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McNamara Papers

Contacts
Romania (1968-1973)

The Western Bank Group
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Contacts with member countries: Romania - Correspondence 01

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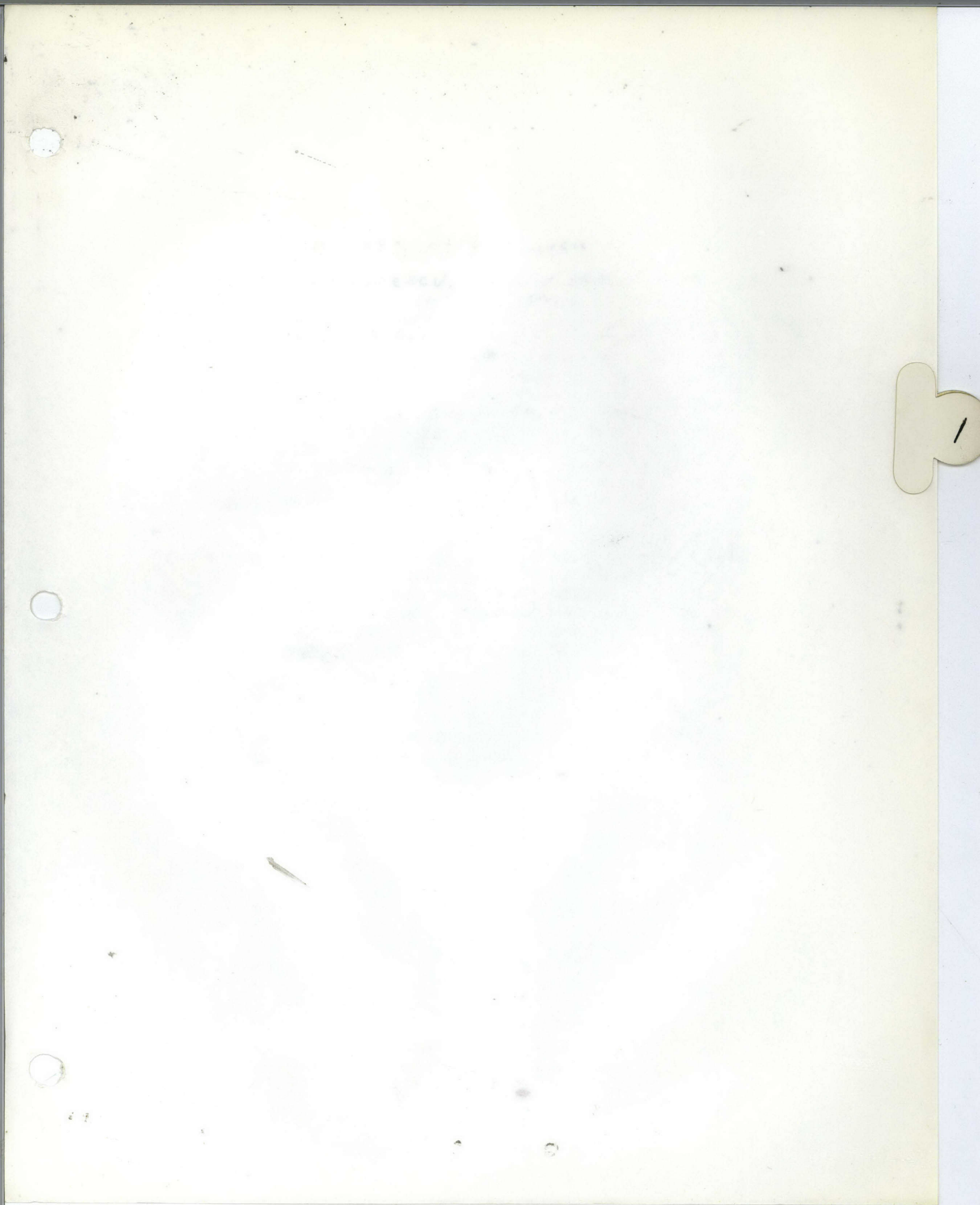
ROMANIA

ROMANIA

1. 4/12/68 Ambassador Corneliu Bogdan and First Secretary Ungur
2. 7/4/68 Ion Gheorghe Maurer, President, Council of Ministers
(Bucharest) *(Filed in L. M. N. office)*
3. 7/4/68 Nicolae Ceausescu, President of the State Council
(Bucharest)
4. 7/3/68 Vasile Malinschi, Governor, National Bank of Romania
(Bucharest)
- 7/3/68 Aurel Vijoli, Minister of Finance
(Bucharest)
- 7/5/68 Dr. Boerma, FAO
5. 10/27/70 Ion Romanu, Counselor to the President of the Council of State
Nicolae Nicolae, Deputy Foreign Trade Minister
Dumitru Butnaru, Economic Counselor of the Romanian Embassy
Costin Nurgescu, Counselor at the Council of Ministers
6. 5/31/72 Ambassador Corneliu Bogdan
- 9/20/72 Ambassador Bogdan (to present application for membership in IBRD)
- 9/28/72 Romanian delegation to the Annual Meeting
7. 12/14/72 Florea Dumitrescu, Minister of Finance
Ambassador Corneliu Bogdan
Mircea Raceanu, First Secretary, Romanian Embassy
Ion Barac, Ministry of Foreign Affairs
- 3/20/73 Ambassador Corneliu Bogdan
8. 9/25/73 Florea Dumitrescu, Minister of Finance
(Nairobi) Mihai Diamandopol, President, Investment Bank of Romania
Vasile Voloseniuc, President, Romanian Foreign Trade Bank
Dan Constantin, Economist, National Bank of Romania
9. 12/4/73 Nicolae Ceausescu, President of the State Council
Manea Manescu, Vice Chairman of the Council of Minister and Chairman
of the State Planning Committee
Vasile Pungan, Adviser to the President (external economic affairs)
10. 5/7/74 Ambassador Corneliu Bogdan
Ion Besteliu, Counselor of Embassy
Mihai Diamandopol, President, Investment Bank of Romania
- 5/31/74 Ambassador Corneliu Bogdan (alone)
11. 6/10/74 Ambassador Corneliu Bogdan

12. 10/1/74 Florea Dumitrescu, Minister of Finance
Mihai Diamandopol, President, Investment Bank of Romania
Constantin Dan, Adviser, National Bank of Romania
13. 1/14/75 Ambassador Corneliu Bogdan
14. 7/10/75 Ambassador Corneliu Bogdan
First Secretary Ioan Cora
- 6/3/76 Ambassador Corneliu Bogdan (farewell call)
15. 3/11/77 Mihai Diamandopol, President, Investment Bank of Romania
Nicolae Nicolae, Ambassador to the U.S.
George Anghelescu, Counselor of Embassy
Ion Besteliu, Counselor of Embassy
16. 4/27/77 Florea Dumitrescu, Minister of Finance
Ambassador Nicolae Nicolae
Interpreter
17. 9/24/77 Mihai Diamandopol, President, Investment Bank of Romania
Ion Besteliu, Counselor of Embassy
Mr. Moisescu, Interpreter (Mircea Moise, Economist, Ministry of Finance?)
18. 9/28/78 Nicolescu-Mizil, Vice Prime Minister and Minister of Finance
Annual Meeting Messrs. Popescu (Pres., Investment Bank), Moisescu (Investment Bank), Looijen (ED)
19. 1/25/79 Mr. I. Rusinaru, Pres. Bank for Agricultural Finance and Investment (BAFI),
Amb. N Nicolae
Messrs. Benjenk, Humphrey, CKW
20. 7/19/79- President Nicolae Ceausescu
7/22/79 and
(Romania) RMcN Notes (*Filed in RMcN office*),
21. 7/20/79 Niculescu-Mizil (Vice Prime Minister)
(Romania) Nicolai Agachi (Minister of Metallurgical Industry)
Ion Avram (Minister of Machine Building Industry)
Gheorghe Cioara (Minister of Electric Power)
Vasile Patilinet (Minister of Mines, Petroleum & Geology)
Lina Ciobanu (Minister of Light Industry)
Traian Dudas (Minister of Transport & Telecommunications)
Iulian Bituleanu (Deputy Minister, Ministry of Finance)
Caranfil (Dep. Minister, Ministry of Metallurgical Industry)
Anthony Looijen (Executive Director)
22. 9/29/79 Paul Niculescu-Mizil, Vice Prime Minister & Minister of Finance
Belgrade Gheorghe Popescu, President, Investment Bank
Emil Marian, Economist, Investment Bank
Ioan Petre Mada, Chief, Intl Organizations Bureau, Ministerul
Finantelor
23. 5/29/80 Amb. Nicolae Ionescu

24. 10/1/80 Messrs. Popescu, President, Investment Bank
Annual Bituleanu, Dep. Minister of Finance
Meeting Marian, Economist, Investment Bank
 Mr. Looijen, ED
 Mr. Ionescu, Adviser



Files

12th April 1968.

Leonard Rist I.R.

Visit of the Romanian Ambassador to Mr. McNamara

His Excellency Corneliu Bogdan accompanied by Mr. Alexandru Ungur, First Secretary, called on Mr. McNamara this morning. He was anxious to reiterate his country's interest in international organisations such as the Bank and the Fund. Establishing continuous relations with the West was very important to the Romanian Government. This meant definite changes with past attitudes but his country had the feeling that it could usefully serve as a bridge between East and West. He felt that eventual membership in organisations like ours would allow "honest Romania" to make some contribution in this direction, although in material terms they could not offer substantial assistance - his country is small. The Ambassador said Romania's present attitude towards international organisations is illustrated by the fact that it will begin negotiations for membership in GATT at the end of this month.

When asked whether they had any further steps in view at present, the Ambassador only said that no timetable could be determined at the moment but further exchanges of views and information with both the Fund and the Bank were expected by Bucharest. The President also asked whether they had sought information from other countries such as Yugoslavia. The Ambassador replied that they intended to do so, but it was not clear whether such conversations had already taken place.

P.S. After the meeting, Mr. Ungur was to meet with Mr. Whittons, head of the Fund's European Department, to discuss the timing of the next IMF mission to Bucharest.

cc: Sir Denis Rickett
Mr. Cope
Mr. Mendels
Mr. Steckhan

2

3

MEMORANDUM OF CONVERSATION WITH CEAUDESCU (PRESIDENT OF STATE COUNCIL)
BUCHAREST - 7/4/68

1. In response to my questions relating to the economy he stated^{a/}:
 - a. The rate of agricultural growth was 7% per year.
 - b. The rate of industrial growth was 12-1/2% per year.
 - c. The rate of growth of GNP was 8-9% per year.
 - d. Investment amounted to 33% of GNP. (Others stated the rate of investment was 31-33% of GNP, and the Governor of the Central Bank stated he believed it was too high.)
 - e. Apart from purchases on normal commercial terms, they received no credit from abroad.^{b/}
 - f. They plan a substantial expansion of agricultural production, e.g., they plan to expand irrigated lands from 500,000 hectares today to 3,000,000 hectares in 1973, and they hope to expand fertilizer production, both to reduce imports and also to allow an expansion of use from the current level to 115 kilos per hectare by 1970 and to 200 kilos per hectare by 1973.
 - g. Population growth amounts to 2.7% per year.
 - h. The average wage increase is 5% per year.
 - i. In 1948, 65% of the population was illiterate; now there is little if any illiteracy except among the aged. Education is compulsory in the first eight grades and compulsory education will be expanded to the 9th and 10th grades next year. 30% of high school age children are in school; approximately 12% of university students are in universities.
2. Ceausescu complained bitterly about U.S. trade restrictions and their adverse effect on Romania. I replied that I, as well as other members of the Bank, would be happy to receive an application from Romania for Bank membership.
3. Ceausescu asked a number of superficial questions regarding Bank membership (for example, why could not non-members borrow; why was it necessary for applicants to agree to deposit gold with the Fund; etc.)
4. Ceausescu stated his government had not yet decided its position on membership in the Fund and the Bank but would "continue to consider the issue and would expect to decide it "by the time of my next visit." He implied the decision would be favorable.

a/ During my conversation with the Minister of Finance, he had reported to me essentially the same data.

b/ The Minister of Finance had, on July 3, reported to me that they need large and expanding exports to finance the necessary importation of capital goods and they need more investment funds from abroad -- Yugoslavia has borrowed internationally but they have not. In connection with expanding their exports, he stated that a major problem for them was the low quality of their domestic production.

4

MEMORANDUM OF CONVERSATION WITH MALINSCHI, GOVERNOR OF THE NATIONAL
BANK OF ROMANIA - 7/3/68

1. In connection with a possible application for membership in IBRD, the Governor asked the following questions:

a. To what kind of loans do we give priority? For example, he had heard we were primarily interested in infrastructure loans.

b. What is the relationship between the IBRD and specialized banks within each nation, for example the Central Bank, agricultural banks, foreign trade banks, etc.

c. Are countries normally represented on the Board of Directors by the Director of their Central Bank or their Minister of Finance. Malinschi was clearly jealous of the prerogatives of the Minister of Finance and was seeking assurance that the Director of the Central Bank would receive preference in appointment to the Board of Governors.

d. How extensive are IBRD investigations of proposed projects?

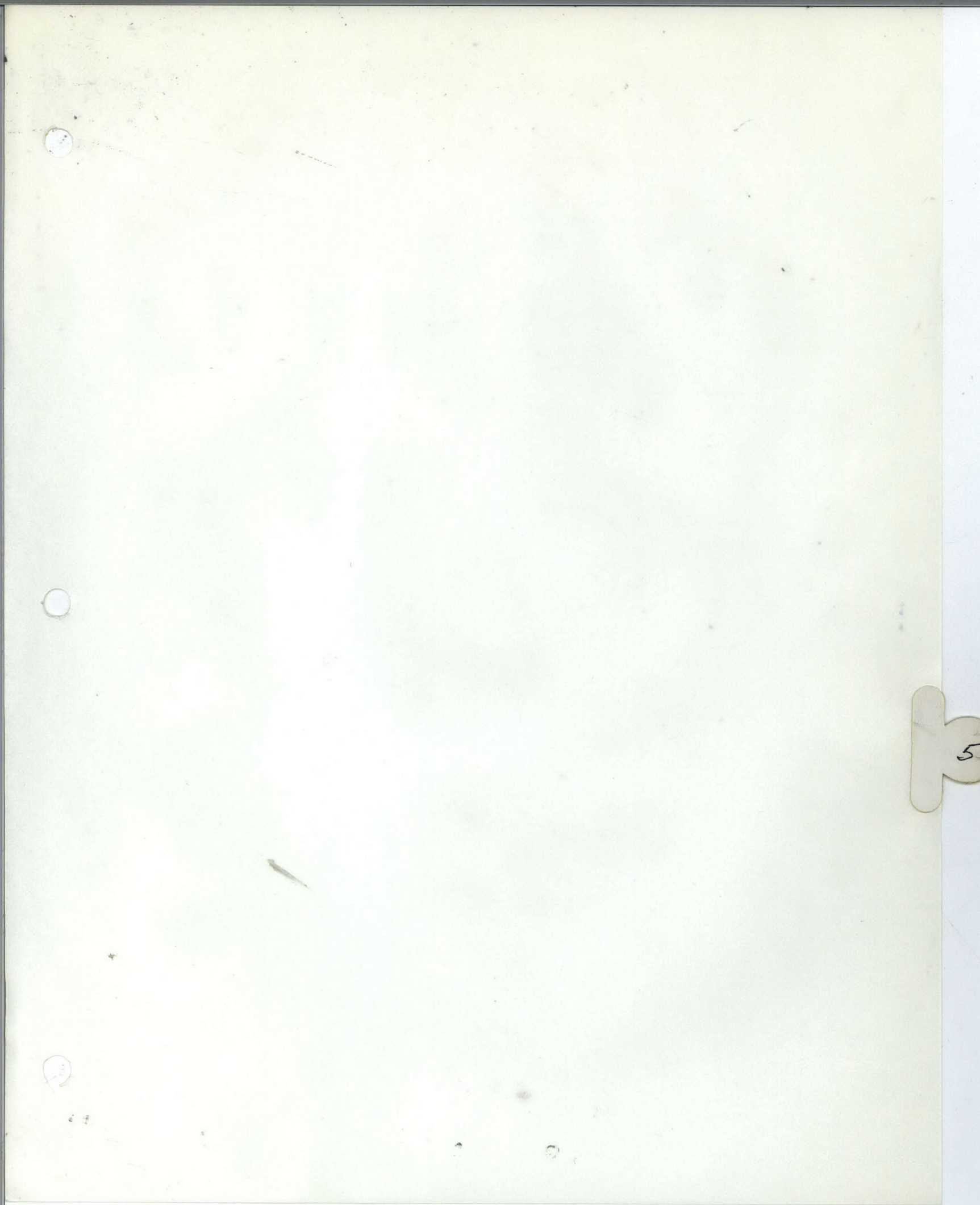
e. What percent of the cost of a project does the Bank finance and what are the terms of its lending?

f. Is the Bank willing to finance local currency expenditures?

g. How long a time would be required to process an application for membership?

h. Would Romania's bargaining position in the negotiation of settlements with a liquidation of paper loans be weakened if its application for membership became known?

2. Following discussion of his questions, I asked whether they were planning on applying for membership and, if so, when. His answer was vague and ambiguous. However, the next day he stated privately how anxious he was to expand relations with the West and how much he hoped his government would apply for membership in the Bank. He added the Soviets would not now permit disclosure of certain economic transactions between the Soviet and Romanian Governments and it was this fact which made application for membership in the Fund and Bank so difficult. Later on that day, July 4, at Maurer's reception and in front of Marg who was standing with me, Malinschi said that after my talk with Maurer, the government had decided to apply for Bank membership. (I doubt this.)



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MAY 09 2013

November 4 1970

MEMORANDUM FOR THE RECORD

M.P. Benjenk *MB*

WBG ARCHIVES

RUMANIA - Visit of Rumanian Delegation

A Rumanian delegation visited Mr. McNamara on October 27. The delegation was composed of Mr. Ion Romanu, Counselor to the President of the Council of State (Economic Adviser to President Ceausescu); Mr. Nicolae Nicolae, Deputy Foreign Trade Minister; Mr. Costin Nurgescu, Counselor at the Council of Ministers; and Mr. Dumitru Butnaru, Economic Counselor at the Embassy. The visit of the delegation, which was part of the team of Rumanian officials accompanying the President of Rumania, Mr. Ceausescu, on his visit to the United States, had been arranged through the United States Executive Director.

The delegation was first seen by Messrs. Knapp and Benjenk, who were later joined by Mr. McNamara.

Mr. Romanu began by saying that President Ceausescu intended to make a final review of the question of Rumania's joining the Fund and the Bank, because he felt that Rumania should be joining these institutions. He asked what would be the conditions of Rumania becoming a member of the Bank.

Mr. Knapp replied that the conditions were very simple. The first thing to be borne in mind was that a decision on membership had to be made by all members voting upon it. He thought that there would be general agreement that the membership of the Bank should be as universal as possible and he considered the fact that Rumania and other countries of Eastern Europe were not now members to be an historical accident. The second matter which had to be considered was that membership of the IMF was a precondition of Bank membership and the quota which a new member had to deposit bore a relationship to the new member's quota in the IMF. The capital subscription in the Bank was callable only to the extent of 10 per cent with the remaining 90 per cent only callable with the country's consent.

Mr. McNamara said that there would be general satisfaction if Rumania joined the Bank and offered, if the Rumanian Government so desired, to send a Bank lawyer to Bucharest to answer any questions the authorities might have on Bank membership. He also said that Rumania's neighbor, Yugoslavia, was very conversant with what it meant to be a member of the Bank and information could also be obtained from that source.

Mr. Romanu said that he would report back on the conversation to the President of Rumania, including the suggestion which Mr. McNamara had made and the Bank would hear through the Rumanian Embassy of any further developments in this matter.


cc: Mr. McNamara ✓
Mr. Knapp

President has seen

OFFICE MEMORANDUM

TO: Mr. R.S. McNamara

DATE: October 26, 1970

FROM: M.P. Benjenk SUBJECT: Brief for the visit of the Rumanian Delegation

1. The Rumanian delegation scheduled to meet with you on Tuesday October 27, 1970 is composed of senior economic advisers to the President of Rumania, and they are meeting you at his request. (See biographical data, attached). We expect that the delegation will wish to discuss membership in the Bank. Following the meeting with you, they are meeting with the IMF. Of the delegation, Mr. Nickolae is likely to do most of the talking. However, the ranking member and the most powerful political personage is Mr. Romanu. Another counselor of the President, Mr. Oprea may also join the party.
2. Background - Rumania is historically a crossroads, having to chart a delicate course between major powers in order to survive. Like its neighbors Yugoslavia and Czechoslovakia, Rumania has attempted to reduce its dependence on the Soviet Union. Because of a common border with the latter, the moves in this direction have been of a low profile. The Rumanians have previously explored relations with the Bank. They raised this with you during your visit there in 1968, and some preliminary exploration of the major issues involved was done at that time. This activity ceased with the invasion of Czechoslovakia in 1968. Recently there have been indications that the Rumanians are again interested in opening the question, although they have not said so in any clear way during the two or three courtesy calls which representatives of the Rumanian Embassy have paid to my office this year. It is unclear whether the political situation is such that membership would be a real possibility.
3. Economy - Rumania has a population of 20 millions and the highest industrial growth rate of the Eastern European countries (11 percent). 20 percent of the labor force is engaged in industry, but 55 percent remains in agriculture. In 1968, exports were \$1.46 billion and imports \$1.61 billion. Over half of the trade is with the Eastern bloc, but there has been a rapid shift towards the West during the last few years. With this shift there has been a rising imbalance in the hard currency accounts and increasingly severe debt service problem. As a result of two successive bad years in agriculture and the disastrous floods of 1970, growth has recently slowed.
4. The Rumanians are seeking most favored nation treatment and credits from the United States, and presumably similar agreements with the other industrialized nations. Planning to stress industrial development, they feel that the appropriate technologies must come from the West, and are looking for alternatives to the suppliers credits which have put them in a severe debt service position. In addition, they may be interested in financing the rebuilding of the economic infrastructure, which was severely damaged by the recent floods.

President has seen

5. Relations with the Bank - The Rumanians have made a number of overtures to the Bank in the past few years, during the course of which several major issues have emerged:

- i. Disclosure of information. The requirements of the IMF and the Bank for access to information are of serious concern to the Rumanians since these are regarded as state secrets. (See Rist memo of 14 July 1969 attached). It is possible that they are now ready to accede^{to} these requirements, as a government committee was reportedly studying them this last year.
- ii. Foreign debt. According to bondholder society reports, \$466 million of prewar debts are still outstanding, \$192 of which were obligations of the former Austria/Hungary. (See the attached draft memo of May 1968).
- iii. Standard of living. Rumanian GNP per capita is about \$800, high of the list of bank borrowers. Moreover, Rumania is reported by the UN to be a donor country. A recent loan of \$100 million was reportedly made to Iran.

6. Despite these difficulties, the Rumanians current problems of financing industrial development and reconstruction of flood damage areas make them potential candidates for borrowing. It is reported that they have made inquiries about the Bank's operations with the Yugoslavs, and are particularly interested in the IICY idea.

7. The economic section of the IMF briefing paper is also attached.

Attachments (4)

Attachment 1

Ion ROMANU
(Phonetic: rohMAHnoo)

ROMANIA

Member, Economic Council

Addressed as: Mr. Romanu

In July 1969 Ion Romanu was listed as a nominee for membership in the Romanian Communist Party (PCR) Bistrita-Nasaud County Committee. In the following month, at the 10th PCR Congress, Romanu was elected an alternate member of the Central Committee. In March 1970 he was elected a member of the powerful state Economic Council; on the list of nominees Romanu was identified as an "adviser" to the PCR Central Committee.

October 1970

Nicolae NICOLAE
(Phonetic: NEEcohlye)

ROMANIA

Deputy Minister of Foreign Trade

Addressed as: Mr. Minister

Nicolae Nicolae became Deputy Minister of Foreign Trade in January 1966. He is in charge of the import of complete industrial installations. Prior to becoming Deputy Minister, Nicolae served as the general director of MASINIMPORT, the Romanian firm that imports heavy industrial machinery. In the mid-1950's he was general director in the Ministry of Electrical Energy and Electrotechnical Industry.

In the last 2 years Nicolae has traveled extensively. He visited the United States in November 1966 as a delegate to the Symposium on Technology and World Trade held in Gaithersburg, Maryland.

October, 1970

Mr. Robert S. McNamara

July 14, 1969

Leonard Rist

Romania's Problems in Joining the IMFA. TECHNICAL PROBLEMS

1. According to what the Governor of the Central Bank of Romania told me in June of last year, his most immediate concern was the obligation to give the IMF precise figures about the financial position of his country, and particularly of the Central Bank. The IMF requires data on the gold and foreign exchange reserves of its member countries, on their foreign trade and balance of payments, and on a number of items which have a bearing on these, bilateral trade and payments agreements, possibly foreign debts and credits, etc. After membership has been achieved, this information is to be supplied at regular intervals and most of it can be communicated to the other member countries. The Governor underlined that Romania had not made this kind of information available even to its partners in Comecon.

2. I conveyed the Governor's concern to the Fund, which was fully aware of the problem and had already indicated to the Romanians that this could not be negotiated. All the members of the IMF have accepted making these data available. It may be noted, incidentally, that one of the reasons Czechoslovakia had to withdraw from the Fund and Bank in 1954 was precisely its reluctance to provide the IMF with what the latter considered indispensable information. On the other hand, neither the Czechs nor the Hungarians made a special point of this during our conversations with them in the Spring of 1968.

3. While this was the point stressed by the Governor, the necessary disclosure of monetary and financial information is obviously only one of the practical difficulties encountered by Romania (and its partners in Comecon) in joining the Fund. Some of the others could briefly be listed as follows:

a. The prospect of annual discussions with IMF staff on internal and external financial policies - including foreign exchange rates and regulations - the so-called "consultations".

b. The undertaking to direct monetary policy towards greater international convertibility of currency.

c. The computation of the quota in the Fund. This is based on financial and trade data but also on national income figures. This immediately raises the issue of the exchange rate at which the figures should be converted for computation purposes.

July 14, 1969

d. The actual amount of the quota. The Romanians clearly would like to contribute as little as possible as the cost of their membership.

e. The possible representation on the Boards of Executive Directors of the Fund and Bank - with whom would they pool their votes?

B. POLITICAL PROBLEMS

4. The political implications of joining the Fund and Bank at this time must certainly weigh more heavily in the minds of the Romanians than the technical considerations listed above. True, they have substantial indebtedness to the West falling due during the next few years and they would certainly like to have access not only to the Export-Import Bank but also to the Fund and Bank. It seems, however, that even within the Government, there was last year no unanimity as to the advisability of joining international organizations which do not include any so-called "Eastern countries".

5. The overriding consideration must be the attitude of the Soviet Union. It is hardly conceivable that any of the Eastern Bloc countries could join the Fund and Bank without Moscow's consent, and while we know that the subject is being carefully studied within Comecon, there are no indications that this consent may be forthcoming within the next few months at least.

LBRist:amg

DRAFT
JMcGibbon/JM/ly/fm

May 1968

Econ Rept

Romania - External Bonds, Amounts Outstanding

1. This note summarises Romania's debt to external Bondholders. The information used has been drawn from various bondholders societies' reports, the amounts shown as outstanding are, accordingly, as reported by bondholders. To provide an overall view of Romania's bond debt obligations, the amounts outstanding on non-dollar bonds have been converted to dollars (using 1967 exchange rates) and are shown as dollar equivalents on tables 1 and 2.
2. The total amount outstanding to foreign bondholders at June 30, 1967 was 466,647,000 dollars, of which about 192,853,000 dollars was outstanding in respect of Romania's share of the debt of former Austria-Hungary. The remainder (273,794,000 dollars), described in the table (and in the sources) as Direct Debt covers pre World War II issues of the Romanian central government, municipalities, and government guaranteed debt of the Romanian Monopolies Institute.^{1/} The amounts outstanding by type of issuing authority are summarised in Table 1. Table 2 sets out the position for Direct Debt by individual issue (showing amount outstanding, issue date, interest rate and maturity date).
3. Current Status of Bond Debt
- (1) Direct Debt
- A. National
- (a) Sterling Bonds. These bonds have been in default since May 1941. In 1955 and 1957 payments were authorised by the U.K. Treasury from proceeds

^{1/} The monopolies Institute was created in 1929 to acquire all monopolies operated by the state, including tobacco, playing cards, explosives and matches.

of sale of Romanian property in the United Kingdom. (The amounts paid are not stated but the value of Romanian property was estimated at £7 million). In 1960 it was announced that the Romanian government had agreed to enter into negotiations in 1966 for the settlement of remaining outstanding claims including the Sterling Bonded Debt. So far these negotiations have not started.

(b) Dollar Bonds. These bonds have been in default since the "late 1930's". In an exchange of letters in 1960 the governments of the U.S.A. and Romania "set forth their understanding that the Romanian Government took note of its outstanding dollar bond obligations and intended to settle these obligations with the bondholders or their representatives". The Foreign Bondholders Protective Council (New York) has "repeatedly offered to discuss possible terms of settlement but has received no response from the Romanian authorities".

(c) Lire Bonds. In default since 1941.

(d) French Franc and Gold Franc Bonds. Since 1959 holders of these bonds have received regular payments, the latest reported being June 12, 1967. These payments have been made following an agreement in 1959 whereby the equivalent of about \$13 million was to be paid to French bondholders (including holders of Monopolies Institute Bonds and former Austria-Hungary bonds) over the period 1959-1972 in final settlement of claims. These payments are financed mainly through an 8% levy on French purchases of Romanian goods.

B. Municipal

(The amount outstanding is as reported by Moody's and the Corporation of Foreign Bondholders (London). I was unable to find any information on when servicing of this issue was last made. This debt is not included in those reported by the Association Nationale des Porteurs Francais de Valeurs Mobilieres.)

C. Corporate

Apart from payments on the French issues (3d above) the Monopolies Institute Bonds have been in default since 1941. Of the \$62,896^{thousand} outstanding on dollar bonds the Swedish Match Company holds about \$28 million, about \$6 million is held in the United States and the remainder in "various European Countries".

(11) Secured Debt of Former Austria-Hungary

Under the agreement with France in 1959 (3d above) the bondholders society ^{1/} received "certain sums in favor of French bondholders". At that time the Caisse Commune was unable to distribute these sums in the absence of a general agreement covering non-French claims of the Caisse Commune against Romania. In 1965 an agreement for the final settlement of Romania's liability was concluded between the Caisse Commune and the Romanian government. The agreement, which covered both French and non French claims, provided that the Caisse Commune should retain the amount of instalments already paid (5,736,188 French Francs) and those payable by 1967 (3,361,435 French Francs) under the 1959 agreement. In addition the Caisse Commune would receive \$2,500,000 direct from the Romanian government between 1965 and 1972 (50,000 dollars on October 1, 1965 and October 1, 1966 and thereafter in semi-annual instalments of 200,000 dollars to end 1972). The latest information from the ~~Caisse~~^{Caisse} Commune (annual report 1966) states that payments by Romania continue to be made under the 1959 agreement and that the two 50,000 dollar instalments under the 1965 agreement were made. The Caisse Commune distributed 6,306,597 French Francs to bondholders in November 1965. (The amounts outstanding shown on Table 1 are as reported by the Caisse Commune at December 31, 1966 and by the Corporation of Foreign Bondholders (London) as at June 30, 1967.)

^{1/} Caisse Commune des Porteurs des Dettes Publiques Autrichienne et Hongroise (Paris).

ROMANIA

Table 1 Summary of External Bonds - Amount Outstanding June 30, 1967

	CURRENCY DENOMINATION OF BONDS												Total dollar equivalent ('000 \$)	
	Sterling Bonds		French Fr. (New)		Gold Francs		Lire (Ital.)		Swiss Francs		Gold Florins			Dollar Bonds
	('000 £)	\$equiv. '000 \$	('000 Fr.)	\$equiv. '000 \$	(GF. '000)	\$equiv. '000 \$	(Lire '000)	\$equiv. '000 \$	('000 Sw. fr.)	\$equiv. '000 \$	(GFL. '000)	\$equiv. '000 \$		('000 \$)
A. Direct Debt														
(i) National	22,525	62,620	1,344	269	345,474	112,900	23,692	38	-	-	-	-	26,980	202,807
(ii) Municipal	-	-	306	61	-	-	-	-	-	-	-	-	-	61
(iii) Corporate (guaranteed)	1,807	5,023	15,035	3,007	-	-	-	-	-	-	-	-	62,896	70,926
Total direct	24,332	67,643	16,685	3,337	345,474	112,900	23,692	38	-	-	-	-	89,876	273,794
B. Secured debt of former Austria-Hungary	-	-	-	-	73,978	24,176	-	-	207,607	51,102	143,902	117,575	-	192,853
Total direct and secured	24,332	67,643	16,685	3,337	419,452	137,076	23,692	38	207,607	51,102	143,902	117,575	89,876	466,647

Notes: (1) For details of the issues included under Direct Debt see Table 2.

(2) The exchange rates used in calculating the dollar equivalents were:

1\$ = 5 French francs

1\$ = 4.316 Swiss francs

1\$ = 625 Lire

1\$ = 3.06 Gold francs)

1\$ = 1.22 Gold florins)

) See note attached to Table 2

1 pound sterling = 2.78 dollars

Sources: See Annex 1.

J. McGibbon
International Finance Division
Economics Department
June 7, 1968

Table 2 External Bonds, Amounts Outstanding at June 30, 1967

Description of Bond Issue	Currency Denomination								Dollar Bonds ('000)	Total Dollar Equivalent ('000)
	Sterling Bonds		Gold Franc Bonds		Franc (French) Bonds		Lire (Italian) Bonds			
	'000£	'000\$	'000	'000\$	'000	'000\$	'000	'000\$		
A. National:										
(i) Gold Loan, 4½%, dated 1913 due 1970	2,211	6,147	-	-	-	-	-	-	-	6,147
(ii) External Loan, 4%, dated 1922 due 1942	1,390	3,864	-	-	-	-	-	-	-	3,864
(iii) Consolidation Loan, 4%, dated 1922 due 1968	18,037	50,143	-	-	-	-	-	-	-	50,143
(iv) Kingdom of Romania, 4%, dated 1922 due 1968	-	-	-	-	-	-	-	-	26,980	26,980
(v) Consolidation Loan, 6%, dated 1925 due 1940	-	-	-	-	-	-	23,692	38	-	38
(vi) External Loan, 5%, dated 1926 due 1966	887	2,466	-	-	-	-	-	-	-	2,466
(vii) Unified Loan, 4%, dated 1926 due 1970	-	-	289,851	94,396	-	-	-	-	-	94,396
(viii) Unified Loan, 5%, dated 1926 due 1970	-	-	56,623	18,504	-	-	-	-	-	18,504
(ix) Consolidation Funding, 4½%, dated 1934 due 1952	-	-	-	-	1,344	269	-	-	-	269
Total national	<u>22,525</u>	<u>62,620</u>	<u>345,474</u>	<u>112,900</u>	<u>1,344</u>	<u>269</u>	<u>23,692</u>	<u>38</u>	<u>26,980</u>	<u>202,807</u>
B. Municipal:										
(i) City of Bucharest, 7%, dated 1924 due 1954	-	-	-	-	306	61	-	-	-	61
Total municipal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306</u>	<u>61</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61</u>
C. Corporate:										
(i) Monopolies Inst., 7%, dated 1929 due 1959	1,807	5,023	-	-	5,181	1,036	-	-	62,896	68,955
(ii) Monopolies Inst., 7½%, dated 1931 due 1971	-	-	-	-	9,408	1,882	-	-	-	1,882
(iii) Monopolies Inst. Consolid., 4½%, dated 1934 due 1953	-	-	-	-	446	89	-	-	-	89
Total Corporate	<u>1,807</u>	<u>5,023</u>	<u>-</u>	<u>-</u>	<u>15,035</u>	<u>3,007</u>	<u>-</u>	<u>-</u>	<u>62,896</u>	<u>70,926</u>
Total National, Municipal, Corporate	<u>24,332</u>	<u>67,643</u>	<u>345,474</u>	<u>112,900</u>	<u>16,685</u>	<u>3,337</u>	<u>23,692</u>	<u>38</u>	<u>89,876</u>	<u>273,794</u>

Note: The amounts shown as dollar equivalents of Bonds denominated in non dollar currencies were obtained by conversion at 1967 exchange rates as follows:

1\$ = 3.06 Gold Francs (see attached note)

1\$ = 5 French Francs

1\$ = 625 Lire

1 pound sterling = 2.78 dollars

Sources: See Annex I

James McGibbon
International Finance Division
Economics Department
June 11, 1968

INF
OCT 70

1. General

Attachment 4

Rumania is a member of ECE and CMEA, and has applied for GATT membership, although progress toward being accepted is slow. Rumania has not joined the International Investment Bank founded by CMEA countries, which will start operations on January 1, 1971.

In the past, Rumania had the highest rate of industrial growth of all other CMEA countries. However, agriculture still constitutes a very large sector of the economy. Signs of a decreased rate of economic growth were already clear over a wide range of industry at the beginning of this year. In 1969, industrial output rose by 10.7 per cent compared with an average of more than 13 per cent in recent years. Although the rate of increase of output is still impressive, the planned production targets are becoming more difficult to attain. This is particularly true as a result of the immense damage caused by the flood which affected many regions of Rumania in May 1970. Agricultural output will obviously suffer; e.g., wheat yields might be 25 per cent lower than last year. Also, tremendous damage occurred in transportation, e.g., one sixth of the railroad tracks have been destroyed.

Rumania has a considerable trade surplus with the CMEA countries, but this cannot be converted into western currencies and there is not much scope for increasing either the volume or the range of capital needs imported from CMEA countries. During the last 5 years, as a result of the restructuring of its trade relations, Rumania's trade with the U.S.S.R. fell from 50 per cent of the total in 1965 to only 28 per cent in 1968. Rumania's adverse balance of trade with the convertible area has been reduced in recent years but is still very substantial and indebtedness has been increasing.

2. Rumania's position within CMEA

Rumania has been a relatively reluctant member of CMEA in recent years and has openly resisted moves to increase the degree of industrial and financial integration within the group. In part, this position has resulted from purely political considerations, but there are also purely economic considerations at work. Rumania has more natural resources, notably oil, than most CMEA countries, and trade has shifted more toward the west than theirs. Moreover, it is one of the least developed of them. It apparently was afraid that it might find itself concentrating on the production of raw materials for its partners in the east at the expense of wider industrial development and stronger trading ties with the west.

3. Economic reforms

While the Rumanian Government firmly rejects the economic reforms which have been carried out in Hungary and Czechoslovakia, it seems to have been favorably impressed by some aspects of the East German economic model and will now encourage a considerable degree of administrative decentralization combined with practical integration in industry. One vehicle for this had been the formation of industrial associations. These are gradually establishing the right to trade directly with foreign firms and can also be the means of attaining integration within an industry. The reverse of the greater freedom for the industry in some directions, is that the central authorities may use the associations as a means of centralizing planning and control.

6.

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

June 5 1972

SECRET

MEMORANDUM FOR THE RECORD

ROMANIA: Visit of Ambassador Bogdan with Mr. McNamara

His Excellency, Corneliu Bogdan, Ambassador of Romania, called on Mr. McNamara on May 31. Mr. Benjenk attended the meeting.

*by
R*
The Ambassador of Romania informed Mr. McNamara that the Romanian Government had instructed him to visit Mr. McNamara and Mr. Schweitzer and to inform them that Romania had decided to apply for membership of the Fund and Bank. If the date were acceptable to the two institutions a Romanian delegation would be arriving in Washington around June 15 to discuss the application.

Mr. McNamara told the Ambassador he was very glad to hear of the decision and that, as far as the Bank was concerned, the date of June 15 was quite suitable. While the formal position was that membership in the Fund must precede membership in the Bank, this did not mean that the two applications could not be processed simultaneously. The Bank officials concerned would therefore be ready to meet with the Romanian delegation when it arrived. A number of formalities would have to be accomplished in preparation of membership but he did not believe this should be unduly protracted.

The Ambassador remarked that he did not believe the formalities would present much of an obstacle now that the political decision had been taken. He thanked Mr. McNamara for his reception and informed him that he would be seeing Mr. Schweitzer on a similar errand the next day. The Ambassador asked Mr. McNamara that for the time being the Romanian decision should be kept as confidential as possible with as few people in the Bank and Fund being informed of it as possible.


M.P. Benjenk

President has seen

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: May 31, 1972
DECLASSIFIEDFROM: M. P. Benjen *MB***MAY 09 2013**SUBJECT: RUMANIA - Visit of Ambassador Bogdan**WBG ARCHIVES**

5/31

At 6.00 p.m. today, you are meeting with the Rumanian Ambassador to the United States, Mr. Corneliu Bogdan (biography attached). He may wish to continue discussions of the possibility of Rumanian membership in the Bank which have gone on for a number of years. On October 27, 1970, during the visit of President Ceaucescu to the United States, you met with a Rumanian delegation on this subject. A copy of my memorandum of record of that meeting is attached. In the spring of 1971 there was again activity of a different, though related, character. The Rumanians informally suggested the Bank employ a Rumanian national. We reluctantly said no. Through the Yugoslavs, the Rumanians requested the Bank finance the Rumanian portion of a joint Rumanian-Yugoslav project. We had no choice but to refuse. In April, at the invitation of the Government, Mr. Karasz visited Rumania for detailed discussions. He reported (memorandum attached) a high degree of interest in the Bank, but the general feeling conveyed was the Rumanians wanted access to the Bank short of membership. Your view at that time was there was little the Bank could do until the Rumanians came to a decision on joining. Since your last meeting, Rumania has joined GATT and been asked by FAO to join the Agricultural Consultative Group.

Recent Economic Developments

The Economist Intelligence Unit reports:

"Mr. Ceaucescu is likely to continue his efforts to find a new mode of political alignment with the West, despite recent attempts by the USSR to strengthen its ties with Rumania. The economic outlook is bright, with good crop forecasts and a higher rate of industrial growth expected than last year. National income should rise correspondingly, but personal consumption will remain close to its present low level. The 1971-75 five-year plan is ambitious, calling for an average annual increase in national income of 12 percent, compared with 7.7 percent during 1966-70. Industrial output is set to rise by 11-12.2 percent a year, agricultural production by 7.2-9.8 percent and foreign trade by 12-14.4 percent. A very high rate of investment is planned, since real wages are to rise by only 4.4 percent. These high targets are the result of upward revisions in the course of 1971, and there must be some doubt as to whether as big an increase in exports can be achieved."

The need for a large amount of foreign capital to finance the plan goes without saying.

Issues Related to Membership in the Bank and Fund

(a) General issues. While there are a number of technical problems (covered below), most observers agree the main obstacles are political and that the real decision will be made in Moscow. A recent informative article in the Weekly Bond Buyer (attached) suggests that one outcome of Mr. Nixon's Russian visit will be an approach by one or all of the Eastern Bloc nations to the Fund and Bank. The political issue is complicated by a fundamentally different approach to trade and economic philosophy.

(b) Disclosure of information. The requirements of the IMF and the Bank for information are of serious concern, since such information is often a state secret. Reportedly, the Fund now feels this obstacle can be surmounted to the satisfaction of both parties.

(c) Foreign debt. In 1968 foreign bondholder claims of \$466 million of prewar debts were reported, \$192 million of which were obligations of the former Austria/Hungary. As far as we can ascertain, these debts are still outstanding.

(d) Standard of living. Rumania's primary interest in joining may well be to secure help in financing its ambitious economic development plans. However, with a per capita GNP of about \$860 in 1969, it would be close to becoming a marginal borrower.

(e) Control over projects. The Rumanians are apparently afraid that the degree of control the Bank traditionally exercises over its projects might be an incentive to bilateral lenders to exercise similar controls.

Summary

Today's meeting may be the long-awaited response from the Rumanian side concerning membership which was promised in your last meeting. Or it may be just another exchange of views on the subject. While I agree with your viewpoint that what is needed is action, not further talk, I would recommend an encouraging tone to the conversation. We have, of necessity, given the Rumanians a number of negative signals over the course of the last year and our Yugoslav friends think that the Rumanians (and Hungarians) have been greatly discouraged.

RGregory/NHorsley/emt

Rumanian Ambassador to the United States: Mr. Corneliu Bogdan

Mr. Bogdan has been Ambassador to the United States since June 1967. Prior to that he headed the North Europe and North America section of the Foreign Ministry. He speaks fluent English, Russian and German. He is said to be intelligent, articulate and to have a sense of humor. He is reportedly an avid tennis player.

Mr. Bogdan was born in Bucharest on November 5, 1921. He graduated from Bucharest University with a degree in Civil Engineering in 1948 and immediately joined the Foreign Ministry. From 1951 to 1953 he was counselor at the Embassy in Washington. He has at various times and in various capacities attended the United Nations General Assembly. He has a wife and three daughters.

5/31/72

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MAY 09 2013

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Files

April 22, 1971

Arthur Karasz

Visit to Roumania - April 15-19, 1971

The Roumanian authorities made no secret of the fact that they had invited me to Bucharest on the instructions of their political leaders. Ceausescu had been very impressed by his conversations with Mr. McNamara and had instructed his staff to get prepared on the technical level for the time when Roumania would be ready to join the Bank. To quote the hosts such a visit was highly desirable because, although they had discussed Bank problems on several occasions, until now they did not really understand how the Bank Group worked and what the real issues were.

Therefore the first part of my stay consisted in giving information on the working level. I met during two days with a dozen government representatives and talked with them about the Bank and how Roumania could fit into the Bank's activities.

On the last day of my stay there was quite an unexpected development when the President of the Central Bank of Roumania, Malinschi, got in touch with me and put forward some rather blunt questions on how they could activate relations immediately.

I. Information: The meetings were held in the Central Bank of Roumania. Although no mention of Hungary was made it was evident that the procedure they chose was copied on my trip last fall to Budapest. The meeting was chaired by Alexander Oprea, Vice President for Foreign Relations in the Central Bank, a man in his forties, talented and energetic. Later I learned that he is the communist party representative in the Central Bank and the likely successor of the present President.

As mentioned, representatives of all interested ministries attended the meetings, which started on both days by a description of mine on the Bank's origin, structure and programs. On both days my lectures were followed by questions which took up most of the remaining time. The questions were on every practical subject: projects, creditworthiness, priorities, end-use supervision, legal aspects of our loan agreements, the composition of our missions, conditions of becoming a member, new tendencies in Bank activities, etc.

On the whole the Roumanians agreed with what they heard on these subjects. The only thing that worried them was the idea of "control" that the Bank might exercise in relation to projects. Their regime is extremely nationalistic and they are afraid -- not so much of the Bank -- but of the idea of "control" being picked up by "some other country." From the questions put to me on the two days of the meetings by representatives of Foreign Affairs and the Party, it was clear that this is very much on the minds of Ceausescu and his advisers.

April 22, 1971

At the request of the Central Bank, I analysed the problem at the closing meeting on April 19. My point was that loan agreements, as any international agreement, naturally contain obligations for both parties but as they were freely negotiated did not represent any infringement on sovereignty.

In his closing remarks Oprea expressed satisfaction with the result of the meetings. The technical details are now clear and that is all that can be done on the working level. The political decision will have to be taken elsewhere.

II. On Monday noon it looked as if the program were finished. I was with Mr. Maloceanu, First Vice President of the Central Bank, when a telephone call came from President Malinschi, who was at the time at the Council of Ministers, that he would like to meet me. Sometime later he arrived. He was well informed about our technical talks but in his questions went much further; how long will it take for Roumania to become a member, how long will it take to agree on a first loan, what sort of agreement should be the first to be negotiated? It was evident from his words that he is among those in the Roumanian regime for whom membership in the Bank (and of course in the IMF) would be urgent and desirable. I understand from other sources that import needs have increased considerably in the last year because the regime wishes to avoid incidents like those in Czechoslovakia and more recently Poland. Therefore new sources of foreign exchange are desperately needed.

In the middle of the discussion Malinschi suddenly turned to me saying that the First Vice President had invited me for lunch; he suggested that he might join us. It was evident that he had still other things on his mind.

During the lunch the four Roumanians became more and more open. They started to question me about the possibility of joint projects with other countries. They know about the suggestions made by the representative of the Yugoslav Prime Minister to Mr. McNamara. In my answer I made it perfectly clear to them that under its Charter, as it stands today, the Bank could not finance projects which were not located on a Member country's territory and were not guaranteed by the Member country.

The Roumanians understand this position perfectly well. However, they argue very forcefully for "some new solution" and, from their point of view, their arguments are perfectly understandable. The case of, say, Roumania, a "Socialist" country, wanting to use Bank resources is so exceptional that one should not want to apply to it the classical formulae of the Charter only. Something new is needed. In addition, there is also the problem of the internal discussion within the regime where, for the time being, only part of the leadership is favorable toward creating closer ties with the west; those who oppose it are still forceful and argue that the west will never help. Therefore the liberals must be given some tool of their own --

The liberals like to play the role of liberals in the international world

April 22, 1971

if it is out of the question for the Bank to finance a project located in Roumania, it should be possible to find some other way to encourage the liberals. He expects advice from us on what can be done to get out of this impasse. He had discussed this, very briefly, in his meeting in Bucarest with Mr. McNamara and this time he asks me to report about our meeting in all its details.

In short, he does not know how and when his regima (evidently he means Ceausescu) can take the decision of joining the Bank and Fund but the Bank should not wait for Roumania to take all the steps alone, the Bank should make a step forward too. The decision of joining would certainly be a historic event because it would induce a joining of others (what he means is evidently Hungary and maybe Poland or Bulgaria) -- incidentally, they are nervous about the intentions of Hungary, their arch-rival, they seem to be afraid that the Hungarians will succeed in joining earlier than they do.

To summarize: to finance their now considerably increased investments they urgently need new sources of foreign exchange. They look to the Bank for advice: what to do next, how to get closer to the Bank before membership as such can be settled. Could a way be found to finance joint ventures with, say, Yugoslavia? (my own question which I did not communicate to the Roumanians: would it be helpful to let an observer visit the Bank, or the Annual Meeting? Or a representative of their press?).

Malinschi asked me to write to him about the Bank Management's reactions on my report. The matter is urgent. The four Roumanians became so excited that they wanted to continue the discussion until the very last moment of my stay. So they accompanied me to the airport, to the plane and talked until take-off.

The State of the Economy

Roumania is still under-developed. In the Eastern part of the country it has good soil; they have good mineral and petrochemical possibilities and there is plenty of cheap labor. However, the intelligentsia is extremely thin and there is obviously no skilled labor available between the leading class and the great majority of uneducated population. This and extreme bureaucracy contributes to the creation of serious bottlenecks in production and distribution. There is scarcity in all sorts of products, there are queues before the shops and whole lines of products suddenly disappear for one reason or another -- in reality, for no logical reason.

They are extremely nationalistic but the country is weakened by the existence of a number of national minorities; the two most important being the Germans, rich and powerful, and the Hungarians, several million -- subdued and exploited, treated like sort of "no men".

The regime likes to play the role of liberals in the international world

April 22, 1971

but this is somewhat misleading: in reality among the satellites the Roumanian regime has the most monolithic Stalinist regime. This situation may explain why the Soviets allow them to step sometimes beyond the lines. Twenty-five years of total isolation under such a rigid regime also explains the somewhat provincial attitude displayed by the great majority of the people.

On the economy: Financing needs are enormous for the following reasons; Ceausescu is personally interested in improving the distribution of consumer goods; last year's floods destroyed a great part of the agricultural crops; it being impossible to import sufficient quantities of consumer goods from the socialist countries, there is great need for western currencies. All this contributes to the growth of indebtedness toward the western world.

It will be difficult to obtain statistical data on the economy. There is no basis for realistic cost accounting due to the existence of their extremely complicated and politicized system of subsidies and exchange rates. The regime is aware of these shortcomings and would like to introduce some measures similar to the "new economic mechanism" in Hungary. But it will take long months of political fights, again between the "liberals" and the "Stalinists" to achieve some results, if any. The country certainly has some possibilities of development: Agricultural (excellent soil in the Regat, the old part of Roumania) some rich mines in both the Regat and Transylvania (ex-Hungary), great hydroelectric possibilities on the Danube and last but not least, petroleum. I visited the Iron Gates hydroelectric project (joint Yugoslavia and Roumania), a most impressive realization (by Soviet experts directing Roumanian and Yugoslav manpower).

Good projects could be hydroelectricity (two more on the Danube, joint with Yugoslavia and Bulgaria), irrigation and flood control, petrochemicals, mining and good possibilities of tourism. The Roumanians are planning to industrialize considerably.

The meetings, which started on both days by a description of plans on the part of the Roumanians, structure and program. On each day my lectures were followed by questions which took up most of the remaining time. The questions were on every practical subject: projects, creditworthiness, priorities, business supervision, legal aspects of our loan agreements, the composition of our missions, conditions of becoming a member, new tendencies in bank activities, etc.

On the whole the Roumanians agreed with what they heard on these subjects. The only thing that worried them was the idea of "control" that the Bank might exercise in relation to projects. Their regime is extremely authoritarian and they are afraid -- not so much of the Bank -- but of the possibility of being picked up by some other country. From the questions on the two days of the meetings by representatives of the Party, it was clear that this is very much on the mind of Ceausescu and his advisers.

cc: Mr. McNamara

Mr. Demuth

Mr. Benjenk ✓

STRICTLY CONFIDENTIAL

April 29, 1971

Mr. Arthur Karasz, Director
European Office
International Bank for Recon-
struction and Development
66, Avenue d'Iena
Paris 16^e, France

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MAY 09 2013

WBG ARCHIVES

Dear Arthur:

I had occasion in Berne to show Mr. McNamara your memorandum about your visit to Rumania and to discuss it with him briefly. I think his principal reaction is that he wishes the Rumanians would stop doing so much talking and probing of different channels and make a decision whether or not they want to act. He believes that, until the Rumanians finally make up their minds to join, there is not much that we can do to help them. Specifically, he was not prepared to have the Bank take any exceptional steps in order to strengthen the hands of one particular group within the Rumanian government; he thought it was up to the Rumanians themselves to decide what their policy should be and he did not want the Bank to try actively to influence that decision.

On the affirmative side, he said that you could advise the Rumanians that, in the case of a project jointly sponsored by Rumania and a member of the Bank which was located in the territories of a member of the Bank, the Bank would be willing to consider financing the member's part of the project. Secondly, he said that, at the appropriate time, if requested, the Bank would be willing to send a group to Bucharest to help the Government prepare its membership application.

I am sorry I saw so little of you on your visit to Washington but I hope you got a satisfactory briefing from my colleagues.

With best regards,

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

RHD:tf

cc: Mr. Benjenk o/r ✓

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

NOTE DATE

This news story appeared on page 1 of the 4/10/72 issue of:

- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE JOURNAL OF COMMERCE
- THE WASHINGTON POST
- THE CHRISTIAN SCIENCE MONITOR
- THE TIMES
- THE FINANCIAL TIMES
- ONLY COPY BUYER, NYC

The American Impact Abroad

Nixon Trip Stirs East Bloc

By JOHN GERRITY

WASHINGTON — When Secretary Connally concluded his recent address in New York before the Council on Foreign Relations with, "We have come to the end of the post-War world . . . We are willing, I am sure, and we must be able to contribute constructively, effectively, and responsibly, to the building of a new world in which money, trade, and investment serve as instruments of gain and progress for all peoples," with his special emphasis on the phrase, "for all peoples"—the Secretary raised two provocative questions.

First, it was asked, is the United States sincere in its stated commitment to broaden the base of discussions on the creation of a new world monetary system to include besides the Group of Ten richest countries in the world perhaps 10 or possibly more of the so-called "second-tier" countries, the ones not quite as rich as the richest, but clearly, economically advanced beyond the definition of "developing or underdeveloped" nations?

Next, and more particularly, it was asked, does the United States now contemplate a new world monetary system, that could be broadened to include, as members of the International Monetary Fund and the World Bank, Soviet Russia and its satellite nations

of Eastern Europe, and will the roots for such a development be planted during President Nixon's forthcoming state visit to Moscow in May?

The answer to the first question has already been supplied by Undersecretary for Monetary Affairs Paul A. Volcker. In commenting on the probable future shape of the world monetary system and who would share in its making, Mr. Volcker said, ". . . The (new) monetary system had better reflect the fundamental changes in the underlying economies—and the division of power in the world, and present trading arrangements and all the rest, or it's not going to be a very satisfactory monetary system."

Mr. Volcker, who has already made one quick trip to Lisbon, Portugal, and is planning more visits to Japan and Europe to talk with his opposite numbers among the central bankers about the probable structure of future discussion forums, adds that the topic of monetary reform goes beyond the single question of establishing a new monetary system.

"It is, Mr. Volcker says, "a question that goes to the whole issue of what kind of a trading world we are going to live in, as well as what kind of a monetary world we are going to live in."

He contends, correctly, that "the monetary and trading worlds are not unrelated to each other. In fact, the relationship between them becomes closer and even more apparent with the passage of time. . . ."

"This goes, to some degree," Mr. Volcker believes, "to the question of forum. It also, I think, bears on the idea that we are dealing with some pretty fundamental issues, and pretty fundamental choices in this whole discussion."

"We cannot hold monetary questions, or trade questions, or even aid questions," the Undersecretary declares unequivocally.

As for the second question—is it possible as the President extends his talks with Russia's Leonid Brezhnev and Alexsei N. Kosygin, that are to start on May 22, that the three may probe seriously the question at some future date of Russia and Soviet bloc nations in the new monetary system?—the initial responses were readily predictable.

Well-established and practicing cynics and self-ordained Kremlinologists humbly scoffed at the mere suggestion of such an eventuality. In effect, they said, "You can't be serious. Why, the idea is preposterous. I'm afraid you've gone way around the bend."

But the cynics and the would-be Russo-philes are wrong—dead wrong.

Cong. Hertz said, "I endorse and concur with every word of the Soviet statement."

It can be authoritatively stated today "It is the policy of the United States that it would welcome the entry of Soviet Russia and the bloc of Eastern European nations into the IMF and the World Bank, provided they are willing to abide by the rules of each organization, as they now stand or may be revised in the course of future monetary talks."

The source of this policy statement is a high Treasury official, who serves as a deputy to Secretary Connally, when he dons his hat as U. S. Governor of the IMF and the World Bank, but who for obvious reasons asks that his name not be disclosed.

His assertion of present U. S. policy vis-a-vis Russia's and her satellites' possible entry into both the Fund and the Bank is affirmed and confirmed by senior officials of both the IMF and the Bank, a senior staff advisor to the Senate Banking and Cur-

CONT'D

DATE FILED

This news story appeared page 1 of the 4/27/70 issue of:

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| <input type="checkbox"/> THE NEW YORK TIMES | <input type="checkbox"/> THE CHRISTIAN SCIENCE MONITOR |
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| <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input type="checkbox"/> THE FINANCIAL TIMES |
| <input type="checkbox"/> THE WASHINGTON POST | <input checked="" type="checkbox"/> <u>WASH. POST</u> |

rence, Committee, a senior advisor to Henry A. Kissinger on international monetary and economic policies, State Department officials, a senior monetary advisor to the Senate Foreign Relations Committee, members of the President's foreign economic policy council, as well as key members of Congress.

Collectively and individually, these officials, when interviewed by "The Weekly Bond Buyer" last week, said (and this quotation is an accurate reflection of the view of each) "Your suggestion that the President and the leaders of Soviet Russia may explore this subject is not only plausible, but feasible as well. There is nothing far-fetched about the idea. It is entirely within the range of possibility—indeed, probability."

The editors of this newspaper make no claim for originating the idea that Russia and the Eastern bloc nations (East Germany, Poland, Czechoslovakia, Albania, Bulgaria and Hungary) should, in time, apply for admission to the Fund and the Bank.

Indeed, in an article in the Jan., 1970, issue of "Foreign Affairs," the quarterly published by the Council on Foreign Relations, titled "The Congressional Presence in Foreign Relations," Sen. Jacob K. Javits, R-N.Y., ranking minority member of the Joint Economic Committee, wrote—

"... Congressional innovation must extend to economic detente with Eastern Europe. The recent Senate passage of the Export Expansion and Regulations Act—even over some Administration opposition—is the first step in our agenda for the 1970's.

Search for Positive Moves

"Paralleling the vital search for a modus vivendi in the field of strategic weaponry," Sen. Javits continued, "we should undertake a search for positive moves in the fields of monetary affairs, aid and trade, general economic relations and the coordination of developmental assistance efforts.

"We should very much hope that over the next decade the Soviet Union would consider joining established international trade and financial agencies such as GATT, the IMF, IDA (International Development Association) and the IBRD (World Bank), and regional trade and financial organizations," Sen. Javits wrote.

Henry S. Reuss, chairman of the influential House Subcommittee on International Exchange and Finance, who sat in on Mr. Volcker's meeting with the so-called "Bellagio Group" in Lisbon as an observer agrees entirely with Sen. Javits.

interviewed by phone while he was in Milwaukee last week for the Wisconsin primaries, Con. Reuss said, "I endorse and concur with every word of the Javits statement."

Mr. Reuss added that last Summer he spent a good deal of time touring Eastern European countries, visiting finance ministers and central bankers.

"In every instance," he said, "I pointedly raised the question of the possible entry of Eastern European nations into the Fund and the Bank, and each official with whom I spoke expressed strong interest in the possibility."

"In my judgment, the suggestion that the Nixon-Brezhnev-Kosygin talks may furnish the germinating ground for such a future move is exactly on target," Mr. Reuss said. "Both sides—the Western world and Eastern Europeans — would benefit greatly from such an action. I would like very much to see this happen."

Chairman William Proxmire, of the Joint Economic Committee, also agrees "totally" with Sen. Javits' assessment and recommendations.

"We—the Congress and the Administration—certainly ought to be thinking along the lines that Sen. Javits suggests. Such a move is long overdue," Sen. Proxmire added.

Quite apart from expressions of opinion supporting the idea that the President will probe possible IMF and World Bank membership with the Russian leaders, there are some empirical evidences — solid factual instances — that, taken together, lend tangible support to the proposal.

For example, "The Bond Buyer" has learned that only a short time ago the IMF sent to Hungary, at that nation's request, a special mission to advise Hungarian financial officials and central bank authorities on what steps they must take to meet the admissibility requirements of the Fund and the Bank (Present rules require that a nation must first be admitted to the Fund before it can become a member of the World Bank Group).

This mission has now returned and, although its findings are being held secret, it is known that the Hungarians are "extremely interested and responsive."

Another case in point. A few weeks ago, Yugoslavia, which has been a member in good standing in both organizations for a number of years, asked the International Finance Corp. — one of the three petals in the "fleur de lis" that is the World Bank Group — to send "a team of advisors" to Belgrade for the express-purpose of

helping to establish a stock exchange in the Yugoslavian capital, patterned substantially in the form of the New York Stock Exchange and other U. S. national stock exchanges.

This mission, too, has now returned to the U. S., and, according to World Bank officials, "Very substantial progress was made."

"The Bond Buyer" has also learned that Rumania was "fully prepared to meet the admission requirements," and to apply for entry into the Fund and the Bank as long ago as 1968.

But when Soviet Russia invaded Czechoslovakia in that year all plans for Rumanian admission went a-cropper. Today, reportedly, Rumania would like to reopen negotiations, especially since the spirit of detente seems to be pervading throughout the world, from Washington to Peking, to Ottawa, to Paris, to Bonn to Moscow, and many way-stations in between.

Or take another factual circumstance. Scarcely noted in the daily press last week (possibly because of high interest in such things as the Wisconsin primaries, the Berrigan trial in Hirschburg or the Sbernians of AFL-CIO President George Meany) was that Congress managed to hand President Nixon two potent negotiating weapons, before bustling home for the Easter holiday.

One bill would extend for three months (until after the Moscow visit is completed) the Administrative Export Control Act, which permits the President, at his discretion, to approve the export of any U. S.-made goods, services or commodities, except so-called "strategic materials" to any country in the world, including Soviet bloc nations.

Another bill that won passage in the pre-holiday rush was a measure that would allow the President to authorize the U. S. Export-Import Bank to extend its credit facilities to any U. S. exporter selling goods to any country, subject to the same limitations as to strategic materials.

In the case of the Export Controls Act, the White House has sought initially a four-year extension of the act, but both the House and Senate said they wanted "to study the matter further," and so extended it for just three months.

Cont'd

There have been numerous other similar events, such as Secretary of State William Rogers' proposal 10 days ago that the "most-favored nation" trading rights be extended to Rumania, in the past months or so that have gone virtually unnoticed and unremarked.

Virtually, it is because these events have been occurring severally, not in a bunch. But notwithstanding this, when viewed in the aggregate, they become the mortar that very possibly could bind the Eastern and Western worlds together -- with the IMF, the World Bank, the Asian Bank, IDA and the IFC functioning as the tie-rods.

None of this is to suggest that, should Russia and her sister nations express a genuine interest and desire to join the Fund and the Bank, it can be managed forthwith.

It is not to say, that at some time during their week-long talks, Mr. Nixon might lean across the negotiating table and comment, in a manner of speaking, "Say, how would you fellows like to join up with our monetary club," just as an oldtimer at the Westchester Country Club might proffer an invitation to join to some newly acquired friend.

Obstacles to Membership

Matters can't be arranged that easily--not by a long shot. And those who tend to scoff at the possibility of future Eastern European membership in the Fund and Bank are quick to point up the obstacles.

For the Fund, these obstacles are found chiefly in Articles VIII and XIV of the basic agreement creating the Fund. Without getting ensnarled in the arcane prose of the financial diplomatists, Article VIII simply requires that no new member shall im-

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

appeared on page 1 of the 12/10/72 issue of:

- THE CHRISTIAN SCIENCE MONITOR
- THE TIMES
- THE FINANCIAL TIMES
- WEEKLY STANDARD

3.

European membership in the Fund do so because, they say, neither Russia nor any of its satellites would subscribe faithfully to the full disclosure rules. Further, they maintain that for them to become members of the Fund, the Soviet bloc nations would be required to dismantle or "wind down," their respective "state trading agencies" to allow the substitution of so-called free market operations.

Cong. Reuss, for one, argues that Article VIII should not be "taken too literally."

After all, he adds, a "good many countries, presumably in good standing with the Fund, have violated various subsections of Article VII, especially with respect to restraints on exchange operations, and the Fund has been traditionally lenient in dealing with such problems and problem nations."

As a matter of historical fact, Mexico, the first Latin American nation to join the Fund, has been in violation of one of the basic rules.

Woods, nearly three decades ago, only one nation, Czechoslovakia, has been expelled for violating the "restraints on exchange rates" rules. If current reports are true, Czechoslovakia is now ready to mend its ways and apply for re-admission.

The only nation to withdraw voluntarily (as any nation may) has been Cuba. The reasons for that withdrawal are obvious. Cuba simply wanted to disassociate itself with the Western world and align itself with Soviet bloc nations. At the time of the Cuban crisis, Fidel Castro, who hasn't demonstrated any overwhelming capabilities as an international economist, simply didn't--or couldn't force the day when Russia and other Eastern European nations might want to join the Fund and the Bank.

Another argument that is often raised by those who contend that Russia will never lead its satellites into the Fund and other international organizations is that, were it to consider such a move, it would demand political parity with the U. S.

This is pure nonsense. The U. S. today has a weighted vote of 21.7% in the Fund and a weighted vote of 22.0% in the World

Bank. The weighting of votes is a technical calculation involving quota payments, the volume of trade a nation may have, the extent to which its currency is used in international transactions and similar factors.

It's entirely conceivable that Russia, for example, could some day have a greater weighted vote in Fund decisions than the U. S., or it might have less or it might be equal. But that decision will be based on international economic factors, not on politics.

As for membership in the World Bank, the first major requirement is membership in the Fund, with the implication that a Fund member in good standing would logically become a Bank member in good standing.

The authorized capital stock of the Bank was increased from \$10 billion to \$24 billion in 1965, divided into 216,000 shares, each with a value of \$100,000 (pre U. S. devaluation).

Each applying nation is required to subscribe to a certain amount of shares, the exact amount to be determined by the governors and executive directors of the Bank. For example, the U. S. holds about \$9.2 billion in World Bank stock, while Ethiopia has \$3 million in stock holdings. Even poorer countries, like Panama, which holds \$200,000 in World Bank stocks, are permitted to hold amounts commensurate with their individual economic strengths.

There are also some additional rules about borrowings from the Bank, what sort of currencies will be used for direct loans, how defaulted loans (there have been none) will be covered equitably by all members, and similar provisions. But the main requirement for admission to the Bank is membership in the Fund.

If the U. S. has any preferences, vis-a-vis the entry of Eastern European countries to the Fund and the Bank, it is that it would like to see them come in one at a time, rather than as a bloc.

There are good reasons for this. It will take each country varying periods of time to dismantle its current bi-lateral trading arrangements

The spirit of détente seems to be pervading throughout the world.

pose restrictions on the making of payments and transfers for current international transactions, that it will not engage in "discriminatory" currency practices, that it will "buy balances of its currency, when asked to do so by another member, that it will conform generally to whatever new rules on convertibility that may be adopted, and that it will make full disclosure "at home and abroad" of its official reserve holdings, either of gold or foreign exchange (including now SDRs).

In short, this disclosure provision means simply that the Central Bank of any joining nation must keep its books open for inspection by the IMF or any of the 120 other member nations.

Implicit in Article VIII is agreement by applying nations that individuals or corporate entities will be free to trade and to exchange currencies with individuals and corporations in other member nations.

DATE

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

This news story appeared on page 1 of the 4/10/73 issue of:

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| <input type="checkbox"/> THE WASHINGTON POST | <input checked="" type="checkbox"/> <u>WEEKLY BOND BUYER, NYC</u> |

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There are good reasons for this. It will take each country varying periods of time to dismantle its current bi-lateral trading arrangements

Congress managed to hand President Nixon two potent negotiating weapons, before hustling home for the Easter holiday.

with each of the other Soviet bloc countries.

Each country, it is anticipated, will need varying amounts of time to make "the transition" from a state agency trading country to a free market country.

Besides, if one nation, say Hungary, could be admitted in a couple of years or so—and the Eastern world perceives that Hungary underwent no extreme pains and is, indeed, prospering in its new environment—it will make it that much easier to process subsequent applicants for admission.

It must be emphasized that the picture portrayed here is, in a sense, a mosaic—and that it will take a good many years to fit each tiny piece into its proper place.

Good heavens, Secretary Connally and Mr. Volcker say today that "it will be two or three years" before the present Bretton Woods system can be revamped to meet the needs of the Western world.

But even admitting there will be a substantial time lag, assuming the spirit of detente prevails, it might not be a bad idea for some of the younger bankers of today and those who will be international bankers tomorrow to start getting acquainted with some new monetary terms, like "Zloty," Poland; "Koruna," Czechoslovakia; "Lek," Albania; "Lev," Bulgaria; "Dinar," Yugoslavia; "D Mark" (Deutsche Demokratische Republik), East Germany. As for Russia, anyone who has read Tolstoy is safe. It's still the ruble.

Matters Can't Be Arranged Too Easily

None of this is to suggest that, should Russia and her sister nations express a genuine interest and desire to join the Fund and the Bank, it can be managed forthwith.

It is not to say, that at some time during their week-long talks, Mr. Nixon might lean across the negotiating table and comment, in a manner of speaking, "Say, how would you fellows like to join up with our monetary club," just as an oldtimer at the Westchester Country Club might proffer an invitation to join to some newly acquired friend.

Matters can't be arranged that easily—not by a long shot. And those who tend to scoff at the possibility of future Eastern European membership in the Fund and Bank are quick to point up the obstacles.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 14, 1972

FROM: Munir P. Benjenk *MB*

SUBJECT: ROMANIA: Your Meeting with the Minister of Finance: December 14, 1972

1. You will meet the Romanian Minister of Finance, Mr. Florea Dumitrescu, at 5.00 p.m. today. He will probably be accompanied by

Mr. Corneliu Bogdan, Ambassador
Mr. Mircea Raceanu, First Secretary, Romanian Embassy
Mr. Ion Barac, Ministry of Foreign Affairs

2. You may wish to make the following points after welcoming the Minister and his colleagues:

- a) We are delighted with the opportunity to become better acquainted by this visit and by the visit I intend to make to Romania in February, accompanied by Mr. Maiss (Chief of economic mission) and Mr. Horsley (Division Chief);
- b) We understand that Romania would like to become a borrower and therefore wish to obtain a better understanding of the Romanian economy as soon as possible. We proposed an economic mission to visit Romania in mid-March and Romania has agreed;
- c) There appears to be a problem of unsettled outstanding debt: Romania should be aware of difficulties that could be put in the way of any proposed lending operations if member countries which are Romania's creditors felt that they (or their nationals) were not being fairly treated by Romania. (We are not yet sure of the dimensions of the unsettled debt problem, and are endeavoring to fill the rather large gaps in our knowledge: See Attachment 1).

3. The program of economic and operational work on Romania that we propose to carry out in the next few months is set forth in Attachment 2.

4. Also attached are:

- a) brief note on the Romanian economy (Attachment 3)
- b) a note on the Romanian system of Government (Attachment 4)
- c) brief biographical notes on the Minister and the Ambassador (Attachment 5).

Attachments: 1 - 5

Cleared with and cc: Mr. Votaw

NHorsley:ab

President has seen

*I with Benjenk
12/14/72*

*Assessment of lending
opportunities
b) the public visit
7/12/72
7/12/72
7/12/72*

*II Feb. visit
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*III Econ. mission
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WBG ARCHIVES

CONFIDENTIAL

December 13, 1972

ROMANIAN EXTERNAL OBLIGATIONS

1. Our present information on Romania's obligations to other Bank member countries is still rather spotty. The data given below have been extracted from different sources ^{1/} and seem to be neither consistent nor complete. Therefore, no attempt has been made to arrive at a total sum of outstanding claims. Often it is also not possible to identify the types of assets (e.g. bonds, real estate, etc.) for which claims may exist.
2. On a country-by-country approach the following picture emerges:
 - a) In 1954, the French and Romanian governments reached an agreement to set aside 7 percent (subsequently raised to 8) of the proceeds of Romanian exports to France to pay French financial claims, although they were unable to reach agreement on the terms of settlement. After further negotiations, a lump-sum settlement was reached in 1959, totalling the equivalent of \$21 million, to be divided 60 percent to French holders of defaulted Romanian public debt (the total claimed was \$190 million equivalent), 37 percent to the former French owners of nationalized properties, and 3 percent to the government in payment for its holdings in former Romanian companies. Payment was expected to be over a period of 12 to 15 years inasmuch as a substantial part would come from Romanian exports to France.
 - b) In March 1960 the U.S. accepted a lump-sum of about \$24.5 million in final settlement of all outstanding claims except those of the bondholders. More than \$22 million of this was payable from Romanian assets blocked in the U.S. The balance was payable in five annual installments. The claims of private bond-holders which are still unsettled are estimated at \$15.5 million.
 - c) In 1960, the U.K. and Romania reached an agreement settling all claims arising out of the Peace Treaty and claims arising out of Romanian nationalisations, except for the claims of the oil companies, for a payment of £ 1.25 million. Payment was related to the level of Romanian exports to the U.K. and was expected to take about 7 years.
 - d) In August 1951 Switzerland accepted a lump-sum settlement of 42.5 million francs of which 25.5 million were set off against cash held in Switzerland for the credit of Romania. The balance was payable in instalments over eight years.

^{1/} Moody's Municipal and Government Manual, 1971 (U.S.A.); Stock Exchange Official Year Book, 1970 (U.S.A.); Report of the Council of the Corporation of Foreign Bond Holders, 1971 (London, U.K.); Foreign Bond Holders Protective Council (U.S.A.) 1967.

e) Romania's external debt originating from post-war commercial credits is estimated at about \$ 1 billion.

3. Other claims may exist - especially towards the Netherlands and Italy - but no information concerning their status is available.

J. Roy/O. Maiss:ab

OFFICE MEMORANDUM

ATTACHMENT 2

TO: Mr. Gregory B. Votaw

FROM: Norman Horsley *NH*

SUBJECT: ROMANIA: Proposed Action Program - FY74

DATE: December 11, 1972

1. The processing of Romania's applications for membership in the Fund and Bank has so far gone smoothly and relatively quickly. The Boards of Governors have now recorded their votes in favor of Romanian membership and, in the absence of objection, the voting record was approved by the Bank's Executive Directors on December 8, as the Fund's Directors had already done. Further action on membership is now almost entirely a Romanian responsibility. They expect to issue the relevant decrees by December 11, and to pay the gold portion of their Fund quota and deposit their Bank capital subscription by December 12. The Minister of Finance intends to bring all the required documents to Washington on December 11 or 12 and presently plans to sign the Articles of Agreement on December 15.
2. It is clear that the Romanians are joining the Bank with a view to receiving significant financial assistance. It is understood that, for both internal and external reasons, they are anxious for this assistance to materialize as soon as possible. Consequently, it is important to make Romania's membership meaningful and active within the shortest period practicable. We assume that the Bank's management shares this view and are therefore planning at least one lending operation in Romania in FY74.
3. Towards this end, we have planned the following steps:
 - (a) discussion of priorities for Bank lending and preparations for an economic mission with the Minister of Finance during his visit the week of December 11;
 - (b) further discussion of these matters during Mr. Benjenk's initial visit to Romania in February; and
 - (c) an economic mission in March which would also further identify and, if possible, begin preparation of projects suitable for Bank lending.

In the paragraphs that follow, I discuss further these proposals for the Bank's economic and operational work in Romania.

4. In order that sufficient time may be available for lending in FY74, a tentative decision to lend should be taken now, rather than await the outcome of the economic mission. For this purpose, it is not necessary to determine the appropriate volume and direction of Bank lending to Romania, which, in any case, would not be possible on the basis of the information presently available in the Bank. I expect the economic mission to find Romania creditworthy; if its findings are negative, the decision to lend

could, of course, easily be reversed. Romania's population size is almost identical with Yugoslavia's, its per capita income is of about the same order, perhaps a little higher, and its long term external capital needs are presumably no less; thus, we could safely lend within a range of \$ 25-50 million in FY74 without prejudging the appropriate size of the proposed five-year lending program, which will be worked out during the next 12 months or so.

5. The first major step towards providing a proper basis for Bank operations would be an economic mission. Whilst we cannot expect to acquire full understanding of the Romanian economy through one mission, it should provide an adequate "economic" basis for the first lending operations. To allow reasonable time for preparation within the Bank and in Romania, the earliest date to start field work would be mid-March, and Romania has agreed to receive the mission at that time.

6. Several further steps are required to prepare the Romanians for the mission:

- (a) A memorandum has been prepared which sets forth the purposes and procedures of Bank economic missions, and of the mission to Romania in particular (copy attached). This should be transmitted to Bucharest through the Embassy but can also be handed to the Minister of Finance this week, together with copies of one or two recent economic reports; those on Yugoslavia, Turkey, India and Brazil would be appropriate.
- (b) When membership formalities are completed, we should promptly write to the Romanian authorities confirming the economic mission and giving further details of its purpose, timing and composition.
- (c) Mr. Maiss has been designated to lead the economic mission, and he should accompany Mr. Benjenk to review the progress of work the Romanians may have already done and to advise them on further preparation for the mission.

7. Within the Bank preparation should include:

- (a) Appointment of other mission members to work under Mr. Maiss should be completed by December 31, so that they may have adequate time to prepare. Discussions on staffing are already well advanced.
- (b) Gathering together and identifying all available material on the Romanian economy. This is already being done in the Division and by Mr. Roy, a Young Professional working directly under Mr. Maiss.

- (c) Preparation of background papers on the economy and on the political and economic systems of Romania. Mr. Köpp (the Loan Officer assigned to Romania) and Mr. Roy have this work in hand.
 - (d) Activity under (b) and (c) should help to identify any topics on which we might need to consult outside experts. In any case, we should continue to draw upon the resources of the Fund and should explore those on the Economic Commission for Europe (ECE). Fund staff have been helpful and cooperative, and Mr. Maiss intends to visit ECE at the time of his preparatory visit to Romania in February.
8. We are planning to have a first draft of the economic report ready by the end of May, with a view to distributing it to the Executive Directors in August or September. We would also prepare a Country Program Paper, aiming for completion and review after the Annual Meeting (say October/November). This would enable us to have a good estimate of longer term staff requirements to implement a lending program for Romania.
9. In the shorter term, however, I see the following steps as being necessary on the operational side to prepare for lending to Romania in FY74:
- (a) The review of a memorandum, just completed, on the scope and nature of Romania's unsettled debt problem. (Copy attached)
 - (b) If (a) shows it to be necessary, a recommendation to management for dealing with the problem, a management decision and follow-up action.
 - (c) If the management decision calls for action on the part of the Romanians, they should be told what the Bank expects them to do as early as possible, and, in any case, before the economic mission. Mr. Benjenk's February visit would provide one such occasion.
 - (d) Discussion with the Romanians of their needs and priorities for Bank lending. They should begin during the visit of the Minister of Finance this week, and would continue during Mr. Benjenk's initial visit to Romania in February. For this purpose I understand that you and Mr. Benjenk have agreed that I should accompany him. The identification and, to the extent possible, preparation of projects would be given further impetus by the economic mission; I propose that you and Mr. Köpp should visit Romania towards the end of that mission. We are also planning for Projects staff to join the economic mission, if available, in the sectors selected for most intensive study.

- (e) Identification of those sectors in which the assignment of Projects staff to a Romanian operation would cause the least disturbance to the Regional program. I recognize that there is no surplus capacity in the Region and that a Romanian operation in FY74 may well make it necessary to drop a project from the Regional program. A Regional decision on priorities for the use of Projects staff is therefore required. From information so far available it appears that the transportation (especially highways), power and telecommunications sectors offer the best prospects for an effective, simple and relatively quick loan.
- (f) On the basis of (d) and (e), Projects staff should be assigned for an appraisal no later than September and, if possible, to accompany the economic mission.
- (g) As a continuing part of the assessment of Romania's needs for and sources of assistance, we should seek information on what others are doing. We have already started enquiries on the UNDP program. Once membership formalities are complete we should approach other institutions (e.g. State Department, Export-Import Bank, etc.). These enquiries would also add to our general knowledge and understanding of the country.
- (h) A final decision to send an appraisal mission (or missions) in September could be taken immediately after the draft economic report has been reviewed.

May I have your reactions please?

cc: Messrs. Finzi
Dubey
Köpp

NHorsley:ab

ROMANIA - Brief on the Economy

1. Romania is a highly centralized economy with the State owning all industries and having control over 30 percent of the agricultural land.^{1/} The State also fully controls foreign trade, banking and prices.
2. Economic activity in Romania since the early postwar years has been directed by centralized economic plans, first on the basis of annual plans and since 1951, on the basis of longer term plans. A Five-Year Plan covering 1971-75 is currently in effect. These plans have placed major emphasis on the development of heavy industry. Romania has been successful in most of its economic plans and, consequently, industrialization has proceeded rapidly. However, both consumer goods industries and agriculture have been neglected relative to heavy industry, mining, and power development, during most of the post-war period. In 1970, industrial production accounted for 60.8 percent of the national income, whereas agriculture and forestry accounted for 20 percent. (From 1950-70 Romania has maintained a growth rate of about 13 percent in gross industrial production and 3 percent in agriculture with some fluctuations.)
3. This heavy emphasis on industrialization has increased Romania's dependence on foreign trade. Initially, most of the trade was carried on with the COMECON countries, with Russia taking the role of its largest trade partner. This pattern has undergone some change in recent years, with Romania looking more towards the Western countries. In 1971, about 52 percent of Romania's trade was with the socialist countries of which about 47 percent was with the COMECON countries (25 percent with the USSR), 35 percent with Western countries, and the rest with developing countries. The reason for this change is attributed partly to the increased need for highly specialized machinery which the Western countries alone can produce, and in part to the internal rift within the COMECON countries. Romania is firmly opposed to the Soviet idea of a "division of labor" within the COMECON, under which the USSR, Czechoslovakia and East Germany would produce all industrial goods and Romania would supply them with raw materials and foodstuffs. However, this policy has resulted in somewhat serious strain on Romania's balance of payments, since Romanian goods are not easily saleable in Western countries. The exact amount of the deficit and how it is financed cannot be calculated, since these data are kept secret; however,

^{1/} Of the remaining, 61 percent is held by collective farms, and 9 percent by private individuals.

some sources estimated that Romania's indebtedness to her Western industrial trading partners has risen from about US\$ 300 million in 1966 to US\$ 800 million in 1968, and to have increased further by 1970.^{1/}

4. Membership in International Organizations:

1955 United Nations

Also by 1972, member of the following UN specialized agencies:

UNESCO
FAO
UNIDO
IAEA
UNCTAD

^{1/} Area Handbook for Romania. American University 1972.

J. Roy:bjp
December 13, 1972

December 14, 1972

SOCIALIST REPUBLIC OF ROMANIA: POLITICAL STRUCTURE

1. The 1965 Constitution declared the Romanian Communist Party (PCR) "the leading political force of ... society." PCR General Secretary is Ceausescu; major party organs are:
 - a) The Party Congress consisting of delegates elected from lower party organs all over the country. The last (tenth) congress was in August 1969 (almost 2000 delegates) and the next is scheduled for 1974. The PC is the supreme organ of the PCR, and convenes every 5 years to elect the General Secretary and the Central Committee. It also discusses and adopts policies and programs proposed by the central party organs, including the 5-year economic plan.
 - b) The Central Committee (165 full members and 120 alternates) is the leading party organ between congresses. Its Secretariat serves as continuing administrative unit of the party (headed by the General Secretary).
 - c) Eight Commissions are working for the CC, mainly concerned with economic and social questions.
 - d) The Executive Committee functions as rump CC when the latter is not in session.
 - e) The primary centre of political power is the CC's Standing Presidium (nine members: Ceausescu, M. Manescu, P. Niculescu-Mizil, G. Pana, I.G. Maurer and four others). Ceausescu heads the SP, the EC and the CC's Secretariat.
2. The major institutions of central government are:
 - a) The Grand National Assembly, consisting of 465 deputies elected for normally a four-year term, is the supreme legislative body, and supervises and controls all other state organs. Regular assembly sessions are held twice yearly; in addition special sessions may be convened. N.A. appoints and recalls members of the Council of State, the Council of Ministers, the commander of armed forces, etc. It has a number of standing commissions, including agriculture; industry; economy and finance; education; health, labor and welfare. N.A. is ultimate authority for national economic plan and state budget. Legislative actions are signed by Head of State and published in Official Bulletins of the SRR.

- b) The Council of State consists of 19 members, elected by the NA from its own membership. President of the CS since December 1967 (Ceausescu) is also head of state. Most members of CS are holding high positions in PCR. Permanent responsibilities of Council are appointments and recalls of heads of government agencies (except Ministers); ratification of international treaties; etc. CS also acts for NA between assembly sessions; however, legislation passed by CS must subsequently be confirmed by NA even though it becomes effective immediately.
 - c) Connected to the CS and subordinate to it are the Defense Council (headed by Ceausescu) and the Economic Council (also headed by a member of the PCR Central Committee), which advises on matters of economic management, planning and development.
 - d) The Council of Ministers is the supreme body of state administration. It operates on the principle of collective leadership, that is, decisions are taken by majority vote. Each ministry has its own collegium, consisting of the minister, department heads, labor representatives, etc., which also follow the principle of collective leadership. The CM is headed by a Chairman (Prime Minister; Maurer) a First Deputy Chairman, several Deputy Chairmen (seven), 23 ministers (mostly with economic posts), and ten committee chiefs with ministerial rank (State Planning Committee, Committee of Prices, etc.). Most members of the CM are high party officials (full or alternate members of the PCR Central Committee; the more senior ones are even members of the PCR Executive Committee).
3. Local government bodies are called Peoples' Councils. As in central government, administrative and party functions are combined, the PC chairman being also the first secretary of the party committee. PC exist for urban and rural communities, and function under the supervision of the NA and the CS. Each PC has an executive committee as its chief administrative organ. Its chairman is the equivalent of a mayor. In addition, there are permanent committees of the PC with specific responsibilities.
4. Candidates for the NA and PCs are nominated by the Socialist Unity Front which, besides the PCR, includes labor unions, cooperative farm organizations, youth organizations, etc. Most NA deputies are PCR members, but minority groups are also represented. The next NA elections are scheduled for 1973.
5. All organs of party and government are closely interrelated and work on the principle of democratic centralism. All decisions are taken by majority vote, but within a strictly hierarchical structure. Once a decision is made, the minority fully submits to it. Decisions of higher organs are unconditionally binding for all lower organs as well as party members (over 2 million in 1971).

6. Generally speaking the PCR is the main body for policy discussion and decision, while the NA and government organs are responsible for their implementation. Frequent personal union of party and government positions avoids frictions and duplication of responsibility.

OMaiss/dl

ROMANIA: Brief Biographies

Mr. Florea Dumitrescu, Minister of Finance of the Socialist Republic of Romania.

Born April 4, 1927 at Necsesti, near Bucharest
Graduated from the School of Finance and Credit of the
Institute of Finance and Economic Science in
Bucharest - 1949
National Bank: 1949-1965
Member of the State Planning Committee, 1965-1968
First visit to U.S.A. as a member of the Economic
Delegation - 1967
Member of the Economic Council since January, 1968
Member of the Grand National Assembly since March, 1969
Minister of Finance since August, 1969
Member of the Central Committee since August, 1969
Second visit to U.S.A. - September, 1972, during the
IMF/IBRD Annual Meetings
Mr. Dumitrescu is married. He speaks French a little
but does not speak English

Mr. Corneliu Bogdan, Ambassador to U.S.A.

Born on November 5, 1921, in Bucharest
Married - three daughters
Educated - Institute for Economic Studies, International
Department, Bucharest
Joined Ministry of Foreign Affairs - 1948
Counsellor in Washington, 1951-53
Deputy Director of Western Department, Ministry of
Foreign Affairs, 1953-55
Director of Press, 1955-61
Director for Western Europe, 1961-67
Ambassador to U.S.A. since 1967

Jl jichi/dl
December 14, 1972

September 27, 1973

Memorandum for the Record

ROMANIA - Annual Meeting, 1973: Note of Mr. McNamara's Meeting with the
Romanian Delegation on September 25

1. Present: Mr. Dumitrescu (Minister of Finance), Messrs. Diamandopol, Voloseniuc, Constantin, Rinooy Kan, McNamara, Knapp, Benjenk, Votaw and Chaffey.
2. Relations with the Bank: Mr. Dumitrescu thanked Mr. McNamara for the good support Romania was receiving from the Bank project specialists who had visited his country thus far.
3. Economic Report: Mr. Dumitrescu said that, since this would be the first Bank economic report on Romania, it would be widely read. Thus he was anxious to ensure that it accurately reported on the Romanian economic structure. For this reason he and his colleagues had given the economic mission, which was in Budapest earlier in September, very detailed comments on the green-cover draft; he hoped these comments could be incorporated in the final text.

FY74 Projects

4. Mr. Dumitrescu emphasized that the three projects included in the FY74 lending program were an integral part of the current Five-Year Plan. The economic, technical and legal decisions with respect to these projects, their timing, the equipment to be employed and their relationship to the economic and social objectives of the plan, had already been taken at the highest level and were irreversible. Failure on the part of the Bank to give timely support for these projects would embarrass the Bank's friends within the Romanian Government and would impede the identification of the second phase of projects for FY76 and beyond. Special conditions should govern Bank support during this initial phase. With respect to the Tecuci project, the Minister emphasized the importance of the fertilizer plant coming on-stream as scheduled in the Plan. There was no doubt that domestic demand in Romania could absorb the additional production. Fertilizer application was currently at a level of 80 kilos per hectare; much lower than in, say, Germany (400 k/h) or France (240 k/h). By 1980 total domestic production would enable the application level to be raised to 350 k/h. On the distribution of fertilizers, the Minister stated that the "combinats" had established local supply centers according to need.
5. With respect to the Turceni power project, the authorities could not agree with the recent Bank staff proposal that the project should also include financing for the development of the fuel source for the power plant. Plans for the utilization of national energy resources during the Plan period had been finalized. Fuel for the Turceni plant would open-cast mined lignite. But preparation of the mining element was less far advanced and the documentation required by IBRD could not be completed quickly, whereas project data on the power plant had already been sent to Washington. Thus, the

President has seen

September 27, 1973

the mining project could not be appraised at the same time as the power plant. The Romanian authorities would, however, be prepared to guarantee the availability of lignite for the power plant at reasonable cost.

6. Mr. McNamara said that he appreciated the importance to the Bank's emerging relationship with Romania of the successful processing of the initial projects. He assured the Minister that the Bank would assign whatever manpower was necessary to reach a level of commitments of about \$100 million per annum during FYs 74 and 75, and he was confident that the technical problems encountered would be overcome. But he reminded the delegation that it was the Bank's duty to give its best professional judgement on projects, and it would fail in its duty if those judgements were compromised by arbitrary deadlines. In the longer run he agreed with the Minister's view that the Bank and the Romanian authorities could look forward to developing the lending relationship on more traditional lines, since there would be longer lead times for the preparation and joint discussion of projects.

7. In view of the low probability rating of all seven projects in the Bank's program for the next two years, Mr. McNamara asked Messrs. Knapp and Benjenk to meet with him monthly to review progress on each of these projects.

8. External Obligations: Mr. Dumitrescu reported that Romania was making progress in settling long-standing external obligations; only those with the US and the UK bondholders were outstanding and discussions regarding settlement were being pressed by the Romanians. Of course, settlement depended on both sides approaching the issue in a reasonable way.

9. Lending for Agriculture: Referring to Mr. McNamara's address to the Governors, Mr. Dumitrescu said that, through the cooperatives, Romania was making intensive efforts to integrate the supply of inputs for agricultural development. He expressed the view that Romania might approach the Bank for a line of credit to be administered by the Bank For Agriculture to assist with agricultural development.

10. Visit to Romania: On behalf of the Romanian Government, the Minister extended an invitation to Mr. McNamara to visit Romania at an early stage. (No response was given although later in the day Mr. McNamara did tell the Yugoslav delegation that he had been invited to visit Romania and might find time to do so in 1974 or 1975; he would try to visit Yugoslavia at the same time.)

cc: Messrs. McNamara, Knapp, Benjenk, Ljungh, Fuchs, Votaw, Wapenhans, Karaosmanoglu, Horsley, Maiss

Cleared: G. B. Votaw

JChaffey: jw

9.

File

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MEMORANDUM FOR THE RECORD

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ROMANIA: Visit of President Ceausescu

Mr. McNamara called upon the President of Romania, Mr. Nicolas Ceausescu, at Blair House on December 4 1973. He was accompanied by Mr. Knapp and Mr. Benjenk. Present on the Romanian side were Mr. Manescu, Vice Chairman of the Council of Ministers, and Mr. Pungan, Adviser to the President.


The President told Mr. McNamara he was very glad to see him and remembered well their meeting in 1968. Mr. McNamara also expressed his pleasure and told the President he did not seem to have changed since their earlier meeting. The President responded by saying that, at any rate, his political views had not changed since then.

Mr. McNamara told the President that the first year of Romania's membership in the Bank had led to intensive activity and very good progress in the preparation of the first lending operations in Romania. The economic report had been written and approved by the Government and three projects had been appraised and some others identified. This was most unusual within such a short time frame and had only been possible because of the special effort put in. Since the relationship was a very recent one Mr. McNamara said that he anticipated that a number of problems would arise during negotiations which were new to both parties, and he suggested that advance negotiations should take place as soon as possible so that the main issues could be identified and discussed at as early a stage as possible. He was sure that Romania would not regret joining the Bank and stressed the hope that the Romanian authorities had not found the requests for information from the Bank missions too demanding. As far as Bank missions were concerned, they were very pleased with their reception and cooperation received from the Romanian authorities.

The President said he was pleased to hear from Mr. McNamara about the unusual speed with which the first steps leading to Bank lending to Romania had been processed. Romania's joining the Bank was part of its national economic policy in which Romania would persevere. The Romanian authorities had not found the requests of the World Bank missions too demanding, but there had been instances where they had asked for information which was just not available. He referred in particular to the energy field, in which questions had been asked relating to Romania's energy policy in the 1980's, whereas Romania was hard put to apply even a short-term energy policy. The President endorsed Mr. McNamara's suggestion to have advance negotiations as early as possible so that any possible difficulties could be overcome. He felt that the Bank should not be unduly worried about the capacity of Romania to repay any Bank loans since most of the projects under consideration would result either in the saving or earning of foreign exchange in quantities more than sufficient to repay the loans involved.

The meeting ended with both the President and Mr. McNamara expressing pleasure at the new relationship between the Bank and Romania.

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Votaw
Mr. Horsley


M.P. Benjenk
Vice President
Europe, Middle East and North
Africa Region
December 27 1973

BRIEF FOR MR. McNAMARA

STATE VISIT TO THE USA OF PRESIDENT CEAUSESCU OF ROMANIA

I. INTRODUCTION

1. President Ceausescu's state visit to the United States reciprocates President Nixon's visit to Romania in 1969, and is in response to an invitation extended by Mr. Nixon at that time. Both the US State Department and the Romanian Embassy state that there is no particular significance in the timing of the visit, which was arranged some time ago and delayed by the outbreak of hostilities in the Middle East. The visit was scheduled for this year to avoid the US election years, 1972 and 1974. Mr. Ceausescu visited the United Nations in 1970 and met informally with President Nixon on that occasion.

2. President Nixon's standing in Romania is high; his visit in 1969 was interpreted as a gesture of support at a time when Romania was establishing its right to freedom of action within the Eastern Bloc. The Romanians regard President Ceausescu's return visit as extremely important politically.

3. Apart from the meeting with you and a meeting with the Managing Director of the International Monetary Fund, President Ceausescu and his delegation will confine their discussion to US-Romania bilateral concerns. Economic relations between Romania and US are expected to be the main topic, including the granting of most favored nation status to Romania (see Annex 2). The Middle East is certain to be discussed, especially because of Romania's friendly relations with both Israel and the Arab countries. European security, disarmament and economic cooperation are other matters of mutual interest that are likely to be raised.

4. President Ceausescu's state visit will extend from December 4 to 10. After two days in Washington, he will visit Cleveland (where there is a large Romanian community), Houston, Florida (for the weekend) and New York.

II. ROMANIAN DELEGATION

5. The principal members of the Romanian delegation are:

Nicolae Ceausescu	-	President of the State Council of the Socialist Republic of Romania and General Secretary of the Romanian Communist Party.
George Macovescu	-	Minister of Foreign Affairs.

Manea Manescu	-	Vice Chairman of the Council of Ministers and Chairman of the State Planning Committee.
Corneliu Bogdan	-	Ambassador to the United States of America.
Vasile Pungan	-	Adviser to the President (external economic affairs), with the rank of Minister.

6. The delegation also includes the Romanian Chief of Protocol and a second Adviser to the President (press and public relations).

7. President Ceausescu is accompanied by his wife, as are some other members of the delegation.

8. Your meeting with President Ceausescu is scheduled for 5:30 p.m. Tuesday, December 4, at Blair House. It is not yet known who will accompany Mr. Ceausescu at the meeting, but the most likely participants are Messrs. Manescu and Pungan.

9. Brief biographies of the leading members of the delegation are attached as Annex 1.

III. TOPICS FOR DISCUSSION

10. There are no major operational or policy issues to be raised with President Ceausescu. He may express concern that Romania's status as a developing country should be recognized. You will wish to take this important opportunity to further cement the good relations between Romania and the Bank.

A. Issues to be raised by Mr. McNamara

11. Development of Bank-Romanian Relations: You may wish to express your appreciation for the cooperation which the Bank missions have generally received and your satisfaction with the way in which relations between Romania and the Bank have developed during this first year. A special word of appreciation for the helpfulness of the Romanian Embassy and the Minister of Finance would be appropriate. You might also emphasize that the Bank's objective is to help the Government as effectively as possible in its development effort, and that we need full and accurate information to do so. We are greatly impressed with Romania's development performance from what we have learned so far, but must continue to satisfy ourselves and our Board that proposed IBRD financing will contribute to efficient development. ✓

12. During the first year of Romania's Bank membership, a constructive, businesslike atmosphere of mutual cooperation between Romanian officials and Bank staff has been successfully established. Both sides have made great efforts to understand each other's customs, and substantial progress has been achieved through operational missions to Romania and contacts with Romanian officials in Washington and Nairobi. As a result,

we now have a reasonably firm operations program for FY74 and FY75, including three projects already appraised, and an economic report has been completed. We have been active in the recruitment of Romanians for the staff and in EDI training, and Romania has been bidding for contracts under Bank loans to other countries. An unusually fast start has been made in this new member country.

13. Several Ministers in the Romanian Government have expressed their appreciation of the work already done by the Bank in Romania and of the priority given to Romania by the Bank's "leadership". They have also repeatedly emphasized the importance of the first Bank loans to Romania being handled quickly and smoothly, in order to forestall possible criticism from political hard-liners within Romania and from non-member countries. It is apparent that the Government is determined to make a success of relationships with the Bank, despite considerable risks imposed by extreme secrecy (required by law) and other aspects of Romanian Government policies and procedures. For these reasons, Government officials have strongly and repeatedly urged that issues of substance should not be discussed unnecessarily in correspondence between Washington and Bucharest. Bank comments which could be misused by critics as evidence of interference in the domestic affairs of the country should be made orally in discussions, either in Washington or in Bucharest. Officials have stressed, and demonstrated in practice, that they were quite willing to discuss the Bank's comments candidly and to act accordingly when convinced of their merit.

14. While initially there were some difficulties in receiving appropriate project information, the Romanian authorities have become increasingly cooperative in this respect with the realization that the Bank is serious in its intent to lend to Romania. However, they have generally not been too forthcoming in revealing information that they consider sensitive, i.e. information going beyond the technical aspects of a specific project; consequently, we have less information than is desirable on sectors, on financial matters, and on external debt (see paras. 24 and 25, below).

15. The first fruit of Bank-Romanian cooperation is the economic report, which, after careful review by the Government, was distributed to the Executive Directors on November 30. (A copy is attached as Annex 8). You may wish to hand a copy of the report to Mr. Ceausescu. The Romanians have taken great pains to comment seriously and constructively on the substance and presentation of the economic mission's findings, and the report has been approved by them and is mutually satisfactory (see Annexes 3 and 4). It might be useful to stress that the Bank staff will always have to make its own judgements and express them in our own particular terminology; some of these judgements will in future undoubtedly suggest ways in which we believe the economy can be improved.

16. Status of Operations: The three projects included in this year's program are fairly advanced in the appraisal process, and we are confident that they are well justified from an economic point of view and well prepared technically. Preliminary procurement actions are to be started forthwith in Romania, partly to ensure that Bank procedures are understood and followed properly but also to firm up cost estimates. Formal negotiations, which may bring surprises because the borrowers are new, are scheduled for April. They could lead to foreign exchange financing of about \$160 million.

17. The projects in the FY74 Operations program are the Tecuci Fertilizer project, the Otelinox Special Steel project and the Turceni Thermal Power project. Details of these projects are given in Annex 5. ✓

18. Three other projects, which would require foreign exchange financing of about \$100 million, are now being prepared. These are an irrigation project south of Bucharest at Giurgiu-Razmiresti; an agricultural credit operation to intensify agriculture in an area serviced by a recently completed irrigation scheme at Sadova-Corabia (in Mr. Ceausescu's native province of Oltenia); and a multipurpose (irrigation and power) project on the Lower Olt River. Bank missions are in the field now to assist in the further preparation of the first two projects. A more detailed description of these projects is included in Annex 5. In addition to these projects in the agricultural sector, or with a substantial agricultural component, the Government has requested Bank assistance in the near future for further industrial projects (most immediately, a pulp and paper project) and also for hydroelectric and nuclear power plants.

19. You may wish to emphasize the relatively short time in which the three projects in this year's program have been processed, and to confirm our confidence that these projects are economically justified and likely to be approved by the Bank's Executive Directors in 1974. You may also wish to repeat your Nairobi promise that sufficient staff would be assigned to process projects as quickly as they are properly prepared within Romania. ✓
Priority

20. Amount of Bank Lending: At the CPP Review Meeting in your office on September 7, 1973, it was decided that the Bank should proceed with the projects scheduled for FY74 and FY75, and should aim for a lending program of \$100 million in each of these years (see Postscript to the CPP, dated October 26, 1973, attached as Annex 7). This was confirmed to the Minister of Finance in Nairobi. Given the figure mentioned above, it is clear that the direct foreign exchange requirements of the three projects already appraised substantially exceed this year's target of \$100 million. For the two years (FY74 and FY75) taken together a lending program amounting to some \$250-280 million could be implemented without too much difficulty. The Romanians may urge you to increase the Bank's lending program substantially beyond \$100 million (i.e., to the level which is envisaged for Yugoslavia in the coming years). If Mr. Ceausescu raises this issue, you may wish to respond that, in view of the Bank's commitments to other members, you can make no commitment to Romania at this time; however, you would be prepared to review the amount of Bank lending in the light of progress with cooperation on the first three projects. You may also wish to point out that other financing sources are likely to lend more, and on better terms than hitherto, once the Bank's economic report is available to member Governments and the first Bank loans have been approved by our Executive Directors. ✓

21. The Role of the Bank: During this early phase, when the Bank's knowledge of the Romanian economy and planning process is limited, the main aim of the lending program is to alleviate Romania's shortage of convertible

currencies by providing long-term capital and financing projects, principally in agriculture and industry, which would earn or save foreign exchange. At the same time the Bank hopes to stimulate the use of new techniques in these sectors and to introduce some new concepts of economic choice. Finally, and as experience has shown thus far perhaps most significantly, the Bank offers technical assistance with project preparation.

22. Starting to lend halfway through the current Romanian Development Plan has constrained the Bank's influence over project selection and preparation to some extent. For the next Five-Year Plan (1976-80), the Government has promised to provide, beginning in April 1974, a list of projects for the Bank to consider for financing in our FY76 and beyond. Among them we expect will be a project for a canal shortening the Danube route to the Black Sea; it will include many other elements and represent a major effort in regional planning with the associated industrial and infrastructural development.

23. As mutual understanding is developed, given the approval of the first three loans in the middle of calendar 1974, it should be possible to develop a more sophisticated lending strategy during 1974, probably placing more emphasis on improving agricultural productivity and promoting regional development. The Bank expects that there will be increasing demand for technical assistance in these and other fields. We also envisage further progress with recruitment of Romanian nationals, with EDI training and with Romanian bidding under Bank loans to other member countries. It may be possible to help Romania develop its technical assistance to the less-developed countries. You may wish to ask Mr. Ceausescu how he sees the Bank's role in Romania developing after the initial phase is over.

24. The Bank's Information Needs: Despite good progress made both in the writing of the economic report and in the appraisal of individual projects, there are still two major areas in which our information on the Romanian economy is generally deficient:

- (a) External Debt: All data on external debt are still regarded as confidential, but figures were released on a restricted basis to show total debt outstanding in 1967, 1971 and 1972. Total convertible currency debt outstanding in December 1972 was \$1,656 million (convertible currency export receipts in that year were \$1,076 million, with import payments \$1,148 million). Debt service payments amounted to about 27 percent of convertible currency earnings, but this figure can only be roughly estimated because no information was supplied on interest payments or on the amount of short-term debt included in the total outstanding. To conform with the Bank's standard procedures for assessing creditworthiness, more detailed information on the structure and terms of debt are needed. Initial approaches have been made to establish routine debt reporting, including the offer of a mission to explain our procedures, but they have not yet been effective.

You may wish to repeat the offer of a mission, and to stress that the Bank's system of debt reporting would be of value to the Romanians in their own accounting.

- (b) Economic Problems and Priorities: In general, the Romanians have been reluctant to open detailed discussions about their major economic problems. Partly this results from a respect for the secrecy of the details in the Development Plan, partly also from an uncertainty among officials in the lower ranks (who have not been used to speak openly about the economy) as to how much detail can be provided and what degree of frankness can be allowed. If this persists it will hinder our aim of developing a capacity for making independent judgements on the economic situation and hence developing an order of priorities. Fairly free (and sometimes critical) discussion of economic problems in the Romanian press suggests that the domestic forum is relatively open. This augurs well for the future, but there is still a need to press firmly for an opening up of economic information. You may wish to emphasize that the Bank will need more information in the future if its operations are to continue and expand on a proper basis, and to restate our pledge that the confidentiality of certain data will be respected.

25. It may not be clearly understood by the Romanians that a second reason for our seeking information on the economy is to add to the Bank's stock of knowledge of the development process. Romania provides an outstanding example of industrial transformation coupled with a rapid development of human resources, a balanced regional development and an even income distribution. You may wish to point out that there could well be valuable lessons from Romania's experience (not necessarily resulting entirely from the social system) which could be made available by the Bank to other member countries.

26. Defaulted Debt: While all claims on publicly-held pre-war debt have now been settled, some privately-held claims against Romania have not yet been settled. The two major claims outstanding are (a) with the United States (US\$15.5 million bond claims), and (b) with Britain (£44 million, of which £11 million is for bond issues, about £22 million for oil claims and the remaining £11 million for miscellaneous unspecified claims).

27. This subject is not viewed as a high priority topic on the agenda of the United States' official discussions with President Ceausescu, but it will be raised, and the hope continues that the issue will be resolved at an early date. Negotiations on the British claims were begun in April this year (after a lapse since 1966) but are at present adjourned for internal discussions in each country.

28. The Bank has already informed Romania that it expects reasonable progress towards a settlement, and hopefully full settlement, before loans can be recommended to our Executive Directors. There would seem to be little reason to do more at this time than remind the President of this

requirement, particularly as it seems that the claimant countries themselves have not ranked the issue as one of foremost importance in their bilateral discussions.

29. Recruitment: Following Mr. Paijman's mission in May, Messrs. Dyck and de Gryse visited Bucharest in October to interview candidates. Of the ten interviewed, one (a power engineer) may be recruited in FY74 should a suitable vacancy occur. Mr. de Gryse will probably return to Romania in December for further interviews, provided that more information on the candidates is available. It is hoped that at least two professional staff members will be recruited during FY75, possibly including one Young Professional. The Personnel Department reports that it is having difficulty getting from the Government all the information it needs to evaluate candidates. The Department would also like to get the Government's permission to approach directly suitable candidates identified by other Bank staff on mission, or by other sources, to ascertain their interest. The Department would, of course, keep the Government fully informed of such approaches.

30. Economic Development Institute (EDI): Cooperation between the EDI and the Romanian Authorities is progressing in a highly satisfactory manner. Two Romanians have attended EDI courses in Washington during the latter part of 1973; in October the EDI arranged a three-week industrial course in Yugoslavia exclusively for Romanian participants. Next February the EDI is sending a three-man mission to Romania to prepare for a second industrial course, to be held in Bucharest during FY75.

31. As its next visiting lecturer (from April-August 1974), the EDI has chosen the head of the Department of Economics of the Academy of Economic Studies, Bucharest, Professor Nicolae Constantinescu.

32. Possible Membership in IDA: The possibility of Romania joining IDA was raised with Mr. Rinnooy Kan on April 17, 1973 (see Mr. Adler's memorandum of that date, attached as Annex 6). There has been no indication from the Romanian authorities regarding their position on this matter.

33. Possible Membership in IFC: A year ago, when the Finance Minister was in Washington to sign the Articles of the Bank, his delegation discussed the possibility of IFC membership with Mr. Gaud. On that occasion, IFC indicated its willingness to send one or two senior officers to Bucharest to explore the prospects of IFC in Romania should the Government consider such discussions desirable. So far the Government has not taken up this invitation, but questions about possible IFC financing for some industrial projects came up during Mr. Votaw's recent visit to Bucharest. The offer to arrange for an IFC visit to Bucharest has therefore been repeated in a letter to the President of the Investment Bank and need not be raised with Mr. Ceausescu.

B. Issues Which Mr. Ceausescu May Raise

34. Romania's Status as a Developing Country: The Romanians are greatly concerned that their country should be recognized as developing rather than developed. President Ceausescu is likely to emphasize this concern. The Bank's acceptance of the Romanian position is reflected in the economic report, the lending program and the downward revision of the 1971 per capita income figure in the World Bank Atlas. In this connection you should know that Romanian officials have remarked upon the fact that, having reached agreement with Bank economists on an estimate of Romania's 1971 per capita income of about \$740, the Bank then published (in the 1973 issue of "Trends in Developing Countries") an estimate showing the figure of \$930, which had appeared earlier in the World Bank Atlas. This apparent inconsistency arose because agreement on the new figure came in mid-April, after the "Trends in Developing Countries" had been printed at the end of March. We have, of course, assured the Romanians that subsequent editions will include only the correct figure.

35. Other Potential Members: It seems likely that some of Romania's COMECON neighbors are watching the progress of the Bank-Romania relationship with considerable interest. Mr. Grenfell, who was in Bucharest early in November, has reported on the pressure being exerted by the Romanian Ministry of Foreign Affairs on other government agencies to get the first loans finalized to prove that Romania's cooperative approach towards the Bank, to which the Government gives the highest priority, bears fruit. Mr. Ceausescu may indicate to you his impressions of Romania's neighbors' interest in eventual Bank membership.

36. Your Visit to Romania: In Nairobi the Minister of Finance, Mr. Dumitrescu, formally invited you to visit Romania at an early stage. You did not respond at the time although you indicated later, in response to a similar invitation from the Yugoslav authorities, that you might try to visit Romania in late 1974 or in 1975. Mr. Ceausescu may repeat his invitation. Bearing in mind that this year's Party Congress is expected to be held in July or August, a good time to visit Romania would be late October or early November 1974, before the colder weather, which dislocates itineraries, sets in: alternatively, a visit in April 1975 would be desirable.

*Or Aug. ?
P. J. L. ?*

Country Programs Department I
Europe, Middle East and North Africa Region
November 30, 1973