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August 23, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Romania - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Romania. A draft decision appears on page 16.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Brehmer (ext. 8805), Mr. Reitmaier (ext. 8817), or Mr. Stanyer (ext. 8818) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Romania

Staff Report for the 1985 Article IV Consultation

Prepared by the European Department

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

Approved by L.A. Whittome and J.T. Boorman

August 22, 1985

I. Introduction

A staff team consisting of Messrs. Brehmer (head), Reitmaier, Stanyer, and Ms. Nguyen as secretary (all EUR) visited Bucharest from June 24 to July 5, 1985 to conduct Article IV consultation discussions. The mission met with representatives of the Ministry of Finance, the State Planning Committee, the State Committee for Prices, the Ministry of Foreign Trade, the Ministry of Labor, the Statistical Office, the Romanian Bank for Foreign Trade, and the Investment Bank. The head of the mission was received by Mr. Gigea, the Minister of Finance, by Mr. Eremia, the President of the Romanian Bank for Foreign Trade, and by Mr. Urdea, Deputy Minister of Finance. Mr. Wijnholds, Alternate Executive Director for Romania, attended some of the meetings.

The mission focused particularly on the reversal in November 1984 of part of the adjustment measures taken under the 1982 and 1983 Fund programs (see EBS/84/255, 12/6/84) and the renewed tightness of the Romanian external liquidity position. Officials have met important data requests in the fields of national accounts statistics and foreign trade prices put forward by Directors at the September 1984 Board discussion and by a recent technical assistance mission of the Bureau of Statistics.

The three-year stand-by arrangement for Romania, approved in June 1981 for an amount of SDR 1.1 billion (300 percent of quota), was cancelled on January 31, 1984, leaving an amount of SDR 285 million undrawn. Following net drawings of SDR 51 million in 1984, Romania will have repurchases of SDR 174 million in 1985 and SDR 226 million in 1986.

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

Due to the absence of new loan commitments for about three years, the IBRD received net repayments from Romania of US\$10 million in 1984; for 1985 these net repayments are estimated by the Bank at US\$150 million.

The Government has decided to seek new borrowing from the Bank and has made several project proposals. A Bank staff team visited Bucharest in June 1985 to discuss a resumption of borrowing, and a project identification mission will visit Romania this autumn. IBRD loan disbursements assumed in the official Romanian medium-term projections (US\$100 million in 1986 and US\$200 million per annum in 1987-90) are considered by the Bank staff to be relatively high given the likely lapse of time between the submission of project proposals and loan disbursements.

II. The Economic Situation

1. Background

Economic developments in the period 1980-83 were characterized by a sharp improvement in the convertible currency current account of the balance of payments equivalent to 5.5 percent of GDP. This outturn was due mainly to an administrative curtailment of imports, which produced a shortage of imported inputs and, together with weak foreign demand, contributed to a fall in convertible non-oil exports in 1982-83. Despite the improvement of the current account and the settlement of payments arrears, Romania's credit standing remained poor in this period; maturing debt and some interest obligations needed to be rescheduled in 1982 and 1983 and the inflow of new credit was small and mainly related to existing projects. The capital account was also burdened by a large extension of credit in support of exports. Given the strains on the capital account and the downward trend of convertible exports and imports, Romania did not achieve a satisfactory balance of payments position during the period 1980-83.

Under the programs related to the June 1981 stand-by arrangement, policy actions taken by the Romanian authorities included measures of exchange reform and moves to raise the cost of capital. The former comprised a progressive reduction in the number of commercial exchange rates, the establishment of a unified commercial rate in mid-1983, the replacement in July 1983 of a peg to the U.S. dollar by a peg to a basket of six currencies, and three devaluations of the leu vis-à-vis the U.S. dollar between end-1982 and January 1, 1984 totaling some 30 percent. The cost of capital was raised in this period as a result of increases in interest rates (totaling 5 percentage points for lending rates, and 3 percentage points for enterprise deposit rates, with smaller increases in other deposit rates), the introduction of a capital charge on direct budgetary financing of investment, and a shortening of depreciation schedules for capital goods in the machine-building industry. In addition, with a view to promoting a more efficient use of resources, domestic energy prices were increased. The ensuing price increases led to an unprecedented reduction in real wages in 1982. From 1983 the authorities gave renewed emphasis to stabilizing (administered) prices, and thus prevented more than a partial pass-through of the effects of the devaluations and increases in capital costs to domestic prices. As a result, domestic retail and producer prices have hardly changed since early 1983.

During the 1984 Article IV consultation, Executive Directors, while recognizing the distinctive features of centrally planned economies, suggested that constraints on the effectiveness of the devaluations in Romania should be reduced by passing on their effects to final prices; by increasing the flexibility of enterprises to expand exports in response to devaluations; by ceasing to "tax away" extra profits accruing to exporting firms; and by giving enterprises more autonomy with respect to investment decisions.

2. Recent developments

Romania's performance improved in 1984, when activity recovered, and a larger balance of payments surplus on convertible current account was achieved, allowing a further reduction in external indebtedness. At US\$1.5 billion (4 percent of GDP), the current account surplus was US\$0.5 billion larger than officially predicted at the time of the last consultation and US\$0.6 billion higher than in 1983. In the absence of further debt rescheduling agreements and with new foreign borrowing kept to a minimum despite some improvement of Romania's credit rating, this surplus was required to meet medium- and long-term debt repayment obligations of US\$1.2 billion. The impressive current account outturn was achieved at the cost of a large net extension of short- and longer-term export credit of US\$0.4 billion, partly to foreign debtors that subsequently failed to meet their obligations to repay. Gross official reserves rose by US\$179 million to US\$837 million at the end of 1984 (equivalent to about two months' convertible imports). Total gross debt in convertible currencies was reduced by US\$1.7 billion to US\$7.1 billion (equivalent to 18 percent of GDP) at end-1984, with the effects of exchange rate changes accounting for about one third of this reduction. Medium- and long-term debt owed to governments was reduced by US\$0.2 billion (19 percent) and to commercial banks by US\$0.6 billion (18 percent). Debt service payments rose to 26 percent of convertible exports of goods and services.

The surplus on current account vis-à-vis the nonconvertible area was reduced only slightly (to US\$183 million) despite the restoration of a high rate of growth of imports from this area (10.6 percent); imports of basic commodities from this area grew by 13 percent.

Total exports expanded by 10 percent in 1984. The dominant feature was a strong growth in exports of basic manufactures to market economies and of machinery to CMEA countries. Exports of basic manufactures to the CMEA countries by contrast stagnated and of machinery to market economies fell. Total imports grew by 7.2 percent.

The surplus on convertible non-oil trade rose considerably, as non-oil exports recovered more strongly than planned; they rose at a rate of 10.3 percent in value terms, which implies a volume increase of 14.3 percent. The increase in convertible exports was not broadly based geographically or by product. The increase was largely accounted for by exports to the United States, Italy, and the Federal Republic of Germany of basic producer goods, including steel and oil products. Convertible

exports to developing countries declined by 5 percent due largely to a drop in machinery and equipment exports which account for two fifths of Romanian exports to this area. Meanwhile the previous sharp fall in the value of non-oil convertible imports was arrested, although in volume terms there was a further decline of 2.5 percent. The deficit on oil trade dropped slightly, as planned, as there was a further decline of oil imports for domestic use.

Romanian statistics show that the growth in real GDP accelerated from an average rate of 3 percent in 1981-83 to 7.2 percent in 1984, a rate considerably higher than that recorded by other Eastern European countries. Officials said that the rapid growth in the volume of output and exports owes much to an easing of supply constraints which had been quite severe in 1983 as a result of declines in the availability of metalurgical products and other essential inputs. This easing in 1984 was facilitated by Romania's ability to increase its imports of essential inputs from the nonconvertible area and by a bumper crop. Supply constraints were also eased by a redirection in 1984 of energy supply to basic industries requiring continuous firing (chemicals, steel, and aluminum), and a program to increase the recycling of materials. Nevertheless, bottlenecks remained in some areas in part because of the malfunctioning of some capacity. In a further effort to augment supply, a large part of resources available for investment was channeled to the finalization of ongoing projects in basic industries and agriculture and to export production.

In response to the improved supply situation, the volume of gross fixed investment and final consumption (including government) is reported to have grown by 5-6 percent. The growth in identified final demand in 1984 remained below the recorded growth in output. This is reflected in a large statistical discrepancy which contributed about 2.5 percent to the reported increase in real GDP. Average real earnings rose by 7 percent, which brought them back to their 1981 level. This contributed to an increase in the household savings ratio by over 1 percentage point.

In the early part of 1985, external and domestic developments were adversely affected by the severe winter. In the first quarter, the convertible current account showed a surplus of only US\$42 million, which compared with US\$283 million a year earlier. Convertible exports in U.S. dollar terms fell by 25 percent in the first quarter, as the winter disrupted energy supply and output. The fall of convertible imports was less pronounced. In the second quarter, convertible exports and imports recovered sharply, to levels 13.0 percent and 5.5 percent, respectively, above the corresponding levels of 1984. For the first half of 1985, the convertible trade balance fell short of original plan targets by over US\$300 million, although almost all this shortfall was recorded in the first quarter. In the second quarter, the convertible current account surplus was US\$448 million, an increase of US\$143 million from the same period in 1984. With heavy debt repayment obligations falling due in the first half, gross official reserves fell from US\$837 million to US\$518 million over the first six months of 1985. Romanian officials said that

the renewed tightness of the external liquidity position led regrettably to some short delays in payments by Romania. The bad winter caused a fall in industrial production of 2.8 percent in the first quarter of 1985, with plans being underfulfilled in every sector. However, industrial output recovered in the second quarter.

III. Economic Policies

The Romanian representative affirmed that economic policy was at present guided by two objectives, the maintenance of overall price stability and the elimination of net foreign debt in the early part of the 1986-90 plan period. The adoption of the former objective was to be seen as a reaction to the rapid increase in prices in 1981-82. These increases had complicated the process of central planning and had become politically unacceptable. It was feared they would give rise to an upward spiral of price and cost increases. The policy to achieve price stability relied on administrative measures to restrain wage costs and had been reinforced in November 1984 by exchange rate revaluation and a reduction in interest rates. The second major objective was to be seen in the light of the debt crisis in 1981-82, and was reflected in a decision by the Government to exercise the utmost restraint in raising new medium- and long-term credit abroad.

1. Policies designed to promote price stability and improve efficiency

a. The November 1984 measures

The return to the objective of price stability was reflected already in 1983 in the unwillingness by the authorities to pass through to domestic prices the effects of both the devaluations and increases in capital costs undertaken in the period from end-1982 to early 1984. In November 1984 the Government reversed most of these measures by revaluing the commercial rate of the leu vis-à-vis the basket to which it is pegged by 32.5 percent, bringing this rate to lei 17.50 per US\$1; revaluing the less important noncommercial rate (applying mostly to individual tourism) in terms of the same basket by 20.8 percent to lei 12.50 per US\$1; revaluing the leu/transferable ruble rate by 12.9 percent to lei 15.50 per transferable ruble; 1/ reducing interest rates by 5 percentage points for working capital credits, by 3-4 percentage points for investment credit, and by smaller amounts for bank deposits; 2/ reducing the capital charge on direct budgetary financing of investment from 7 percent to 3 percent; and cutting profit rates for certain enterprises.

1/ In January 1984, the leu/transferable ruble rate had not been changed.

2/ In January 1984 interest rates were raised in conjunction with the Fund program. This increase was not publicized and so the press reported the November reduction for working capital credits as being from 8 percent to 5 percent. This confusion was reflected in the staff paper issued to the Board on the November measures (EBS/84/255, 12/8/84).

The Romanian representatives said that the main purpose of the revaluation had been to reinforce the general programs to reduce unit costs of production and to increase efficiency in the economy. The mission was told that it had been promoted by the view that the previous devaluations had made export targets (denominated in lei) too easy to attain for enterprises. By making export targets more difficult to achieve, the revaluation was intended to force enterprises to increase their efficiency. While the revaluation led to an immediate reduction in import costs, this had not resulted in an increase in the import volume, which is determined by the economic plan. The lower import costs are being reflected partly in producer prices, which showed a decline of 1.3 percent during 1984 and are expected to decline by another 1 percent in 1985. The decline was particularly noticeable in prices of intermediate products which are important inputs into export production. However, the cost of living index has not been affected by the revaluation any more than it was by earlier devaluations. This index is expected to remain unchanged in 1985. Looking further ahead, the Romanian authorities are aiming at a gradual reduction in unit costs and domestic producer prices. The revaluation is not expected by the authorities to discourage the process of import substitution as subsidies from technical development funds are available to help finance the start-up of new projects.

b. Price policy

The Romanian officials explained that the objective of overall price stability did not imply price rigidity. Administrative price changes are used to effect significant changes in relative domestic prices. Thus, in November 1984, the prices of certain intermediate goods were reduced by lowering maximum profit rates, particularly for producers with high profits. The cost reductions amounted to lei 15-16 billion at an annual rate (1.9 percent of GDP) and facilitated the 1.3 percent reduction in the producer price index in the course of 1984. The mission was told that the effects of the lower producer prices would in due course be reflected in lower final domestic prices. The reductions in producer prices can be assumed to have had little effect on supply (which is essentially determined by the plan) and to have redistributed profits from producers of intermediate goods to producers of final goods.

Official policy vis-à-vis prices by contrast does have a direct impact on supply in peasant markets, which account for around 7 percent of total food sales. In 1981-82 there were substantial increases in prices in peasant markets, which led to demands for additional price controls. In 1984 new regulations were introduced to insure that prices in peasant markets do not exceed those in state-owned retail trade by more than 5 percent, which caused a reduction in produce sold. Prices in peasant markets, after declining by 14 percent in 1983, fell by a further 17 percent in 1984.

c. Wage and labor market policies

Wage policy is aimed at keeping the growth of nominal household incomes in line with the supply of consumer goods at a stable overall price level. In 1983-84 a new system of wage determination was introduced under which wages are to be closely related to those productivity advances officially attributed to labor-related factors. The estimated increase in earnings of 7.5 percent fully reflects such factors. By holding nominal wage increases below overall productivity increases, the authorities are seeking to create the conditions for a transfer of real resources abroad.

The structural objectives of the Romanian authorities are reflected in sectoral employment trends. The rapid increases in productivity projected for large-scale industry should permit an organized shift of labor toward small-scale (local and cooperative) industry and the service sector. This shift is designed to raise the supply of consumer goods and lead to a greater use of local resources, which are not adequately utilized by large-scale industry. Within large industry, there is to be a shift in employment from processing industry to the extractive sector where wages are relatively high. After a projected decline in 1985 the agricultural labor force is to remain stable over the medium term; this would still imply a decline in the share of agriculture in the total labor force, as the total is to rise by about 2 1/2 percent over the 1986-90 plan period. No additional wage incentives are planned to induce the intended shifts in employment, and unorganized moves of labor will continue to be discouraged.

2. Foreign borrowing policy

The objective of eliminating net foreign debt in the early part of the 1986-90 economic plan period was adopted in 1983. The present level of Romania's foreign debt was considered manageable by the Romanian representatives, although 1985 and 1986 were still seen to be difficult years from the point of view of cash flow.

The question was raised whether Romania had sufficient access to foreign credit to deal with its present and foreseeable liquidity problems and whether this access would be utilized. The Romanian representatives said that raising a US\$80 million short-term loan from foreign banks in May 1985 had been a successful test of the market, and that Romania would enter the international financial markets again, although the Government's general policy of continuously reducing foreign debt remained in force.

The Romanian representatives explained that as a general rule Romania does not permit the raising of short-term loans for purposes other than trade financing. The resort to medium- and long-term credits from abroad was until recently only permitted for the financing of capital goods imports for ongoing projects. Romania recently signed frame agreements for loans with government export credit agencies of a number of industrial

countries to finance imports of capital goods, and intends to conclude other such agreements. The Romanian representatives stated that normal banking relations to facilitate payments for Romanian imports had been re-established, obviating the need for advance import deposits.

3. Energy policy

Romanian energy policy is directed at raising the energy efficiency of the economy and at reducing the need for energy imports. The experience of severe energy shortages last winter highlighted the weaknesses in the domestic energy supply network. While adequate capacity for electricity generation was in place, part of the generating equipment had fallen into disrepair and the supply of fuel to power stations was occasionally disrupted. The authorities have now drawn up new maintenance and fuel use schedules tailored to seasonal conditions. They are also planning an early commissioning of Romania's first nuclear power station presently under construction. By 1990 nuclear power is planned to meet 20 percent of total electricity requirements.

Energy conservation measures are aimed mainly at nonessential energy uses. The household sector, with a share of only 10 percent of total energy consumption, remains subject to severe restrictions in its energy use. To achieve a lasting increase in the energy efficiency of the economy, structural policies are intended to give priority to the development of less energy-intensive industries.

4. Financial policies

Financial policies are geared to ensure consistency between the financial flows to different sectors and the physical plans for the economy. The decline in foreign debt is matched by a substantial fiscal surplus, which more than doubled in 1984 to 6.2 percent of GDP. The reserve funds in the 1985 budget suggest a further large surplus is likely this year.

After a steady decline over the period 1980-83, budget revenue and expenditure expanded strongly in 1984 and further increases are expected for 1985. The recent expansion in budget revenue was mainly related to the effect on tax revenue from enterprises related to the expansion of net production and profits, while the increase in expenditure was related to an upturn in the financing of investment.

In the past, the financial effects of devaluations (in the form of extra profits accruing to exporting firms) were largely "taxed away," but the mission was told that there were no adjustments of enterprise tax rates specifically to offset the effects on enterprise finances of the November 1984 revaluation. However, the new exchange rate was one of the factors taken into consideration in setting enterprise plans for 1985; it was explained that in drawing up enterprise plans for the coming year losses or gains resulting from developments outside the enterprise would be offset in determining the enterprise tax burden.

In 1985 the authorities foresee an expansion on average of broad money of 7 1/2 percent, compared with 3 percent in 1984, and a planned growth in GDP of 9 1/2 percent. Together with other measures to cut costs, interest rates were reduced on November 1, 1984 (see Table 8). The Romanian representatives said that the interest rate structure established on January 1, 1984 was predicated upon an inflation rate of nearly 10 percent in 1984 (which would have resulted if the price effects of the January 1984 measures had been passed through to final users), and a marked reduction in interest rates was therefore warranted as prices had not changed during 1984. They argued that real interest rates were actually higher now than had originally been intended in January 1984.

The Romanian representatives stated that interest rates were not used as an economic regulator. The guiding criterion was rather that credit should be distributed in order to enable enterprises to meet plan targets.

5. Commercial Policies and Other Aspects of the Exchange System

Romanian trade with the market economies relies heavily upon different forms of countertrade which, the mission was told, increased in 1984 and 1985 compared with earlier years. Countertrade in the case of Romania largely takes the form of barter and of long-term cooperation agreements providing for parallel agreements for exports and imports. In the spring of 1985 Romania negotiated a series of such parallel agreements with countries mostly in Asia, providing for the export of Romanian machinery in return for imports of non-oil raw materials. These agreements usually include provision for quarterly volume and price negotiations. It has remained difficult to arrange countertrade terms to pay for imports of energy and certain other raw materials. The Romanian representatives said that countertrade provided a means of easing domestic supply constraints at a time of balance of payments strain and, in the case of long-term cooperation agreements, of gaining greater stability in trade flows.

Other aspects of Romanian commercial policies include the extension of subsidized credit by Romania to promote exports, particularly of machinery. At end-1984 Romanian nonreserve foreign assets totaled US\$3,171 million, of which US\$2,312 million were in convertible currencies. Romania has encountered severe difficulties in collecting claims against certain developing countries. Overdue payments owed to Romania increased from US\$297 million in December 1983 to US\$362 million a year later, and reached US\$431 million at end-May 1985. In response to these problems, Romania is increasingly reluctant to extend trade credit to these countries.

At the end of 1984, Romania maintained bilateral payments agreements with nine Fund members. The bilateral payments agreement with Ecuador was terminated on May 7, 1985.

The Romanian authorities continue to maintain a noncommercial exchange rate, which applies principally to individual tourists, at a more appreciated level than that of the commercial exchange rate. In

October 1984 this premium was 53 percent, and since November 1, 1984 the premium has been maintained at 40 percent. This dual exchange rate system constitutes a multiple currency practice, subject to approval under Article VIII. The Government's intention is to reduce the differential between the commercial and noncommercial exchange rates of the leu with the aim of eventual unification. However, the timetable for unifying the exchange rate has not been decided. The Romanian authorities were previously committed to remove this multiple currency practice by July 1, 1984. Both the commercial and noncommercial exchange rates have continued to be pegged, on a weekly basis, to the basket of currencies established on July 1, 1983, but at their more appreciated value since November 1, 1984. The weight given to the U.S. dollar in Romania's currency basket significantly exceeds that which would be suggested by the share of the United States in Romanian convertible currency trade. At present the Romanian authorities have no plans to change the currency composition of the basket.

IV. 1985 Forecasts

Plan objectives for 1985 reflect an effort to reach the overall targets of the 1981-85 five-year plan, which would imply an acceleration of growth in real GDP to 9 1/2 percent. The original plan targets were not revised following the setbacks suffered last winter. The Romanian representatives thought that the rate of economic growth in 1985 should, as a minimum, not be lower than in 1984. Official projections of domestic demand in 1985 are markedly more cautious than output projections, with the residual largely representing a plan reserve (Table 5). Final consumption and gross fixed investment are to rise by 3 1/2 percent and 8 percent, respectively.

Following the poor first quarter outturn, the original official forecast of a further increase in the convertible current account surplus in 1985 as a whole was replaced by the assumption of an unchanged surplus of US\$1,550 million. The convertible trade surplus is expected to decline modestly in 1985 which, after the better-than-expected results in the second quarter, when a trade surplus of US\$531 million was recorded, implies an unchanged surplus in the second half of 1985, compared with 1984. Non-oil imports are forecast to remain unchanged in 1985, while the growth in non-oil exports for the year as a whole is expected to slow down sharply to 1.5 percent because of the loss of exports in the first quarter. The non-oil terms of trade, which deteriorated according to official estimates by 5.9 percent in 1984, are projected by the authorities to improve by 2.1 percent in 1985. For the year as a whole, official projections for convertible currency trade imply a rise in non-oil export volumes of 1.1 percent and of non-oil import volumes of 1.8 percent. The convertible trade deficit in oil and oil products, which narrowed significantly in 1981-84, is expected to widen by over US\$150 million in 1985, reflecting the cost of additional oil imports during the winter. The services deficit in the convertible balance of payments is projected to decline by US\$100 million, to US\$550 million. This is more than accounted for by a reduction in gross interest payments.

In 1985 Romania's medium- and long-term debt repayment obligations are scheduled to rise by US\$380 million to US\$1,561 million. Of this, US\$360 million represents monies which were rescheduled in 1982 and which fall due in the second and fourth quarters of 1985. Romania's short-term debt is officially projected to stabilize in 1985, having fallen from US\$956 million at end-1982 to US\$327 million at end-1984. In the first quarter of 1985 short-term debt fell markedly, in part reflecting the contraction of foreign trade. The official projections for inflows of short-term credit in 1985 include financial credits from commercial banks of US\$80 million and US\$20 million in the second and third quarters, respectively. Inflows of long-term credit to Romania are projected to total US\$255 million in 1985, comprising disbursements by government export credit agencies and by the IBRD on projects initiated in earlier years.

Projections for the period April-December 1985 assume that receipts on trade credit extended by Romania will increase by US\$189 million, compared with the same period of 1984; gross extensions of trade credit are projected to rise modestly. In the first five months of 1985 there was a US\$70 million increase in overdue claims outstanding. Official reserves, which at the end of June were US\$528 million, are projected to recover to last December's level (US\$837 million) by end-1985. Gross convertible debt is projected to decline by 18 percent to US\$5,788 million at end 1985.

The Romanian authorities are projecting a marked reduction in the nonconvertible current account surplus in 1985, from US\$183 million in 1984 to US\$11 million. Both imports and exports are shown growing strongly, as they did in 1984. A rise of imports of 16.1 percent is implied in April-December, if the full year plan is to be achieved.

V. Medium-Term Projections

The Romanian authorities are presently formulating, in consultation with their CMEA partners, a new five-year plan, covering the period 1986-90. The directives for this plan call for an annual average growth of net material product of around 8 percent. Net fixed investment is to grow by 2-2 1/2 percent a year, directed mainly toward increasing energy and raw material supplies. While productivity in industry is to rise by as much as 10 percent a year, the supply of consumer goods through socialist retail trade, accounting for about three quarters of total household expenditure, is projected to grow by less than 2 percent a year. There is a substantial discrepancy between output targets and projected demand in the draft of the plan.

The official medium-term projections for the balance of payments and external debt in convertible currencies (Table 9) show (i) a continuation of current account surpluses of around US\$1.5 billion a year even beyond 1988 when debt repayment obligations are shown dropping considerably; (ii) a reduction in the debt service ratio from a peak of 29 percent in 1985 to only 8 percent by 1990; and (iii) a gradual concentration of the

remaining external debt to international institutions (mainly World Bank) and governments. Mirroring the decline in debt service obligations, international reserves are to rise throughout the projection period, particularly in its latter years. The Romanian representatives said that, if reserves were in fact to rise sharply toward the end of the decade, imports would be further increased. While exports are expected to rise steadily, the net extension of export credit during 1985-88 is projected to be considerably lower than in the recent past, before picking up strongly again in 1989-90.

VI. Staff Appraisal

Romania's performance in 1984 improved significantly. The convertible current account showed a further large increase in its surplus, and with no resort being made to new financial credits, Romania's impressive success in reducing its foreign debt was extended. This development was underpinned by a sharp recovery in the volume of non-oil exports (14 percent), which was largely accounted for by a surge in exports of basic manufactured goods. The export growth was made possible by an easing of supply constraints in basic industries, which resulted partly from an increase in total imports and from the accordance of increased priority to key industries in the rationing of domestic energy. The volume of convertible non-oil imports is estimated to have declined by a further 2.5 percent in 1984 as Romania continued to substitute recycled materials and domestic production for imports and also increased its imports from the nonconvertible area.

The rate of growth in real GDP is reported to have accelerated to 7.2 percent in 1984. Nevertheless, while available indicators suggest that activity recovered significantly in 1984, the large discrepancy between reported growth in output and in identified final demand in 1984 points to the possibility of some overstatement of output growth. The staff is not in a position to provide alternative estimates.

In early 1985, external and domestic economic developments were adversely affected by the severe winter. The level of trade with both the convertible and nonconvertible areas declined sharply and the output of all sectors of domestic industry was disrupted. The winter highlighted the fragility of the domestic economic infrastructure, but in addition, by leading to a substantial deterioration in the convertible trade balance, the winter also exposed the tightness of Romania's external financial position, which has resulted from its policy of reducing foreign debt as rapidly as possible. This tightness of external liquidity has led to some short payments delays by Romania. The recent resort by Romania to the market for financial credit indicates acknowledgement that the current account surplus may not be sufficient to meet all debt service obligations falling due in 1985, and that some refinancing of maturing credits is required. In the staff's view new borrowing would not be inconsistent with a policy of continuing to reduce outstanding debt and would facilitate greater flexibility in reserve management and permit Romania to stay current with its payments.

The convertible current account surplus in 1985 is expected to remain unchanged at US\$1.5 billion. Together with expected longer-term credit disbursements to Romania from official and multilateral sources, this surplus is projected by the authorities to finance the significantly increased debt repayment obligations due in 1985 and a further sizable net extension of export credit by Romania. The authorities also hope to reconstitute reserves to their end-1984 level in the remainder of 1985. However, this reconstitution may not be realized because the projected repayments of export credit previously extended by Romania appear optimistic, in view of past experience and the sharp increase in overdue claims outstanding to Romania in the first five months of 1985. The difficulties Romania has encountered in collecting payment of maturing export credits suggests the need to adopt a more commercial approach to extending such credit. This could include linking enterprise export bonuses to foreign exchange receipts rather than to exports. The Romanian authorities should see to it that the foreign trade targets for the second half of 1985 are not fulfilled, or even overfulfilled, only by a greater-than-projected extension of trade credit. In this sense, the "quality" of the current account surplus matters as much as its quantity.

In June 1985 Romania's reserves were lower than in some quarters of 1981 when payments arrears accumulated. There would thus seem to be no room for slippage from the forecast of hard currency receipts. The staff would urge the Romanian authorities without delay to seek to raise medium-term credit from foreign banks to rebuild reserves, to a level that would insure Romania against further payments difficulties and obviate the need to restrict essential imports in response to unforeseen revenue shortfalls. The successful raising of a small financial loan from banks in May 1985 confirms that Romania has at least some access to foreign credit markets.

The staff finds it difficult to understand how further large increases in real GDP (9.4 percent) and productivity in industry (14.7 percent) can be achieved in 1985. It notes that the 1985 targets reflect the desire to fulfill the objectives of the 1981-85 plan. The staff's assessment of future domestic developments has been impeded by the normative character of the national accounts projections and the absence of consistent forecasts of the likely outturn.

Price stability is now a major economic policy objective, to be attained through strict price controls, wage restraint, and productivity increases. Emphasis on this objective was renewed after the rapid price increases in 1981-83 and was already reflected in the suppression by the authorities of the domestic price effects of both the devaluations and increases in capital costs in 1983 and early 1984. In November 1984 most of these measures were reversed through a large revaluation and reductions in interest rates. The revaluation was designed by the authorities with the aim of reinforcing the general programs of cost reduction and increases in efficiency. While the previous devaluations in their view made lei export targets too easily attainable for enterprises because the authorities failed to make the necessary adjustments, the revaluation was

thought to induce enterprises to improve their efficiency. The revaluation lowered import costs but did not affect import volume, nor was it allowed to slow down import substitution. The lower import costs were reflected, though not fully, in a reduction of producer prices of intermediate goods entering export production but not in the cost of living.

The staff questions whether a revaluation of the leu was needed to stabilize prices or to improve efficiency. The staff believes that it is important to ensure that planning decisions are based on a structure of domestic relative prices and on an exchange rate that reflects resource scarcities. The revaluation of the leu runs counter to this principle as does the tendency for the authorities to use domestic administered prices in economic decisions, including investment decisions, rather than shadow prices reflecting resource scarcities. It is difficult to understand how the current arrangements for allocating resources can be optimal and whether an adequate basis exists for judging the efficiency of investment projects. The level of investment remains very high in relation to GDP. Although it is expected to grow only modestly in the medium term, there is ample scope, in the staff's view, for some reordering of investment priorities.

The absence of an allocative role for the exchange rate, domestic prices and interest rates makes it extremely difficult for the staff to evaluate the appropriateness of Romanian economic policies and to suggest meaningful adjustment measures that are effective in the Romanian centrally planned economic system. Experience suggests that the impact of policy changes in these areas may be limited or offset in one way or another by central directives.

Wage policy is broadly consistent with the objectives of external adjustment and price stability. Wage increases are being held below productivity growth to make room for a real resource transfer abroad. The associated increase in enterprise profits is reflected in increased profit transfers to the budget. This was an important factor behind the doubling of the budget surplus to 6.2 percent of GDP in 1984 which forms the counterpart of the reduction in Romania's net foreign liabilities. A further increase in the budget surplus is envisaged in 1985. Monetary policy also reflects largely decisions taken with respect to the real economy. As in 1984, the growth in broad money is expected to be significantly lower than GDP growth in 1985.

The staff notes that despite overall price stability, prices of individual products are subject to change. In particular there has been a large decline, in part administratively determined, in prices in peasant markets in 1984. This has discouraged production. The staff believes that this market should be freed of restrictions so as to insure an improved supply of agricultural products.

Official medium-term projections assume large convertible current account surpluses in 1986-88 when medium- and long-term debt repayment obligations average US\$1.4 billion per annum. Such obligations and the debt service ratio are projected to drop sharply by 1990. If this

scenario is realized, Romania is likely to increase imports. Given the restricted room for convertible imports for the medium term, Romania's success in meeting its convertible debt service obligations depends greatly on the effectiveness of its strategy to sustain convertible exports at a high level, and on the scope for expanding nonconvertible imports. Although Romania intends to increase the latter, shortfalls from forecasts of such imports have occurred frequently in the past.

To sustain exports, reliance is to be placed on further improvements in efficiency, the realization of Romania's ambitious plans for improving product quality, cooperation agreements, and export credit extension. The staff finds it difficult to share the optimistic assumption that the share of exports sold against cash will rise significantly in the period 1985-88, particularly in view of the great dependence of equipment exports on depressed developing country markets. To reduce this dependency, Romania should make every effort to find new outlets for equipment exports in developed countries--a need that underlines the importance of improving product quality. More particularly, it should seek out areas in which it is likely to enjoy a comparative advantage. This will require an improved system of investment appraisal, and a modified pattern of resource allocation. Increased countertrade procures little convertible foreign exchange, and is unlikely to promote efficiency.

In the view of the staff, additional medium- and long-term borrowing from foreign banks could make a contribution to the economic development of Romania, without jeopardizing the goal of reducing external debt. It will, of course, be essential to ensure the efficient use of borrowed funds, which again draws attention to the system of resource allocation.

The staff notes the intention of the Romanian authorities to remove gradually the difference between the commercial and noncommercial exchange rates, which constitutes a multiple currency practice subject to approval under Article VIII, and hopes that this goal will be reached shortly. The staff can find no justification for the maintenance of a separate exchange rate for noncommercial transactions, and approval of this multiple currency practice is therefore not recommended.

The staff welcomes the elimination of the bilateral payments agreement with Ecuador and encourages Romania to continue its efforts to reduce reliance on bilateral agreements with other Fund members.

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, Sections 2 and 3, in concluding the 1985 Article XIV consultation with Romania and in light of the 1985 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, 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.

Table 1. Romania: Balance of Payments Summary, 1982-85

(In millions of U.S. dollars)

	1982	1983	1984	Official Forecast 1985	First Quarter 1984 1985	
All currencies ^{1/}						
Exports, f.o.b.	11,559	11,512	12,646	13,050	3,098	2,526
Imports, f.o.b.	<u>-9,745</u>	<u>-9,643</u>	<u>-10,334</u>	<u>-11,000</u>	<u>-2,466</u>	<u>-2,137</u>
Trade balance	1,814	1,869	2,312	2,050	632	389
Services balance	<u>-774</u>	<u>-709</u>	<u>-593</u>	<u>-489</u>	<u>-250</u>	<u>-229</u>
Current balance	1,040	1,160	1,719	1,561	382	160
Capital balance	-226	-1,038	-1,573	-1,432	-393	-360
Errors and omissions	<u>37</u>	<u>-32</u>	<u>30</u>	<u>--</u>	<u>--</u>	<u>-7</u>
Overall balance	851	90	176	129	-11	-207
Convertible currencies						
Exports, f.o.b.	6,235	6,246	6,892	7,000	1,562	1,170
Imports, f.o.b.	<u>-4,710</u>	<u>-4,558</u>	<u>-4,706</u>	<u>-4,900</u>	<u>-1,033</u>	<u>-909</u>
Trade balance	1,525	1,688	2,186	2,100	529	261
Services balance	<u>-870</u>	<u>-766</u>	<u>-650</u>	<u>-550</u>	<u>-246</u>	<u>-219</u>
Current balance	655	922	1,536	1,550	283	42
Capital balance	117	-881	-1,442	-1,371	-273	-298
Errors and omissions	<u>35</u>	<u>-29</u>	<u>34</u>	<u>--</u>	<u>--</u>	<u>11</u>
Overall balance	807	12	128	179	10	-245
Nonconvertible currencies ^{1/}						
Exports, f.o.b.	5,324	5,266	5,754	6,050	1,536	1,356
Imports, f.o.b.	<u>-5,035</u>	<u>-5,085</u>	<u>-5,628</u>	<u>-6,100</u>	<u>-1,433</u>	<u>-1,228</u>
Trade balance	289	181	126	-50	103	128
Services balance	<u>96</u>	<u>57</u>	<u>57</u>	<u>61</u>	<u>-4</u>	<u>-10</u>
Current balance	385	238	183	11	99	118
Capital balance	-343	-157	-131	-61	-120	-62
Errors and omissions	<u>2</u>	<u>-3</u>	<u>-4</u>	<u>--</u>	<u>--</u>	<u>-18</u>
Overall balance	44	78	48	-50	-21	38

Source: Data supplied by the Romanian authorities.

^{1/} Ruble trade has been valued using a constant exchange rate of US\$1 = 0.67 transferable rubles.

Table 2. Romania: Balance of Payments, Convertible Currency, 1982-85

(In millions of U.S. dollars)

	1982	1983	1984	Official Forecast 1985	First Quarter	Official Forecast		
						Second Quarter	Third Quarter	Fourth Quarter
					1985			
Current account (for details, see Table 3)	655	922	1,536	1,550	42	277	488	743
Capital account, net	117	-881	-1,442	-1,371	-298	-359	-168	-546
Medium- and long-term capital, net	602	-99	-1,039	-1,407	-208	-463 1/	-157 1/	-551 1/
Credits received	752	137	-771	-1,127	136	-320	-159	-512
Receipts	2,833	1,348	274	255	52	75	89	39
Of which:								
Under								
rescheduling								
arrangements								
Payments	(2,176)	(845)	(--)	(--)	(--)	(--)	(--)	(--)
Payments	-2,081	-1,211	-1,045	-1,382	-188	-395	-248	-551
Credits extended	-150	-236	-268	-280	-72	-143 1/	2 1/	-39 1/
Receipts	143	115	120	155	23	...	..	...
Payments	-293	-351	-388	-435	-95	...	...	...
Short-term capital, net	-485	-782	-403	36	-90	...	...	...
Credits received	-133	-542	-261	-4	-102	104	-11	5
Receipts	956	399	272	302	68	125	78	31
Of which:								
Under								
rescheduling								
arrangements								
Payments	(542)	(131)	(--)	(--)	(--)	(--)	(--)	(--)
Payments	-1,089	-941	-533	-306	-170	-21	-89	-26
Credits extended 2/	-352	-240	-142	40	12	...	...	...
Receipts	--	188	319	459	47	...	...	...
Payments	-352	-428	-459	-419	-35	...	...	...
Errors and omissions, net	35	-29	34	--	11	--	--	-11
Overall balance	807	12	128	179	-245	-82	320	186
SDR allocations	--	--	--	--	--			
Monetary movements, net 3/	-807	-12	-128	-179	245	82	-320	-186
Monetary gold	--	4	--	--				
SDR holdings	-12	12	--	--				
Special escrow deposit 4/	-316	316	--	--				
Foreign exchange	-25	-88	-184	--	297	36	-265	-148
Use of Fund credit	301	132	56	-179	-52	-54	-35	-38
Purchases	(346)	(198)	(190)	(--)	(--)	(--)	(--)	(--)
Repurchases	(-45)	(-66)	(-134)	(-179)	(-52)	(-54)	(-35)	(-38)
Arrears	-755	-388	--	--				

Source: Data supplied by the Romanian authorities.

1/ Including net short-term credit extensions.

2/ Including US\$120 million in 1982 as payments reflecting a build-up of advance import deposits and US\$50 million in 1983 and US\$70 million in 1984 as receipts reflecting a drawdown of these deposits.

3/ Increase in assets (-).

4/ 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, 1980-85

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	Official Forecast 1985	1984		1985	
							1st Qtr.	2nd Qtr.	1st Qtr.	2nd Qtr.
Exports, f.o.b.	<u>6,503</u>	<u>7,216</u>	<u>6,235</u>	<u>6,246</u>	<u>6,892</u>	<u>7,000</u>	<u>1,562</u>	<u>1,872</u>	<u>1,170</u>	<u>2,115</u>
Oil	<u>2,153</u>	<u>1,931</u>	<u>1,532</u>	<u>1,963</u>	<u>2,164</u>	<u>2,200</u>				
Non-oil	<u>4,350</u>	<u>5,285</u>	<u>4,703</u>	<u>4,283</u>	<u>4,728</u>	<u>4,800</u>				
Imports, f.o.b.	<u>-8,037</u>	<u>7,012</u>	<u>-4,710</u>	<u>-4,558</u>	<u>-4,706</u>	<u>-4,900</u>	<u>-1,033</u>	<u>-1,502</u>	<u>-909</u>	<u>-1,584</u>
Oil	<u>-3,738</u>	<u>-3,359</u>	<u>-2,462</u>	<u>-2,457</u>	<u>-2,610</u>	<u>-2,800</u>				
Non-oil	<u>-4,299</u>	<u>-3,653</u>	<u>-2,248</u>	<u>-2,101</u>	<u>-2,096</u>	<u>-2,100</u>				
Trade balance	<u>-1,534</u>	<u>204</u>	<u>1,525</u>	<u>1,688</u>	<u>2,186</u>	<u>2,100</u>	<u>529</u>	<u>370</u>	<u>261</u>	<u>531</u>
Oil	<u>-1,585</u>	<u>-1,428</u>	<u>-930</u>	<u>-494</u>	<u>-446</u>	<u>-600</u>				
Non-oil	<u>51</u>	<u>1,632</u>	<u>2,455</u>	<u>2,182</u>	<u>2,632</u>	<u>2,700</u>				
Tourism	<u>208</u>	<u>190</u>	<u>116</u>	<u>102</u>	<u>110</u>	<u>123</u>	<u>19</u>	<u>...</u>	<u>11</u>	<u>...</u>
Receipts	<u>236</u>	<u>208</u>	<u>121</u>	<u>112</u>	<u>121</u>	<u>135</u>	<u>21</u>	<u>...</u>	<u>12</u>	<u>...</u>
Payments	<u>-28</u>	<u>-18</u>	<u>-5</u>	<u>-10</u>	<u>-11</u>	<u>-12</u>	<u>-2</u>	<u>...</u>	<u>-1</u>	<u>...</u>
Transportation and telecommunications	<u>-458</u>	<u>-346</u>	<u>-139</u>	<u>-159</u>	<u>-68</u>	<u>-95</u>	<u>-22</u>	<u>...</u>	<u>-4</u>	<u>...</u>
Receipts	<u>335</u>	<u>372</u>	<u>294</u>	<u>214</u>	<u>299</u>	<u>310</u>	<u>62</u>	<u>...</u>	<u>57</u>	<u>...</u>
Payments	<u>-793</u>	<u>-718</u>	<u>-433</u>	<u>-373</u>	<u>-367</u>	<u>-405</u>	<u>-84</u>	<u>...</u>	<u>-61</u>	<u>...</u>
Interest on debt	<u>-788</u>	<u>-1,047</u>	<u>-917</u>	<u>-737</u>	<u>-706</u>	<u>-587</u>	<u>-261</u>	<u>-103</u>	<u>-251</u>	<u>-79</u>
Receipts	<u>48</u>	<u>68</u>	<u>45</u>	<u>62</u>	<u>62</u>	<u>68</u>	<u>14</u>	<u>...</u>	<u>12</u>	<u>...</u>
Payments	<u>-836</u>	<u>-1,115</u>	<u>-962</u>	<u>-799</u>	<u>-768</u>	<u>-655</u>	<u>-275</u>	<u>...</u>	<u>-263</u>	<u>...</u>
Other services	<u>173</u>	<u>181</u>	<u>70</u>	<u>28</u>	<u>14</u>	<u>9</u>	<u>18</u>	<u>...</u>	<u>25</u>	<u>...</u>
Receipts	<u>240</u>	<u>223</u>	<u>120</u>	<u>125</u>	<u>126</u>	<u>131</u>	<u>24</u>	<u>...</u>	<u>32</u>	<u>...</u>
Payments	<u>-67</u>	<u>-42</u>	<u>-50</u>	<u>-97</u>	<u>-112</u>	<u>-122</u>	<u>-6</u>	<u>...</u>	<u>-7</u>	<u>...</u>
Services balance	<u>-865</u>	<u>-1,022</u>	<u>-870</u>	<u>-766</u>	<u>-650</u>	<u>-550</u>	<u>-246</u>	<u>-65</u>	<u>-219</u>	<u>-83</u>
Current balance	<u>-2,399</u>	<u>-818</u>	<u>655</u>	<u>922</u>	<u>1,536</u>	<u>1,550</u>	<u>283</u>	<u>305</u>	<u>42</u>	<u>448</u>

Source: Data supplied by the Romanian authorities.

Table 4. Romania. International Reserves, 1979-85

(In millions of U.S. dollars; end of period)

	SDRs	Reserve Position in the Fund	Foreign Exchange	Total Reserves Minus Gold	Gold <u>1/</u>	Reserves
1979	1	--	524	525	163	688
1980	--	--	323	323	166	489
1981 1st quarter	--	--	223	223	161	384
2nd quarter	8	17	427	454	150	604
3rd quarter	2	--	482	484	148	632
4th quarter	--	--	403	403	147	550
1982 1st quarter	--	--	396	396	143	539
2nd quarter	4	--	467	471	140	611
3rd quarter	--	--	796	796	132	928
4th quarter	12	--	437	449	138	587
1983 1st quarter	--	--	489	489	133	622
2nd quarter	--	--	543	542	133	675
3rd quarter	--	--	575	575	133	703
4th quarter	--	--	525	525	133	658
1984 1st quarter	2	--	700	702	135	837
2nd quarter	--	--	793	793	133	926
3rd quarter	1	--	726	727	129	856
4th quarter	--	--	709	709	128	837
1985 1st quarter	1	--	412	413	130	543
2nd quarter	--	--	396	396	132	528

Sources: IMF, International Financial Statistics; and data supplied by the Romanian authorities.

1/ Valued at SDR 35 per ounce.

Table 5. Romania: National Accounts: Main Aggregates, 1981-85

	In Billions of Lei at Current Prices					Forecast
	1984	1981	1982	1983	1984	1985
(Percentage change; at constant prices)						
Net material product (National income)	709.0	2.2	2.7	3.7	7.7	10.0
By sector of origin:						
Industry	432.8	3.9	1.8	6.1	7.2	11.7
Agriculture	108.3	-2.3	7.4	-3.6	12.3	9.0
Construction	54.2	-3.0	0.7	9.3	6.3	8.5
Other sectors	113.7	3.2	2.4	0.6	5.6	5.2
By demand components:						
Consumption Fund	458.6	3.0	-1.3	0.7	5.9	3.6
Population	405.2	3.8	-1.3	-0.2	6.1	3.8
Government	53.4	-2.5	-1.4	7.1	4.0	3.5
Accumulation Fund	180.8	-24.5	-2.0	6.0	-4.7	7.4
Net fixed investment	160.1	-13.2	-9.1	-0.3	4.4	7.7
Increase in stocks ^{1/}	20.7	-5.2	1.9	1.7	-2.4	0.1
Residual ^{1/ 2/}	69.6	9.4	4.2	1.7	3.0 ^{3/}	5.6 ^{4/}
Value added from nonmaterial services	54.3	-0.4	-3.1	6.1	...	...
Depreciation	82.3	9.3	7.3	6.8	...	...
Gross domestic product	845.6	2.7	2.8	4.2	7.2	9.4
of which:						
Final consumption	506.6	2.7	-1.5	9.9	5.2	3.6
Gross fixed investment	244.7	-7.1	-3.8	2.4	6.1	8.3
(Percentage change; at current prices)						
Net material product (National income)	709.0	2.7	18.5	4.6	7.8	10.0
By type of income:						
Primary incomes of economic units	333.3	-4.7	19.2	12.5	12.3	...
State units	324.7	-3.7	19.4	14.1	11.4	...
Cooperatives	8.6	-25.0	12.0	-35.7	59.3	...
Primary incomes of population	375.7	8.8	18.0	-1.2	4.1	...
From state and cooperative units	280.0	6.5	9.7	2.9	4.5	...
From personal plots	95.7	16.9	45.5	-11.5	3.0	...
(Percentage change)						
Implicit deflators						
Net material product	...	0.5	15.4	0.9	0.1	--
Gross domestic product	...	0.9	13.1	1.1	0.3	--
Final consumption	...	4.0	16.7	-0.5	-1.6	1.3
Gross fixed investment	...	5.9	7.4	4.2	-0.1	--

Source: Data provided by the Romanian authorities.

^{1/} Changes expressed as percent of net material product of the preceding year (contribution to growth).

^{2/} Net foreign balance and statistical discrepancy.

^{3/} Including the contribution to growth of lei 15.8 billion of commodities ready for export at end-1984, recorded in the statistical discrepancy.

^{4/} Representing mainly a plan reserve.

Table 6. Romania: External Debt, 1981-85
(In millions of U.S. dollars at end of period)

	1981	1982	1983	1984	Official Forecast 1985
In convertible currencies	<u>10,070</u>	<u>9,698</u>	<u>8,757</u>	<u>7,090</u>	<u>5,788</u>
Medium- and long-term	8,248	8,354	8,267	6,763	5,465
Official	3,058	3,809	3,846	3,470	3,100
International institutions	1,756	2,448	2,620	2,402	2,052
Of which:					
IMF	(590)	(863)	(947)	(937)	(766)
Government and government guaranteed credits <u>1/</u>	1,302	1,361	1,226	1,068	1,048
Private	4,814	4,168	4,080	3,100	2,247
Commercial banks	4,189	3,993	3,639	2,991	2,161
Nonguaranteed suppliers' credits	625	175	441	109	86
Socialist banks	412	377	341	193	118
Short-term	643	956	490	327	323
Arrears	1,143	388	--	--	--
In nonconvertible currencies	<u>386</u>	<u>203</u>	<u>197</u>	<u>239</u>	<u>320</u>
Total, all currencies	<u>10,456</u>	<u>9,901</u>	<u>8,954</u>	<u>7,329</u>	<u>6,108</u>

Source: Data provided by the Romanian authorities.

1/ Including some suppliers credits.

Table 7. Romania: The Commercial Exchange Rate

(1981 First Quarter = 100)

	Real Effective Rate <u>1/</u>	Nominal Effective Rate
1981		
1	100.0	100.0
2	104.7	107.8
3	108.1	114.6
4	101.8	110.8
1982		
1	121.4	115.5
2	122.0	119.2
3	125.0	125.4
4	126.1	129.2
1983		
1	118.9	117.9
2	121.1	123.0
3	115.8	120.7
4	114.9	123.3
1984		
1	95.3	105.0
2	94.5	106.5
3	94.7	109.4
4	115.4	136.7
1985		
1	125.0	152.2
May	123.5	154.6

Source: Staff calculations.

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

Table 8. Romania: Interest Rates

	<u>Interest Rates on Bank Loans</u>	
	<u>From January 1, 1984</u>	<u>From November 1, 1984</u>
	<u>(In percent per annum)</u>	
Credits for production and trade in:		
Industry, transportation, services, technical and material supply, and foreign trade, etc.	10	5
Agriculture (state and cooperative), construction - assembly, drilling, geology, etc.	7	2
Domestic trade, tourism, procurement, etc.	8	3
Investment credits		
To economic units		
Credits up to planned amount	7	3
Credits beyond planned amount	8	5
To households	5-8	2-6
	<u>Interest Rates on Bank Deposits</u>	
Enterprise deposits at the National Bank and specialized banks		
Blocked		2
Freely usable	3.5-5.0	2
Household deposits at the Savings Bank	3-6	2-5
Deposits of Savings Bank at the National bank	5.75	4.75

Source: Data supplied by the Romanian authorities.

Table 9. Romania: Official Medium-Term
Balance of Payments and Debt Outlook, 1984-90

(In convertible currencies)

	1984	1985	1986	1987	1988	1989	1990
(In millions of U.S. dollars)							
Payments flows							
Current account balance	1,536	1,550	1,595	1,610	1,565	1,445	1,415
Trade balance	2,186	2,100	2,020	1,950	1,800	1,650	1,600
Of which: oil trade	(-446)	(-600)	(-630)	(-650)	(-750)	(-850)	(-850)
Exports	6,892	7,000	7,300	7,600	7,950	8,350	8,800
Imports	-4,706	-4,900	-5,280	-5,650	-6,150	-6,700	-7,200
Services, net	-650	-550	-425	-340	-235	-205	-185
Of which: gross interest payments	(-768)	(-655)	(-495)	(-390)	(-295)	(-220)	(-180)
Capital inflows	13	251	355	349	373	375	275
IBRD	131	65	100	200	200	200	200
Governments, medium- and long-term	46	190	200	200	200	200	200
Commercial banks, total	--	80	-30	--	10	10	-10
Medium- and long-term	--	--	--	--	--	--	--
Short-term, net	--	80	-30	--	10	10	-10
Other, total	-164	-84	85	-51	-37	-35	-115
Medium- and long-term	97	--	--	--	--	--	--
Short-term, net	-261	-84	85	-51	-37	-35	-115
Capital outflows	-1,455	-1,622	-1,601	-1,446	-1,523	-1,260	-1,120
Amortization of medium- and long-term debt	-1,045	-1,382	-1,316	-1,161	-1,218	-795	-570
On debt incurred by end-1984	-1,045	-1,382	-1,256	-1,036	-1,015	-524	-242
Of which:							
Commercial banks	(-546)	(-830)	(-723)	(-565)	(-592)	(-239)	(-42)
On inflows after 1984	--	--	-60	-125	-203	-271	-328
Credit extended, net	-410	-240	-285	-285	-305	-465	-550
IMF, net	54	-179	-197	-224	-157	-127	-53
Purchases	190	--	--	--	--	--	--
Repurchases	-136	-179	-197	-224	-157	-127	-53
Change in gross reserves (increase -)	-182	--	-152	-289	-258	-433	-517
Stocks (end of year)							
Convertible external debt	7,090	5,788	4,629	3,594	2,591	2,045	1,697
Of which:							
To international institutions	(2,402)	(2,052)	(1,758)	(1,565)	(1,426)	(1,309)	(1,259)
To governments	(1,068)	(1,048)	(968)	(776)	(555)	(410)	(288)
To commercial banks	(2,991)	(2,241)	(1,488)	(923)	(341)	(112)	(60)
Gross reserves	837	837	989	1,278	1,536	1,969	2,486
Of which: foreign exchange	(709)	(709)	(861)	(1,150)	(1,408)	(1,841)	(2,358)
(In percent of current receipts)							
Debt service ratio							
Including IMF repurchases	26.0	28.9	25.1	21.3	19.1	12.4	8.3
Excluding IMF repurchases	24.2	26.6	22.7	18.6	17.3	11.1	7.7

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

Romania--Fund Relations

(As of July 31, 1985)

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	100.0
(b) Total Fund holdings of currency	1,369.0	261.6
(c) Fund credit	845.6	161.6
Of which:		
Credit tranches	312.9	59.8
Enlarged access	447.9	85.6
Compensatory financing- exports	84.8	16.2
(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 January 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

	<u>(Millions of SDRs)</u>	<u>(Percent of net cumulative allocations)</u>
(a) Net cumulative allocation	75.95	100.0
(b) Holdings	0.04	0.05

B. Nonfinancial Relations

VI. (a) 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 exchange 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 July 15, 1985 the commercial exchange rate was lei 16.88 = 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.

Certain nontrade exchange transactions with the convertible area are carried out at the noncommercial exchange rate, which is pegged to the same basket of currencies as the commercial rate and is also adjusted on a weekly basis. On July 15, 1985, the noncommercial rate was lei 12.06 = 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.

(b) Unapproved exchange restrictions subject to Article VIII, Section 3: See text of decision below.

VI . The last Article IV consultation was concluded on September 12, 1984. Romania is on a 12-month consultation cycle. The following decision was taken by the Board on September 12, 1984:

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 the light of the 1984 Article IV consultation with Romania conducted under Decision No. 5392-(77/63), adopted April 29, 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.

VII . Technical Assistance

(a) Central Banking Department

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

(b) Bureau of Statistics

In February 1985, a technical assistance mission visited Bucharest to review Romanian statistics in key areas (national accounts, production, prices, labor and foreign trade). The mission made a number of specific recommendations, requests for technical notes and for the release of certain data series. The staff was told in June the Romanian authorities were at present considering the Bureau's recommendations.

Romania - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

(i) National accounts

In the area of national accounts, the Romanian authorities provided the Fund mission with the following data on an annual basis and promised to supply this information regularly in future.

1. Gross and net output by branches in current and constant prices.
2. National income by end use.
3. Distribution of national income by primary incomes.
4. Reconciliation tables for calculating GDP in SNA format.

(ii) Prices

Romania reports most data on a quarterly basis; the CPI is reported annually. The recent technical assistance mission asked the authorities to report data on industrial production on a monthly rather than a quarterly basis, and data on the CPI on a quarterly, rather than on an annual basis. The mission also requested that the authorities provide quarterly data on producer prices for inclusion in IFS.

b. External sector--Merchandise trade

The recent technical assistance mission requested that the authorities provide the Bureau with quarterly data on the direction of trade and on the composition of trade for publication in IFS. The Romanian authorities provided the recent Fund mission with estimates of changes in oil and non-oil export and import prices since 1981.

c. Government finance

The 1984 Government Finance Statistics Yearbook contains data on revenue and expenditure of the consolidated central and general governments through 1982. Data on financing are not reported. The government has no outstanding direct external debt. The coverage of government in Recent Economic Developments and IFS is extensive, but is not as complete as in the GFS Yearbook. The 1985 GFS Yearbook will include 1983 revenue and expenditure data.

d. Monetary accounts

There are a number of unresolved substantive issues which have arisen from changes in the data commencing in December 1981. Some of these changes appear to have been made in response to the recommendations

of a Bureau technical assistance mission of June 1981 but there were some other unexplained changes.

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

The table below shows the currentness and coverage of data published in the country page for Romania in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Ministry of Finance, which during the past year have been provided on an irregular basis; the currentness and frequency of the data could be improved.

Status of IFS Data

		<u>Latest Data in August 1985 IFS</u>
Real Sector	- National Accounts	1983
	- Prices: CPI	1984
	- Earnings (Average)	Q1 1985
	- Production: Industrial	Q1 1985
	- Employment: Industrial	Q1 1985
Government Finance	- Deficit/Surplus	Q1 1985
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	March 1985
	- Specialized Banks	March 1985
External Sector	- Merchandise Trade: Values	Q1 1984 <u>1/</u>
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	First half of 1984
	- International Reserves	March 1985
	- Exchange Rates	May 1985

1/ Q3 1984 for exports of petroleum products and imports of crude petroleum.

Romania: Selected Economic Indicators

	1981	1982	1983	1984	Official Forecast 1985
<u>(Percentage changes)</u>					
1. National income and expenditure					
In constant prices:					
Gross domestic product (GDP)	2.7	2.8	4.2	7.2	9.4
Net material product (NMP)	2.2	2.7	3.7	7.7	10.0
Net industrial production	3.9	1.8	6.1	7.2	11.7
Net agricultural production	-2.3	7.4	-3.6	12.3	9.0
Final consumption	2.7	-1.5	0.9	5.2	3.6
Gross fixed investment	-7.1	-3.8	2.4	6.1	8.3
In current prices:					
Net material product (NMP)	2.7	18.5	4.6	7.8	10.0
Retail sales	4.7	12.5	3.3	5.0	0.5
2. Prices, wages, productivity, and employment					
Implicit NMP deflator	0.5	15.4	0.9	0.1	--
Industrial producer prices	12.9	10.7	5.6	-0.1	-1.0
Consumer prices	3.5	14.1	4.6	-0.2	--
Average nominal earnings	4.6	7.9	3.0	6.6	7.5
Average real earnings	1.0	-5.4	-1.5	6.9	7.5 ^{1/}
Labor productivity in industry ^{2/}	2.4	1.2	2.9	9.2	14.7
Employment in industry	1.9	1.7	0.6	0.4	2.3
3. Money and credit ^{3/}					
Money and quasi-money	20.7	12.1	5.6	3.2	...
Credit to enterprises and households	5.6	8.4	8.0	7.3	...
<u>(In billions of lei)</u>					
4. General government budget					
Revenue	280.3	277.4	259.4	310.9	362.6
Expenditure	271.7	257.5	236.8	260.2	300.0
Reserve fund allocation	--	--	--	--	62.6 ^{4/}
Surplus	8.5	19.9	22.6	50.7	...
(In percent of GDP)	(1.3)	(2.7)	(2.9)	(6.2)	(...)
<u>(Percentage changes)</u>					
5. Foreign trade (f.o.b., valued in U.S. dollars)					
All currencies:					
Exports	12.2	-6.5	-0.4	9.9	3.2
Imports	-3.3	-20.5	-1.0	7.2	6.4
Convertible currencies:					
Exports	11.0	-13.6	0.2	10.3	1.6
Of which: Non-oil	21.5	-11.0	-8.9	10.3	1.6
Imports	-12.8	-32.8	-3.2	3.2	4.1
Of which: Non-oil	-15.0	-38.5	-6.5	-0.3	0.2

Romania: Selected Economic Indicators (continued)

	1981	1982	1983	1984	Official Forecast 1985
(In millions of U.S. dollars)					
6. Balance of payments in convertible currencies					
Trade balance	204	1,525	1,688	2,186	2,100
Services balance	-1,022	-870	-766	-650	-550
Current account balance	-818	655	922	1,536	1,550
(In percent of GDP)	(-1.9)	(1.3)	(2.0)	(3.9)	(3.1)
Capital account balance <u>5/</u>	-570	152	-910	-1,408	-1,371
Overall balance	-1,388	807	12	128	179
7. External assets in convertible currencies (at end of year)					
International reserves	550	587	658	837	837
(In months of convertible imports)	(0.9)	(1.5)	(1.7)	(2.1)	(2.0)
Non-reserve assets	...	...	...	2,312	...
8. External liabilities in convertible currencies (at end of year)					
Total debt	10,070	9,698	8,757	7,090	5,788
(In percent of GDP)	(23.5)	(19.5)	(19.4)	(18.3)	(11.1)
Of which:					
Short-term debt	643	956	490	327	323
Arrears	1,143	388	--	--	--
(In percent of convertible exports of goods and services)					
9. Debt service in convertible currencies					
Interest payments	15.5	14.1	11.8	10.2	8.6
Total debt service payments	23.5	22.6	24.3	26.0	28.9
(In lei per U.S. dollar)					
10. Exchange rates (annual average)					
Commercial rate	15.0	15.0	17.2	21.3	...
Noncommercial rate	11.1	11.0	13.1	14.0	...

Sources: Directia Centrala de Statistica, Anuarul Statistic; Ministry of Finance, Economic Memorandum; IMF Data Fund; and data provided by the Romanian authorities.

1/ Subject to plan fulfillment.

2/ Based on marketable (gross) industrial production.

3/ Changes based on averages of end-of-quarter stocks.

4/ In past years, a varying part of the reserve fund allocation remained unspent, yielding an overall budget surplus.

5/ Including errors and omissions.