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CONFIDENTIAL

June 8, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Report on Romania's External Debt Renegotiation

There is attached for the information of the Executive Directors a report on the meeting on Romania's external debt renegotiation held in Paris on May 18, 1983.

Att: (1)

CONFIDENTIAL

International Monetary Fund

Report on Romania's External Debt Renegotiation

Prepared by the European Department

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

Approved by L. A. Whittome and Subimal Mookerjee

June 7, 1983

Representatives of Romania and 15 creditor countries 1/ met in Paris under the framework of the "Paris Club" on May 18, 1983 to discuss Romania's request for a rescheduling of the debt service obligations on its external official and officially guaranteed debt. Of the 15 creditor countries attending, four countries (Denmark, the Netherlands, Spain and Sweden) were not signatories to the Agreed Minute as the relevant payments due to them from Romania in 1983 are less than SDR 1 million--the de minimis floor below which payments are not covered by the agreement. A fifth country, the Federal Republic of Germany, attended the meeting as an observer, although in the Agreed Minute it indicated that it may subsequently adhere to the terms of the agreement. Members of the Fund staff 2/ and observers from the World Bank, the Organization for Economic Cooperation and Development, and the Commission of the European Communities also attended the meeting which was chaired by Mr. Jurgensen of the French Treasury.

Mr. Petre Gigea, Minister of Finance and head of the Romanian delegation, described Romania's economic situation and policies. He stressed the efforts being made by his Governments to stimulate domestic output and to achieve a balance of payments' position that would permit an orderly servicing of external debt service obligations and, in line with the authorities' longer run objectives, a gradual reduction in the level of foreign debt. Inter alia, he also noted the support provided to Romania by the Fund under the current stand-by arrangement and the determination of his authorities to achieve the targets of the economic program supported by this arrangement. At the request of the Chairman, the Fund representatives described the economic situation of Romania and the main features of the program for 1983 (supported by the stand-by arrangement) discussed by the

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

2/ The Fund staff representatives were Messrs. Brehmer (EUR), Brau (ETR), Taplin (Paris Office), and Prust (EUR)... See EBD/83/132 (5/11/83).

Executive Board on March 30, 1983 (EBS/83/54, 3/8/83; Cor. 1, 3/24/83; Sup. 1, 3/10/83; and Sup. 1 Cor. 1, 3/24/83). The representatives of the governments of the participating creditor countries took note of the measures of adjustment set forth in the economic and financial program undertaken by the Government of Romania and stressed the importance they attach to the continuing and full implementation of this program.

In the Agreed Minute, which was signed on May 18, 1983, the representatives of the creditor countries agreed to recommend to their governments or appropriate government agencies a reorganization of the repayments of principal on their guaranteed or insured commercial credits and official loans to Romania with initial maturities of more than one year, contracted prior to January 1, 1982 and falling due in 1983. Under the terms of the proposed reorganization, repayment of 60 per cent of the amounts falling due in 1983 will be made in seven equal and successive semi-annual installments; after a grace period of three and one half years the first installment will be paid on December 31, 1986 and the last installment on December 31, 1989. Repayment of 10 per cent of the amount falling due in 1983 will be made on November 30, 1984. Repayment of the remaining 30 per cent of principal falling due in 1983 will be made as follows: 30 per cent of the amount falling due in the period January 1 to May 31, 1983 and remaining unpaid at the end of that period will be paid as soon as possible and in any case before November 30, 1983; as regards payments falling due in the period June 1 to December 31, 1983, 30 per cent of the originally due amount will be paid according to the original payment schedule or at the latest within one month of the originally scheduled date. The interest rate conditions in respect of these financial arrangements will be determined bilaterally between the Government of Romania and the government or appropriate institutions of each participating creditor country on the basis of the appropriate market rate.

The above rescheduling provisions will apply on the condition that the Government of Romania continues to be authorized to make purchases under the arrangement with the Fund.

In order to secure comparable treatment of public and private external creditors on their debts, the Romanian delegation stated that its Government will seek to secure from external creditors, including banks and all CMEA financial institutions, rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors, including non-guaranteed suppliers. Romania is to accord to each of the participating countries treatment no less favorable than that which it may accord to any other creditor for the consolidation of debts of a comparable term. The Government of the Socialist Republic of Romania undertook to negotiate promptly rescheduling or refinancing arrangements with all other creditors on debts of a comparable term and to keep the Chairman of the creditor group informed of the content of these and all other bilateral agreements with creditors mentioned above. The Government of the Socialist Republic of Romania also

undertook to pay all debt service due and not paid, and owed to or guaranteed by the governments of the participating creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible, and in any case no later than September 30, 1983.

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