

EBS/83/273
Supplement 1

CONFIDENTIAL

January 19, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Romania - Staff Report for Review Under Stand-By
Arrangement and Request for Waivers

The attached supplement to the paper on a review under the stand-by arrangement for Romania and a request for waivers has been prepared on the basis of additional information.

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) or Mr. Prust (ext. (5)7884) or Mr. Reitmaier (ext. (5)8817).

Att: (1)

INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for Review under Stand-By Arrangement
and Request for Waivers - Supplementary Information

Prepared by the European Department and the
Exchange and Trade Relations Department

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

January 18, 1984

The Romanian authorities have informed the Fund of economic policy measures taken on January 1, 1984, comprising (1) a devaluation of the commercial exchange rate by 15 percent against the basket, bringing the commercial rate for the U.S. dollar in effect on that date to lei 21.56; (2) an increase of 2 percentage points in the rates of interest on "normal" bank loans to enterprises ^{1/} and on enterprise deposits; (3) the introduction of a capital charge, at a rate of 7 percent, on the unamortized amount of new investment financing provided from the budget; (4) a shortening of depreciation schedules on fixed assets in the machine building industry; and (5) an increase in the domestic producer price of crude oil from lei 1,100 per ton to lei 1,750 per ton. The staff was also provided with information regarding Romania's performance under the quantitative criteria established for end-December 1983; as shown in Table 1, all of these criteria have been met, except the gross reserve target for which a waiver is being requested.

In discussions held in Washington on January 12-13, 1984, the Romanian authorities provided the staff with preliminary figures for the outcome of the balance of payments in 1983 (Tables 3-5), which are broadly in line with the estimates discussed in EBS/83/273. The significant pick-up in exports and imports in the final quarter that is implied by these figures was explained to have been mainly of a seasonal nature, although some improvement in export performance may also have played a role.

^{1/} Bank loans other than special credit and overdue credit; credits to households are extended by the Savings Bank which, according to Romanian definition, is not included among banks.

Official projections for 1984 have not been revised since the circulation of EBS/83/273. A comprehensive review of prospective developments in 1984 will take place, at the latest, during the next Article IV consultation discussions.

Table 1. Romania: Quantitative Criteria for the 1981, 1982, and 1983 Programs

(In billions of lei)

	Dec. 1981	Dec. 1982		March	June 1983	Sept.	Dec.
		(a) 1/	(b) 2/				
Net domestic assets of the banking system							
Ceiling <u>3/</u>	--	449	437	444	444	453	456
Actual <u>3/</u>	413	...	435	435	432	437	443
Trade surplus in convertible currencies (cumulative)							
Floor	--	550	1,200	350	700	1,100	1,600
Actual	204	...	1,525	456	711	1,162	1,653
Gross international reserves in convertible currencies							
Floor	--	675	550	(587) <u>4/</u>	(587) <u>4/</u>	(687) <u>4/</u>	837
Actual	550	...	587	622	675	708	646
Outstanding short-term debt in convertible currencies							
Ceiling	--	1,000	1,000	...	500	...	400 <u>5/</u>
Actual	643 <u>6/</u>	...	564 <u>7/</u>	...	442	...	207 <u>5/</u>
New external debt in convertible currencies in a maturity range of 1-5 years							
Ceiling	...	...	...	...	...	...	500 <u>5/</u>
Actual	...	...	...	...	...	...	102 <u>5/</u>

Sources: IMF. European Department; and data supplied by the Romanian authorities.

1/ According to the original 1982 program (see EBS/82/73, 4/29/82).

2/ According to the amended program (see EBS/82/218, 11/24/82).

3/ 1981 and 1982 data are based on the exchange rate of lei 15 = US\$1; data for the ends of the first two quarters of 1983 are based on an exchange rate of lei 16.5 = US\$1 and data for the last two quarters are based on an exchange rate of lei 17.5 = US\$1.

4/ Indicative target.

5/ Excluding credits obtained to refinance any of US\$370 million in nonguaranteed debts to large suppliers outstanding at end-1982.

6/ Excluding arrears of US\$318 million on short-term credits.

7/ Excluding short-term credits arising from postponement to early 1983 of downpayments to banks and governments.

Table 2. Romania: Interest Rates, Effective from January 1, 1984

	<u>Interest Rates on Bank Loans</u>		Distribution of credits
	Normal credits	Overdue credits	
	<u>(In percent per annum)</u>		<u>(In percent of total credits) 1/</u>
Credits for production and trade in:			
Industry, transportation, services, technical and material supply, and foreign trade	10	12	38.5
Agriculture	7	12 ^{2/}	8.7
Construction	7	12	4.4
Domestic trade	8	10	7.7
Investment credits			
To economic units	7	8)
For failure to accumulate planned investment funds	10	12	)40.7
To households	5-8	8-12)
	<u>Interest Rates on Bank Deposits</u>		Distribution of deposits
	<u>(In percent per annum)</u>		<u>(In percent of total deposits) 1/</u>
Deposits			
Blocked enterprise deposits	--		13.5
Freely useable enterprise deposits at the National Bank and specialized banks	3.5-5.0		32.5
Household deposits and Savings Bank	3.0-6.0		54.0
Deposits of Savings Bank at the National Bank	5.75		...

Source: Data supplied by the Romanian authorities.

^{1/} Data relate to the position at end-March 1983. The data relating to deposits show the distribution of deposits of enterprises and households with the National Bank, the Savings Bank, and other specialized banks. No account is taken of funds in transit.

^{2/} Nine percent for agricultural cooperatives.

Table 3. Romania: Balance of Payments Summary

(In millions of U.S. dollars)

	1980	1981	1982	Program forecast	Prelim. Outcome 1983	Official forecast 1984
A. All currencies						
Exports, f.o.b.	11,024	12,367	11,559	12,500	11,528	12,400
Imports, f.o.b.	-12,685	-12,264	-9,745	-11,050	-9,800	-10,900
Trade balance	-1,661	103	1,814	1,450	1,728	1,500
Services balance	-759	-936	-774	-716	-676	-720
Current balance	-2,420	-833	1,040	734	1,052	780
Capital balance	2,222	-533	-226	-789	-937	-877
Errors and omissions	--	--	37	--	-44	--
Overall balance	-198	-1,366	851	-55	71	-97
B. Convertible currencies						
Exports, f.o.b.	6,503	7,216	6,235	6,600	6,258	6,600
Imports, f.o.b.	-8,037	-7,012	-4,710	-5,000	-4,605	-4,900
Trade balance	-1,534	204	1,525	1,600	1,653	1,700
Services balance	-865	-1,022	-870	-800	-731	-800
Current balance	-2,399	-818	655	800	922	900
Capital balance	2,154	-570	117	-804	-884	-952
Errors and omissions	--	--	35	--	-39	--
Overall balance	-245	-1,388	807	-4	-1	-52
C. Nonconvertible currencies						
Exports, f.o.b.	4,521	5,151	5,324	5,900	5,270	5,800
Imports, f.o.b.	-4,648	-5,252	-5,035	-6,050	-5,195	-6,000
Trade balance	-127	-101	289	-150	75	-200
Services balance	106	86	96	84	55	80
Current balance	-21	-15	385	-66	130	-120
Capital balance	68	37	-343	15	-53	75
Errors and omissions	--	--	2	--	-5	--
Overall balance	47	22	44	-51	72	-45

Source: Data supplied by the Romanian authorities.

Table 4. Romania: Balance of Payments, Convertible Currency

(In millions of U.S. dollars)

	1980	1981	1982	Program Forecast 1983	Prelim. Outcome	Official Forecast 1984
Current account, net (for details, see Table 5)	-2,399	-818	655	800	922	900
Capital account, net	2,154	-570	117	-804	-884	-952
Medium- and long-term capital, net	1,810	896	602	-265	-183	-1,024
Credits received	1,920	1,001	752	-72	36	-770
Receipts	2,747	2,107	2,833	1,247	1,299	420
Payments	-827	-1,106	-2,081	-1,319	-1,263	-1,190
Credits extended	-110	-105	-150	-193	-219	-254
Receipts	104	141	143	157	116	161
Payments	-214	-246	-293	-350	-335	-415
Short-term capital, net	344	-1,466	-485	-539	-701	72
Credits received	355	-1,482	-133	-571	-627	--
Receipts	2,124	643	956	385	338	300
Payments	-1,769	-2,125	-1,089	-956	-965	-300
Credits extended	-11	16	-352	32	-74	72
Receipts	91	101	--	232	192	262
Payments	-102	-85	-352	-200	-266	-190
Errors and omissions, net	--	--	35	--	-39	--
Overall balance	-245	-1,388	807	-4	-1	-52
SDR allocations	33	32	--	--	--	--
Monetary movements, net ^{1/}	212	1,356	-807	4	1	...
Monetary gold	-3	4	--	--	4	...
SDR holdings	1	--	-12	--	12	...
Special escrow deposit ^{2/}	--	--	-316	316	316	...
Foreign exchange	162	-81	-25	-258	-75	...
Use of Fund credit	52	290	301	334	132	...
Purchases	(159)	(402)	(346)	(400)	(198)	(...)
Repurchases	(-107)	(-112)	(-45)	(-66)	(-66)	(...)
Arrears	--	1,143	-755	-388	-388	...

Source: Data supplied by the Romanian authorities.

^{1/} Increase in assets (-).

^{2/} Established in 1982 for the downpayment (made in 1983) under the 1982 rescheduling agreement with commercial banks.

Table 5. Romania: Current Account, Convertible Currency

(In millions of U.S. dollars)

	1980	1981	1982	Program Forecast	Prelim. Outcome	Official Forecast
				1983		1984
Exports, f.o.b.	6,503	7,216	6,235	6,600	6,258	6,600
Oil	2,153	1,931	1,532	1,800	1,982	1,900
Non-oil	4,350	5,285	4,703	4,800	4,276	4,700
Imports, f.o.b.	-8,037	-7,012	-4,710	-5,000	-4,605	-4,900
Oil	-3,738	-3,359	-2,462	-2,300	-2,457	-2,200
Non-oil	-4,299	-3,653	-2,248	-2,700	-2,148	-2,700
Trade balance	-1,534	204	1,525	1,600	1,653	1,700
Oil	-1,585	-1,428	-930	-500	-475	-300
Non-oil	51	1,632	2,455	2,100	2,128	2,000
Tourism	208	190	116	155	105	128
Transportation and telecommunications	-458	-346	-139	-220	-146	-210
Receipts	335	372	294	350	225	300
Payments	-793	-718	-433	-570	-371	-510
Interest on debt	-788	-1,047	-917	-805	-725	-730
Receipts	48	68	45	85	63	70
Payments	-836	-1,115	-962	-890	-788	-800
Other services	173	181	70	70	35	12
Services balance	-865	-1,022	-870	-800	-731	-800
Current balance	-2,399	-818	655	800	922	900

Source: Data supplied by the Romanian authorities.

Table 6. Romania: Energy Prices in Lei

	Producer prices 1/	Delivery prices 1/						Retail prices 1/			
		1983	1980	1981	Jan. 1, 1982	July 1, 1982	Jan. 1, 1983	Jan. 1, 1984	1980	1981	Jan. 1, 1982	Jan. 1, 1983
Liquid bottled gas (LPG) 2/	1,500	1,200	1,200	2,000	2,300	2,300	2,300	2,000	2,000	2,000	2,800
Gasoline (CO 88) 3/4/5/	5.2	7.5	7.5	7.5	9.0	9.0	9.0	7.5	7.5	7.5	9.0
Diesel fuel 3/	2.6	0.85	2.1	2.1	2.7	2.7	2.7	4.0	4.0	4.0	7.0
Heavy oil 2/	1,735	415	1,000	1,000	1,825	1,825	1,825	--	--	--	--
Heating oil (light) 2/	1,808	650	1,433	1,433	1,890	1,890	1,890	1,500	1,500	1,500	2,150
Crude oil 2/	--	520	1,581	1,597	2,000	2,000	2,000	--	--	--	--
Domestic producer price 2/	--	230	470	496	550	1,100	1,750	--	--	--	--
Imported crude 2/	--	1,300	2,650	2,650	3,395	3,590	4,310	--	--	--	--
Natural gas 5/6/									350-600	350-600	1,000 6/
Used as raw material	200	60	80	500	1,000	1,000	1,500 7/	--	--	--	--
Used as fuel	200	200	250	500	1,000	1,000	1,500 7/	--	--	--	--
Coal (lignite) 2/	264	139	202	225	264	264	264	240	240	240	375
Electricity (average price) 8/						460.4	460.4				650-1,000

Source: Data provided by the Romanian authorities.

1/ Producer prices include costs of production and profit. Delivery prices are equal to producer prices plus turnover tax. Retail prices are equal to delivery prices plus distributors' costs and profits.

2/ In lei per ton.

3/ In lei per liter.

4/ A small amount of gasoline is transferred within the petroleum industry at a price that excludes the turnover tax. These prices are about 40 percent of the quoted price.

5/ Delivery prices for gasoline are in effect somewhat lower than indicated here because of discounts offered to distributors.

6/ In lei per thousand cubic meters. The producer prices are base prices for use within pre-set norms. A price of lei 5,000 per thousand cubic meters applies to consumption above the norms.

7/ The price of natural gas rose to lei 1,350 per thousand cubic meters on July 1, 1983 and to lei 1,500 per thousand cubic meters on October 1, 1983.

8/ Per megawatt hour.

Table 7. Romania: Selected Economic Indicators, 1980-84

	1980	1981	1982	Program Forecast 1983	Prelim. Outcome 1983	Official Forecast 1984
<u>(Percent changes, unless otherwise specified)</u>						
National income and prices						
GNP at constant prices	3.3	2.7	3.2	3.8	3.0	7.0
Consumer prices (annual average)	2.3	2.2	16.9	5.0-7.0	5.0-7.0	...
Foreign trade (on the basis of U.S. dollars)						
Exports, f.o.b.	21.0	12.2	-6.5	8.1	-0.3	7.6
Imports, f.o.b.	26.6	-3.3	-20.5	13.4	-0.6	11.2
Non-oil imports, f.o.b.	1.5	-0.5	-18.2	20.1	0.8	18.5
Government budget						
Total revenue	-12.2	-5.9	-1.0	-8.2	-7.5	20.4
Total expenditures	-12.2	-8.5	-5.2	-10.3	5.4	17.1
Money and credit						
Net domestic assets	24.3	12.1	5.5	4.8	1.8	...
Money and quasi-money (M2) 1/	17.7	17.2	8.5	1.1	...	...
Velocity (GNP relative to M2)	-17.3	-9.6	6.8	10.0	...	...
<u>(In percent of GNP, unless otherwise specified)</u>						
Central Government budget surplus	0.2	1.3	2.7	2.5	1.6	2.8
Gross domestic investment	38.1	31.4	31.4	30.4	...	...
Gross domestic savings	36.8	38.7	36.3	37.9	...	...
Current account balance	-4.2	-1.9	2.1	1.5	2.3	2.0
Convertible external debt 2/	16.3	23.5	19.5	19.7	19.3	20.0
Debt service ratio 3/	18.4	22.2	25.7	...	26.6	29.6
Interest payments (in percent of exports of goods and services; convertible)	12.9	15.5	15.4	13.5	12.6	12.1
<u>(In millions of U.S. dollars, unless otherwise specified)</u>						
Overall balance of payments	-198	-1,366	851	-55	71	-97
Of which:						
In convertible currencies	-245	-1,388	807	-4	-1	-52
Current account	-2,420	-833	1,040	734	1,052	780
Of which:						
In convertible currencies	-2,399	-818	655	800	922	900
Gross official reserves						
(months of convertible imports)	0.7	0.9	1.5	2.0	1.7	...
Convertible external debt 2/	9,457	10,070	9,698	9,000	8,803	8,051
Of which: Short-term	2,124	643	956	385	329	300
Arrears	--	1,143	388	--	--	--

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

1/ Excludes blocked enterprise deposits.

2/ Including use of Fund credit.

3/ Net of rescheduled amounts, in percent of exports of goods and services.