1983	1984
(Percentage changes at constant prices)								
GNP	6.6	3.3	2.7	2.8	3.5	7.3	...	...
Aggregate domestic demand	6.0	1.7	-0.2	-2.2	1.5	3.7	...	...
Consumption	6.6	3.3	2.7	-1.5	--	2.0	...	...
Gross fixed investment	4.1	2.6	-7.1	-3.8	2.9	8.8	-4.7 <u>2/</u>	15.0 <u>2/</u>
Stockbuilding <u>3/</u>	5.0	3.6	1.2	2.7	2.7	2.2	...	...
Gross industrial production	8.1	6.5	2.6	1.1	4.8	6.7	4.2	4.3
Gross agricultural production	5.5	-4.3	-0.9	7.5	-2.0	5.4-6.0	...	...
Retail sales in the socialist sector	5.8	6.4	4.3	-2.5	0.5	3.0	--	1.1
(Percentage changes)								
Employment	3.3	2.2	1.3	1.6	0.6	0.7	...	...
Labor productivity in industry	5.7	4.2	2.4	1.3	2.7	8.0	...	...

Source: Data supplied by the Romanian authorities.

1/ Preliminary.

2/ Investment financed from state funds only.

3/ Change in stocks in current prices as a proportion of GNP in same year at current prices.

Table 5. Romania: Commercial Exchange Rate

Average of Month Shown	Nominal U.S. Dollar Rate	Trade Weighted Effective Exchange Rate Indices 1/		
		Nominal	Real 2/	Real 3/
1981	(Lei/US\$)	(January 1981 = 100)		
March	15.0	104.4	102.2	104.2
June	15.0	113.7	109.3	114.3
September	15.0	114.4	108.0	116.8
December	15.0	112.3	105.0	116.7
1982				
March	15.0	118.1	114.3	125.8
June	15.0	121.5	120.0	133.1
September	15.0	125.0	128.1	141.2
December	15.0	124.0	132.1	144.8
1983				
March	16.5	113.9	120.6	132.4
June	16.5	118.1	123.4	135.6
September	17.9	112.4	116.2	127.3
December	18.2	113.1	116.2	127.0
1984				
March 4/	21.2	94.3	96.5	104.4

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

1/ Weights reflect 1980 non-oil trade pattern with 17 industrial countries; an increase in the index indicates an appreciation of the leu. Quarterly figures for Romanian prices are interpolations of annual data.

2/ Nominal effective exchange rate deflated by relative consumer prices.

3/ Nominal effective exchange rate deflated by relative wholesale (producer, for Romania) prices.

4/ Partly estimated.

Table 6. Romania: Official Medium-Term
Balance of Payments and Debt Outlook, 1984-89

(In convertible currencies)

	1984	1985	1986	1987	1988	1989
(In millions of U.S. dollars)						
Payments flows						
Current account balance	1,030	1,200	1,310	1,380	1,470	1,520
Trade balance	1,750	1,850	1,890	1,890	1,890	1,910
Exports	6,480	6,780	7,240	7,720	8,260	8,830
Imports	-4,730	-4,930	-5,350	-5,830	-6,370	-6,920
Services, net	-720	-650	-580	-510	-420	-390
Of which: Interest payments	(-750)	(-700)	(-600)	(-520)	(-380)	(-325)
Capital inflows	215	220	470	450	450	450
IBRD 1/	115	100	200	200	200	200
Commercial banks	100	--	50	50	--	--
Medium- and long-term	--	--	--	--	--	--
Short-term, net	100	--	50	50	--	--
Other	--	120	220	200	250	250
Medium- and long-term	200	140	200	200	200	200
Short-term, net	-200	-20	20	--	50	50
Capital outflows	-1,190	-1,296	-1,450	-1,572	-1,637	-1,153
Amortization of medium- and long-term debt	-1,120	-1,385	-1,250	-1,372	-1,337	-753
On debt incurred by end-1983	-1,120	-1,285	-1,195	-1,267	-1,182	-543
Of which:						
Commercial banks	(-471)	(-783)	(-639)	(-740)	(-677)	(-255)
On inflows after 1983	--	-100	-55	-105	-155	-210
Credit extended, net	-70	89	-200	-200	-300	-400
IMF, net	44	-183	-238	-238	-160	-113
Purchases	190	--	--	--	--	--
Repurchases	-146	-183	-238	-238	-160	-113
Change in gross reserves (increase -)	-100	59	-92	-20	-123	-704
Stocks (end of year)						
Convertible external debt	7,895	6,550	5,530	4,370	3,335	2,910
Of which:						
To commercial banks	(3,258)	(2,475)	(1,886)	(1,196)	(519)	(264)
To international institutions	(2,560)	(2,313)	(2,103)	(1,895)	(1,750)	(1,644)
Gross reserves	758	699	791	811	934	1,638
Of which: Foreign exchange	(625)	(566)	(658)	(678)	(801)	(1,505)
(In percent of current receipts)						
Debt service ratios						
Including IMF repurchases	28.6	30.6	26.4	25.3	20.9	12.4
Excluding IMF repurchases	26.6	28.1	23.4	22.5	19.1	11.2

Source: Staff calculations based on projections provided by Romanian authorities.

1/ Including estimated disbursements for new projects.

Romania--Fund Relations

(As of June 30, 1984)

I. Membership Status

(a) Date of membership: December 15, 1972
(b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

	<u>(Millions of SDRs)</u>	<u>(Percent of Quota)</u>
(a) Quota	523.4	
(b) Total Fund holdings of currency	1,571.0	300.1
(c) Fund credit	1,047.6	200.2
Of which:		
Credit tranches	356.3	68.2
Enlarged access	461.2	88.1
Compensatory financing- exports	230.1	44.0
(d) Reserve tranche position	--	

III. Stand-by Arrangements and Special Facilities

(a) Stand-by arrangements during the last ten years

	(1)	(2)	(3)
Date of Board approval	Oct. 3, 1975	Sept. 9, 1977	June 15, 1981
Duration	1 year	1 year	Originally 3 years; cancelled as of Jan. 31, 1984
Amount (in millions of SDRs)	95.0	64.1	1,102.5
(in percent of quota)	(50.0)	(33.7)	(300.0)
Utilization (in millions of SDRs)	95.0	64.1	817.5

On January 23, 1984, the Executive Board reviewed the then existing stand-by arrangement, approved a further purchase under the arrangement, and accepted its cancellation effective January 31, 1984.

(b) During the past two years, Romania has not drawn under the Fund's special facilities.

IV. SDR Department

	(Millions of SDRs)	(Percent of net cumulative allocations)
(a) Net cumulative allocation	75.95	
(b) Holdings	0.34	0.4

B. Nonfinancial Relations

V. Exchange Rate Arrangement

The currency of Romania is the Romanian leu. The exchange rate used for all trade transactions in convertible currencies is the commercial rate, which is defined in terms of a basket of six currencies reflecting the geographical pattern of Romania's trade and payments. Weekly adjustments are made in the leu/U.S. dollar rate (and correspondingly in the rates for all other quoted currencies) in such a way as to maintain the central point on the basket peg. On April 26, 1984 the commercial exchange rate was lei 21.39 = US\$1. The National Bank of Romania quotes rates for 16 other currencies defined as "fully convertible." For currencies of other countries, exchange rates are based on rates quoted in Romania for third currencies; for members of the Council for Mutual Economic Assistance (CMEA), Albania, and the Democratic People's Republic of Korea, the third currency used for this purpose is the transferable ruble.

Most nontrade exchange transactions with the convertible area are carried out at the noncommercial exchange rate, and is also adjusted on a weekly basis. On April 26, 1984, the noncommercial rate was lei 13.99 = US\$1.

Capital transactions with the convertible area are settled at the commercial rate.

For nontrade transactions with the CMEA countries, Albania, and the Democratic People's Republic of Korea, special exchange rates are established by multilateral or bilateral agreements.

VI. The last Article IV consultation was concluded on September 14, 1983; the next consultation is to be held on the standard 12-month cycle.

The last two decisions are attached (Appendices II and III).

VII. Technical Assistance

(a) Central Banking Department

In May 1983, Romania received technical assistance for the introduction of a currency basket system.

(b) Bureau of Statistics

In June 1982, a technical assistance mission reviewed the Romanian national accounts.

INTERNATIONAL MONETARY FUND

Romania - 1983 Consultation

Executive Board Decision - September 14, 1983

1. The Fund takes this decision relating to Romania's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Romania in the light of the 1983 Article IV consultation with Romania, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the exchange system of Romania involves comprehensive restrictions on payments and transfers for current international transactions and a multiple currency practice as described in the 1983 recent economic developments paper (SM/83/195, 8/24/83). The Fund welcomes the elimination of the external payments arrears outstanding as of the end of 1982. The Fund also welcomes the unification of the commercial exchange rate system on July 1, 1983 and the intention of Romania to eliminate the remaining multiple currency practice subject to approval under Article VIII by no later than July 1, 1984. Accordingly the Fund grants approval for the maintenance by Romania of the multiple currency practice as set forth in SM/83/195 (8/24/83) until July 1, 1984 or the completion of the 1984 Article IV consultation, whichever is earlier. The Fund encourages Romania to continue its efforts to reduce reliance on bilateral payments agreements with Fund members and welcomes its progress to date in this area.

ROMANIA

Review Under Stand-By Arrangement and Request for Waiver

Executive Board Decision - January 23, 1984

1. Romania has consulted with the Fund in accordance with paragraph 3 of Executive Board Decision No. 7375 (83/56), adopted March 30, 1983, (EBS/83/54 and paragraph 13 of the Letter from the Minister of Finance of February 11, 1985 in order to review developments under its economic program and to reach understandings subject to which further purchases may be made under the stand-by arrangement approved by the Fund on June 15, 1981 (EBS/81/111, Sup. 1, June 17, 1981).
2. The attached letter from the Minister of Finance dated December 20, 1983, shall be annexed to the stand-by arrangement for Romania and the letter of February 11, 1983, shall be read as supplemented and modified by the letter of December 20, 1983.
3. The Fund decides, pursuant to paragraphs 3(b) (i) and 3(b) (ii) of Decision No. 7375-(83/56), that the respective reviews are completed.
4. The Fund decides, in view of the circumstances described in EBS/83/273, that Romania may proceed to make purchases under the stand-by arrangement, provided that cumulative purchases under the arrangement shall not exceed the equivalent of SDR 817.5 million through January 31, 1984.
5. In accordance with the request of the Romanian Government, the stand-by arrangement approved by the Fund on June 15, 1981 is to be cancelled as of January 31, 1984.

Romania - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		<u>Latest Data in July 1984 IFS</u>
Real Sector	- National Accounts	1982 <u>1/</u>
	- Prices	1983
	- Production	Q4 - 1983
	- Employment	Q4 - 1983
	- Earnings	Q4 - 1983
Government Finance	- Deficit/Surplus	Q2 - 1983
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Central Bank	June 1983 <u>1/</u>
	- Deposit Money Banks	June 1983 <u>1/</u>
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Values	Q4 - 1983
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	1983
	- International Reserves	March 1983
	- Exchange Rates	May 1984

During the past year, the reporting of data for inclusion in IFS has been irregular.

2. Outstanding Statistical Issues

Real Sector:

(1) National Accounts: National accounts data are published for the period 1977-1982. Regarding the expenditure composition of GNP data the authorities have indicated that separate data for exports and imports are not available, although balance of payments data for trade flows are published. The authorities have however, provided data on net exports.

(2) Prices: The statistical data reported by Romania for IFS are not very current. The CPI is reported only once a year on an annual average basis. The mission requested that quarterly or monthly data be provided. The CPI in the latest RED is also an annual average but differs from that reported for IFS. The RED also contains data showing percentage changes of an end-year index.

1/ National accounts data for 1983 and monetary accounts data through March 1984 were received in July 1984 and will appear in the August 1984 IFS.

A Producer Price Index is provided to the European Department. The mission asked that this index also be provided on a quarterly or monthly basis.

Government Finance: The government finance data in IFS cover budgetary general government operations on an annual and quarterly basis, but no data on financing and debt are reported. The latest data (received in September 1983) relate to the second quarter of 1983. More up-to-date information on government finance was provided to the mission.

The 1983 GFS Yearbook contains data for the period 1972 through 1981 because the 1982 data arrived too late for inclusion. The data cover consolidated central government and local government operations for revenue, grants, expenditure and lending minus repayments but no data on financing and debt have been received, nor any derivation table.

Monetary Accounts: Data provided by the authorities for IFS have been quite uncurrent. The latest data in the July 1984 issue relate to June 1983; however, the mission obtained more up-to-date information. Subsequently, data through March 1984 have been received and will be published in the August 1984 issue of IFS. In addition, there are a number of substantive unresolved issues which appear to have arisen from changes in the data made in response to the recommendations of a Bureau technical assistance mission of June 1981.

External Sector:

(1) Balance of Payments: Since the Romanian authorities do not consistently report balance of payments data directly to the Bureau of Statistics, the data they provide to the European Department are sometimes used. These data are not in sufficient detail for the Bureau's purposes.

(2) Merchandise Trade: In order to improve the analysis in this area the mission asked for quarterly information on (1) convertible export and import volumes and prices disaggregated by main commodity groups, and (2) the direction of foreign trade which, as a minimum, should show separately trade flows with major partners both in industrial and developing countries. In addition, to assist the Bureau of Statistics in preparing DOT data the Romanian authorities have been requested to supply U.S. dollar trade data for 1979 through 1983 specified by individual countries to meet DOT's requirements.

Romania: Selected Economic Indicators, 1980-84

	1980	1981	1982	1983	Official Forecast 1984
(Percent changes, unless otherwise specified)					
National income and prices					
Real GNP	3.3	2.7	2.8	3.5	7.3
Nominal GNP	3.6	3.6	16.3	4.0	7.3
Consumer prices	2.3	2.2	16.9	5.3	0-1
Foreign trade (valued in U.S. dollars)					
Exports, f.o.b.	21.0	12.2	-6.5	-0.4	4.2
Imports, f.o.b.	26.6	-3.3	-20.5	-1.0	7.9
Non-oil imports, f.o.b.	1.5	-0.5	-18.2	-1.3	9.9
General government budget					
Total revenue	-12.2	-5.9	-1.0	-6.5	12.3
Total expenditures	-12.1	-8.4	-5.3	-8.0	13.0 ^{1/}
Money and credit (annual averages)					
Money and quasi-money	14.5	20.7	12.1	5.6	4.0
Credit to enterprises and households	10.3	5.6	8.4	8.0	5.0
(In percent of GNP, unless otherwise specified)					
General government budget surplus	0.2	1.3	2.7	2.9	2.9 ^{1/}
Gross fixed investment	34.3	32.6	29.0	29.8	30.2
Current account balance	-4.2	-1.9	2.1	2.6	2.5
Convertible external debt ^{2/}	16.3	23.5	19.5	19.7	20.6
Convertible debt service ratio ^{3/}	18.4	22.2	25.7	23.3	28.6
Interest payments (in percent of exports of goods and services; convertible currencies)	12.9	15.5	14.1	11.8	10.6
(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	-198	-1,366	851	90	18
Of which:					
In convertible currencies	-245	-1,388	807	12	56
Current account	-2,420	-833	1,040	1,160	960
Of which:					
In convertible currencies	-2,399	-818	655	922	1,030
Gross official reserves					
(months of convertible imports)	0.6	0.7	1.1	1.4	1.5
Convertible external debt ^{2/}	9,457	10,070	9,698	8,757	7,897
Of which: Short-term	2,124	643	956	399	300
Arrears	--	1,143	388	--	--

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

^{1/} Informal projections; since the official budget plan must be balanced by law, the expected surplus is to be realized out of a global reserve allocation on the expenditure side, including which total expenditures would rise by 23 percent.

^{2/} Including use of Fund credit.

^{3/} On a payments basis, in percent of convertible exports of goods and services.