IMMEDIATE ATTENTION

SM/91/243

CONTAINS CONFIDENTIAL
INFORMATION

December 17, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Romania - Staff Report for the 1991 Article XIV Consultation

It is not proposed to bring the attached staff report for the 1991 Article XIV consultation with Romania to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Tuesday, December 24, 1991. In the absence of such a request, the draft decision that appears on page 4 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. M. Khan (ext. 4518) or Mr. Feldman (ext. 8783) is available to answer technical or factual questions relating to this paper.

Att: (1)

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Department Heads

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INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for the 1991 Article XIV Consultation

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

(In consultation with the Research and Legal Departments)

Approved by Michael C. Deppler and J. Ferrán

December 16, 1991

I. Introduction

The 1990 Article IV consultation discussions with Romania were held in Bucharest during the period July 3-21, 1990 and the associated staff report (SM/90/183, 9/17/90, and Supplement 1, 10/11/90) was considered by the Executive Board on October 15, 1990. More recently, the staff held the 1991 Article IV consultation discussions with Romania in Bucharest during the period October 31-November 7 and at that time conducted discussions for the 1991 Article XIV Consultation. 1/

Romania continues to maintain exchange restrictions under the transitional arrangements under Article XIV of the Articles of Agreement, and an annual Article XIV consultation is thus required. In this regard, Romania continues to have bilateral payments agreements with Fund members, 2/ and balances outstanding arising from CMEA and IBEC arrangements, 3/ which involve exchange restrictions that are maintained in accordance with Article XIV, Section 2.

II. The Balance of Payments

The policy objective of repaying Romania's outstanding foreign debt was the determining factor in balance of payments developments in the second

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1/ It is expected that the staff report for the 1991 Article IV Consultation will be considered by the Executive Board in the first half of 1992.

2/ Romania has bilateral payments agreements with the following Fund members: Albania, Brazil, the People's Republic of China, India, and the Islamic Republic of Iran. The jurisdictional implications of these agreements are being reviewed by the staff.

3/ CMEA stands for Council for Mutual Economic Assistance. IBEC stands for the International Bank for Economic Cooperation in Moscow.

half of the 1980s. In pursuit of this policy, large current account surpluses in convertible currencies were achieved principally through the compression of convertible currency imports (Table 1). These surpluses were used to repay--and in many cases prepay--principal and to increase international reserves. The outstanding debt was virtually eliminated by early 1989 and international reserves reached a level equivalent to about seven months of convertible currency imports at end-1989.

With the change of regime at the end of 1989, there was a shift in policy objectives toward improving the population's standard of living. The external current account balance moved from the observed surpluses in previous years to deficits of over US$1 billion both in 1990 and in the first nine months of 1991. A main feature of this switch was that convertible currency imports--especially of food products and also consumer goods--increased, even though a fall in exports and limited access to external financing strongly restrained imports in 1991. Exports were adversely affected by, inter alia, domestic supply constraints, and the collapse of trade with ex-CMEA countries. At the end of September 1991, international reserves were the equivalent of less than one month of convertible currency imports. 1/

III. Other Recent Developments

A 12-month stand-by arrangement for Romania was approved by the Executive Board on April 11, 1991 in an amount equivalent to SDR 380.5 million (72.7 percent of quota). Following approval, Romania made a first purchase of SDR 130.9 million. The second and third purchases of SDR 62.4 million each were made upon observance of the relevant performance criteria, including the completion of a midterm review, except that the Executive Board waived the non-observance of performance criteria on net international reserves and net domestic assets. The fourth purchase of SDR 62.4 million was made in mid-November following the observance of the end-September performance criteria.

Romania had been using since February 1991 a temporary dual exchange system, involving an interbank market where the exchange rate was determined by market forces, and an official exchange market applicable to a limited range of transactions and where the exchange rate was set by the National Bank of Romania. In accordance with the program being supported by the current stand-by arrangement, the authorities intended to unify this system during the program period. Effective November 11, 1991 the exchange market was unified, thus eliminating a restrictive multiple currency practice

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1/ Excludes about US$250 million in reserves (almost three weeks of imports) that correspond to bridge financing for funds to be received in early January from the EC for balance of payments support.

subject to Fund approval under Article VIII, Section 3. 1/ Upon unification, the official rate of lei 60 per U.S. dollar that existed prior to unification was abolished, and the unified exchange rate is now determined daily in the interbank foreign exchange market. Since unification, the exchange rate has remained little changed at around lei 180 per U.S. dollar.

The authorities have made considerable strides in liberalizing the trade regime. The Government has refrained from using quantitative import restrictions and, with minor exceptions, import licenses are issued freely. Exports licenses are largely granted on an automatic basis, the main exception being for goods subject to export quotas. Licensing to administer export quotas has been applied to products that have been subject to domestic price controls and products imported at the official exchange rate under the dual exchange system, and was aimed, in part, at avoiding supply disruptions in domestic food supplies. A new tariff code, with lower and less dispersed rates, was published in November 1991 and is scheduled to go into effect in early January 1992.

As regards developments in the exchange system involving exchange restrictions that had been maintained under Article XIV, the authorities recently communicated to the Fund that the limitations on the repatriation by non-residents of dividends and income earned in lei will be eliminated shortly. The limitations on foreign exchange for travel and other invisible payments and transfers have been eliminated, as have the special exchange rates that had been used for certain non-trade transactions with ex-CMEA countries. Finally, the old system of trade licensing based on balance of payments considerations and sectoral priorities, and the associated informal foreign exchange budget involving an exchange restriction maintained under Article XIV, has also been eliminated. Thus, Romania no longer maintains restrictions on payments and transfers for current international transactions under Article XIV, except for those related to repatriation of dividends and income, bilateral payments agreements and outstanding IBEC/CMEA balances.

IV. Staff Appraisal

The authorities have stressed in the policy discussions the importance they attach in their reform effort to minimizing distortions in the external sector and creating an open exchange and trade system. In this context, the authorities are to be commended for unifying the exchange market. The staff also notes with satisfaction that most of the previously existing restrictions that were maintained under Article XIV have been eliminated. The staff would encourage the authorities to eliminate as quickly as possible the remaining Article XIV restrictions.

1/ Foreign exchange bureaus were also to begin operating, which they did on August 5, 1991.

V. Proposed Decision

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

1. The Fund takes this decision in concluding the 1991 Article XIV consultation with Romania.

2. Romania maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in SM/91/243 (12/17/91). The Fund encourages Romania to eliminate as quickly as possible these restrictions.

Table 1. Romania: Summary Balance of Payments in Convertible Currencies 1/

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	Jan.-Sept. 1991
1. Merchandise trade	1,889	2,436	3,608	2,559	-1,743	-1,129
Exports	5,127	5,864	6,511	5,965	3,364	2,231
Imports	3,238	3,428	2,903	3,406	5,107	3,360
2. Services and transfers (net)	-361	-211	17	305	87	88
3. Current account balance (1+2)	1,528	2,225	3,625	2,864	-1,656	-1,041
4. Capital account 2/	-915	-1,184	-3,910	-1,510	10	-64
5. Overall balance	613	1,041	-285	1,354	-1,646	-1,105

Source: Data provided by the Romanian authorities.

1/ Excludes transactions under clearing arrangements.
2/ Includes errors and omissions.