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AGENDA**

SM/87/219
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

September 14, 1987

To: Members of the Executive Board
From: The Acting Secretary
Subject: Poland - Staff Report for the 1987 Article IV Consultation

The following corrections have been made in SM/87/219 (8/18/87):

Page 5, para. no. 4, lines 5 and 6: for "TR 8.7 billion (equivalent to
US\$4.2 billion)"
read "TR 6.5 billion (equivalent to
US\$3.1 billion)"

Page 27, column 1986, under In nonconvertible currencies, lines 2-5:
for "4.1, (0.7), (3.4), 4.2"
read "3.0, (0.6), (2.5), 3.1"

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

With Paris Club creditors, there was a hiatus in discussions following conclusion of a first agreement in 1981. Agreements were signed in 1985 which rescheduled all payments of principal, interest, and late interest due in 1982-85, except those related to the 1981 agreement. Discussions have been continuing since early 1986 on rescheduling post-1985 maturities but have not yet been concluded. In 1986 debt service payments to Paris Club creditors amounted to only about US\$500 million (or 26 percent of total debt service payments actually made), and arrears mounted--to US\$3.3 billion by end-year.

4. External developments with the ruble area 1/

Roughly one half of Poland's trade is conducted with the ruble area, the large majority of which is with the Soviet Union. The current and trade accounts with the ruble area have been in deficit since the second half of the 1970s (Table 9). 2/ Poland's debt in transferable rubles at end-1986 stood at TR 6.5 billion (equivalent to US\$3.1 billion) and was the largest TR-denominated debt of any CMEA country. Poland has been under pressure from its CMEA creditors to eliminate its current deficit and, from 1988, to begin to repay its debt. The volume of trade turnover with the ruble area, especially with respect to Polish exports, has been growing relatively fast in recent years, and considerably faster than that with the nonruble area. In 1986, export volumes grew by about 9 percent while import volumes increased by about 6 percent. The trade deficit fell from TR 1.2 billion in 1985 to TR 0.9 billion in 1986; in terms of U.S. dollar equivalents, the deficit was almost halved to some US\$0.5 billion in 1986.

5. Prospects for 1987

The growth rate of net material product (NMP) is forecast to slacken appreciably, to 2.4 percent in real terms, largely because of the expectation that gross agricultural output will remain unchanged (Table 4). Favorable weather at harvest time could, however, permit a somewhat better result. Gross industrial production is also expected to increase more slowly than in 1986, in part because of the disruptive

1/ Transactions with the ruble area are denominated in transferable rubles (TRs) and are converted into U.S. dollar equivalents at the cross rate implicit in the Polish official quotations (in terms of zlotys) for the two currencies. Because of the more rapid depreciation of the zloty against the U.S. dollar than against the TR, this cross rate has changed appreciably in recent years with the result that the U.S. dollar equivalent of transactions with the ruble area has risen less (or fallen more) than have the corresponding values in terms of TRs.

2/ In addition to transactions denominated in TRs with CMEA members, the data in Table 9 include transactions under bilateral payments arrangements with non-CMEA members. In 1986 merchandise trade under the latter arrangements accounted for 14 percent of total merchandise trade turnover in nonconvertible currencies.

effects of an exceptionally severe winter. Real domestic spending is forecast to rise at about the same rate as aggregate output. However, with unchanged stockbuilding, the volumes of final consumption and investment expenditure are expected to rise more rapidly than output, by 2.5 percent and 3.3 percent, respectively. The authorities hope to prevent more than a small rise in the rate of inflation, from about 18 percent to about 20 percent, and to limit the rise in nominal wages so as to achieve a small decline in real wages. There is some doubt as to whether these latter targets can be achieved, however, as in the first five months at annual rates the average wage in major sectors increased by over 20 percent and total money receipts of the population grew by 26 percent.

Regarding financial developments, the authorities hope to reduce monetary expansion to a rate below that of the increase in nominal incomes. It is planned to eliminate the deficit on the state budget (Table 10). However, expenditures are running ahead of target, largely because the scale and timing of administrative price measures introduced in March is likely to be insufficient to allow the budgeted cut in subsidies to be achieved. The authorities, nonetheless, hope to achieve the intended balanced budgetary position, largely through a package of expenditure-reducing measures introduced in April. Of greater quantitative significance for the rate of monetary expansion, the authorities plan to reduce the rate of credit expansion to enterprises (to 17 percent from 19 percent in 1986). However, in the first four months these credits were increasing faster than planned, as was broad money.

Developments in the external position are expected to differ significantly between the convertible and nonconvertible areas, as they did in 1986. With the nonconvertible area, the trade and current deficits are expected to be greatly reduced, if not eliminated altogether, partly on account of a terms of trade improvement associated with a further decline in the price of oil imports. With the convertible area, the current account deficit is officially expected to deteriorate by some US\$100 million to US\$800 million, because of a rise in interest payment obligations and a decline in private transfer receipts. The trade surplus is forecast to remain virtually unchanged at about US\$1 billion, with the effects of more rapid growth in the volume of imports (4 percent) than exports (2 percent) being offset by a further terms of trade gain. If trends in the first half, as recorded on a customs basis, were to continue, the trade surplus could exceed current official forecasts. Similarly, in the staff's view, the official forecast of a fall in receipts from private transfers could also prove unduly conservative. The authorities expect only small inflows of medium- and long-term capital. If the official forecasts for trade, private transfers, new capital inflows, and miscellaneous items were to be met, the total funds available for debt servicing would be on the order of US\$1.8 billion.

Table 7. Poland: External Debt
(In billions of U.S. dollars; end-period)

	1981	1982	1983	1984	1985	1986	March 1987
In convertible currencies							
Short-term	1.1	1.3	1.3	1.3	1.4	1.4	1.5
Medium- and long-term	24.3	23.6	22.4	21.5	23.9	28.8	30.4 ^{1/}
By maturity:							
1-5 years	10.9	10.7	8.5	7.2	6.7	5.2	5.3
Over 5 years	13.4	12.9	13.9	14.3	17.2	23.6	25.1
By type and by creditor							
Guaranteed	12.5	12.2	13.6	14.0	15.7	18.9	20.1
Countries participating in the Paris Club ^{2/}	(10.8)	(10.7)	(11.3)	(10.7)	(12.0)	(15.9)	(17.1)
CMEA countries and institutions	(0.1)	(0.1)	(1.0)	(1.3)	(1.3)	(1.4)	(1.4)
Commercial credits ^{3/}	(1.2)	(1.3)	(1.1)	(1.3)	(1.6)	(1.4)	(1.4)
Other	(0.4)	(0.1)	(0.2)	(0.7)	(0.8)	(0.7)	(0.2)
Nonguaranteed	11.8	11.4	8.8	7.5	8.2	9.9	10.3
Commercial banks participating in rescheduling arrangements ^{4/}	(8.6)	(8.0)	(6.5)	(6.1)	(6.6)	(7.5)	(7.9)
CMEA countries and institutions	(1.9)	(1.8)	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)
Commercial credits ^{3/}	(0.5)	(0.6)	(0.5)	(0.1)	(0.2)	(0.2)	(0.2)
Other	(0.8)	(1.0)	(1.0)	(0.4)	(0.4)	(1.1)	(1.1)
Interest arrears ^{5/}	0.5	1.6	2.7	4.1	4.4	3.3	3.1
Total	25.9	26.5	26.4	26.9	29.7	33.5	35.0
In nonconvertible currencies ^{6/}							
Short-term	1.0	0.5	0.2	0.6	—	0.1	0.1
Medium- and long-term	1.6	2.4	2.5	2.2	3.4	3.0	3.1
Of which:							
1-5 years	(0.7)	(0.7)	(0.6)	(0.3)	(1.0)	(0.6)	(0.5)
Over 5 years	(0.9)	(1.7)	(1.9)	(1.9)	(2.4)	(2.5)	(2.6)
Total	2.6	2.9	2.7	2.8	3.4	3.1	3.2
Memorandum item:							
Ratio of average debt stock in convertible currencies to exports in convertible currencies	5.0	5.8	5.5	5.0	5.5	5.9	

Source: Staff compilation from data supplied by the Polish authorities.

^{1/} The distribution of currencies of denomination was as follows: U.S. dollar, 37.1 percent; deutsche mark, 23.6 percent; Swiss franc, 12.9 percent; French franc, 8.5 percent; Austrian schilling, 7.2 percent; pound sterling, 3.1 percent; Canadian dollar, 2.0 percent; Japanese yen, 2.8 percent; other currencies, 2.8 percent.

^{2/} Includes Brazil, which did not participate in the 1981 rescheduling agreement with the Paris Club.

^{3/} Commercial credits guaranteed and nonguaranteed include credit extended to Polish foreign trade enterprises by foreign banks as well as by foreign exporters. The guaranteed portion is due to Paris Club creditors (see Table 56).

^{4/} In addition to the amounts shown, small amounts of obligations due to banks owned by CMEA countries and institutions (US\$0.3 billion at end-1986) and commercial credits (US\$0.2 billion at end-1986) have been included in the rescheduling agreements with commercial banks (see Table 56).

^{5/} Estimate. Includes amounts that are covered by multilateral rescheduling agreements (and which therefore are not shown as arrears in Table 45) but for which bilateral agreements have yet to be signed. At end-1986 virtually all these arrears were to Paris Club creditors.

^{6/} The external debt in nonconvertible currencies was converted from transferable rubles into U.S. dollars using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and U.S. dollar; prior to 1982 the period average exchange rate was used but since 1982 end of period rates have been used.

Table 8. Poland: Maturity Schedule of Medium- and Long-Term External Debt
in Convertible Currencies Outstanding at End-1986

(In millions of U.S. dollars)

Debt Out- standing at End-1986 1/	1987	1988	1989	1990	1991	1992	1993	Later Years	Delayed
Paris Club creditors	20,470 2/	1,233	1,198	1,040	2,152	2,306	2,248	4,578	3,335
Previously rescheduled debt	17,025	694	695	695	1,879	2,161	2,161	4,321	2,258
Nonrescheduled debt	3,445	539	503	345	273	145	87	257	1,077
Commercial banks participating in rescheduling agreements	8,027 3/	473	1,589	1,294	1,795	1,850	400	10	6
Previously rescheduled debt	7,576	335	1,558	1,226	1,626	1,839	393	—	—
Nonrescheduled debt	451	138	31	68	169	11	7	10	6
OMEA	2,219	129	148	65	59	306	302	876	9
Commercial credits	187	97	60	26	3	1	—	—	—
Other	1,233	318	235	190	174	34	18	74	62
Total	32,136	2,250	3,230	2,615	4,183	4,497	2,960	5,538	3,412

Source: Staff compilation based on data supplied by the Polish authorities.

1/ Including interest arrears.

2/ Including interest arrears and obligations classified as "commercial credits (guaranteed)" in Table 54.

3/ Including US\$0.3 billion of obligations to banks owned by OMEA countries and institutions which have participated in commercial bank rescheduling agreements; these are classified in Table 54 with "OMEA countries and institutions (nonguaranteed)"; also includes US\$0.2 billion of "commercial credits (nonguaranteed)" which are classified separately in Table 54.