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143121	MEMO	DAVID WIGG TO ROBERT MCFARLANE RE. IMF/SOVIET BLOC *D 4/11/2016 M434/4*	1	9/7/1983	B1	B3
143122	MEMO	[INCLUDES ATTACHMENT] *D 4/11/2016 M434/4*	4	ND	B1	B3
143123	REPORT	[PGS. 13-16 ONLY] *R 4/11/2016 M434/4*	4	8/24/1984	B1	B3
143124	WASHFAX	*PAR 4/11/2016 M434/4*	1	8/21/1984	B1	B3
143125	REPORT	*PAR 4/11/2016 M434/4*	11	8/17/1984	B1	B3

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WSJ May 16, 1984

FILE
POLAND
SANCTIONS

REVIEW & OUTLOOK

7

The IMF Problem

The Third World debt issue is all the rage this week, what with a faddish new proposal to "cap" interest payments on Third World loans, and Mexican President Miguel de la Madrid addressing a joint session of Congress today to celebrate his conquest of the debt monster. It seems an appropriate time to unburden ourselves of increasing dissatisfaction with the way the international debt issue has been handled.

To start with the cap proposal, this is one of those Rube Goldberg gimmicks so dear to the kind of economists and central bankers who have typically inhabited Democratic administrations. If interest above the cap is merely added to the principal of future loans, the cap is of dubious long-run value to the debtor nations—unless they are bailed out by a new bout of world inflation. More broadly, the proposal seeks to curtail the impact of market forces, which is exactly the wrong thing to do. If the world economy is to grow and developing nations are to develop, interest rates should be determined in the marketplace.

All the same, the cap proposal does have one commanding virtue: If strictly observed, it could be a proxy for writing down the loans. We have repeatedly urged that the loans be carried on the banks' books at values more nearly reflecting the likelihood that they will never be repaid, and that bank earnings statements be written down accordingly. We notice that, as a first approximation, a capped rate of 5% on loans with a book value of $100 billion comes out the same as a market rate of 10% on loans with market value of $50 billion.

And if President de la Madrid argues today that the Third World should not have to bear the entire burden of the debt built up during the late inflation, he will find some sympathy here. The responsibility is shared among the borrowing nations eager to borrow, the banks eager to lend and the central banking authorities who stuffed the banks with reserves they had to use somehow. Both borrower and lender were betting that the Federal Reserve would continue on its inflationary path. We have a Third World debt problem today because the premise of the bargain has proved wrong.

As a matter of justice, it seems sensible that both borrower and lender would bear some of the loss. The borrowing nations are paying through lower living standards. Ironically, while the banks have avoided any formal write-down, they are paying too in the form of lower stock-market multiples—the market recognizing the true value of the loans on the banks' books and of likely future earnings. A formal write-down to recognize reality would probably have little moment the way a well-working international economic order promotes development. Underdeveloped countries have historically offered opportunities for high profits; they have low labor costs, unexploited resources and openings for increasing production through known and tested techniques. In an unfettered world market, this would allow them to import the capital they so badly need for development.

While the developed nations are far from innocent on such issues as access to markets, the developing nations themselves often erect the major barriers to this natural market process. The most obvious barriers are proscriptions against direct foreign investment, but probably even more important ones lie in tax, monetary and other macroeconomic policies. If these policies are wrong, even a developing nation's own citizens will export capital. If they are right, the market path to development still works, as we can see in such nations as Taiwan, Singapore and South Korea.

When a developing nation gets into debt trouble and comes to the IMF for advice, though, the IMF does not tell it to apply the Taiwan-Korea formula so that it can grow faster. That would be political interference in a sovereign nation's internal affairs. So instead, the IMF prescribes slower growth, under the rubric of "austerity." With slower growth, the nation has more to export and needs fewer imports, so its trade accounts come into balance and the IMF program has succeeded.

Now admittedly, this is a bit of a caricature of an IMF program, though one close enough to be instructive. In reality there are fine lines to be drawn. When a nation has been borrowing abroad to sustain its living standard, living standards will, of course, decline when the loans end. But it is another matter to drive down living standards to assemble capital to export as debt service. This will accomplish nothing unless the underlying structural problems of the economy are solved.

* * *

Which brings us to the case of Mexico. President de la Madrid tackled his economic problems bravely, especially in moving toward market pricing of subsidized goods, including not only oil but food. His short-term success has been nothing short of spectacular; he has even been able to accumulate foreign-exchange reserves to lend to Argentina. But few of the structural problems of his economy have been addressed.

Mr. de la Madrid's administration has reprivatized the equity holdings nationalized with the banks just prior to his administration, but the bank nationalization remains as a big backward step from only two years ago. The new administration has promised more administrative exceptions to allion.

And if President de la Madrid argues today that the Third World should not have to bear the entire burden of the debt built up during the late inflation, he will find some sympathy here. The responsibility is shared among the borrowing nations eager to borrow, the banks eager to lend and the central banking authorities who stuffed the banks with reserves they had to use somehow. Both borrower and lender were betting that the Federal Reserve would continue on its inflationary path. We have a Third World debt problem today because the premise of the bargain has proved wrong.

As a matter of justice, it seems sensible that both borrower and lender would bear some of the loss. The borrowing nations are paying through lower living standards. Ironically, while the banks have avoided any formal write-down, they are paying too in the form of lower stock-market multiples—the market recognizing the true value of the loans on the banks' books and of likely future earnings. A formal write-down to recognize reality would probably have little further real-world effect, though it would be a powerful blow to the bankers' pomposities. This is wholly salutary, because as a practical matter if they do not suffer from making bad loans they will do it all over again.

Probably we do need special protections for the banking system, in the form of the lender of last resort at the Fed, since banks are built on borrowed money and can be subject to runs or collapses. Maybe (though a lot less clearly) we even need something approximating an international lender of last resort, such as the International Monetary Fund. But we have to be vigilant to restore some approximation of the market disciplines and market incentives these protections erode.

That an interest-rate cut is a proxy for a loan write-down accounts for the rather careful support the cap idea has received from Fed Chairman Paul Volcker. Reading his remarks carefully, he wants a lower interest rate only for those borrowers who make a credible start at putting their own houses in order. For example, at the turn of the year Mr. Volcker supported the lower interest rate on the Mexican loans because of its compliance with its IMF program.

* * *

This assumes, however, that the IMF is prescribing the correct medicine for troubled Third World economies, something we have increasingly come to question. The IMF sees itself as an agency of short-term adjustment, with the mission of bridging momentary foreign-exchange crises, buying time for sovereign nations to work out solutions to their own long-term problems. We fret that sometimes this limited approach can make the long-term problems more acute and more intractable.

To grasp this concern, weigh for a reality there are fine lines to be drawn. When a nation has been borrowing abroad to sustain its living standard, living standards will, of course, decline when the loans end. But it is another matter to drive down living standards to assemble capital to export as debt service. This will accomplish nothing unless the underlying structural problems of the economy are solved.

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Mr. de la Madrid's administration has reprivatized the equity holdings nationalized with the banks just prior to his administration, but the bank nationalization remains as a big backward step from only two years ago. The new administration has promised more administrative exceptions to allow more direct foreign investment, but the basic law requiring 51% domestic ownership remains. Monetary policy has been based on a sliding peso in the hopes of promoting exports, which has meant that inflation has been difficult to control. While initially the president has been successful politically as well as economically, the first signs of disaffection are starting to appear. Most ominously, there are early signs of a new flight of capital.

As is typically the case, many of Mexico's structural problems are deeply embedded in its history. Changing its public ownership of oil reserves or its crippling *ejido*, or land tenure, system would be a Herculean task. But we do not think it would be too much for Mexico's lenders to suggest that its long-term interests lie in development through the world trading system, and that the way to recognize this is to join the General Agreement on Tariffs and Trade. The Lopez-Portillo administration came close to that step four years ago, but today one purpose of President de la Madrid's visit is to complete a bilateral trade agreement giving Mexico the advantages of GATT membership without its obligations. This, it seems to us, is a perfect example of how IMF programs accumulate long-term problems through short-term successes.

* * *

What is to be done we do not know. But clearly the time is ripe for some new thinking by the IMF leaders, bankers and central bankers—and the U.S. Treasury, which ought to play a dominant role in the international economic arena. At the very least, the IMF's problems in the U.S. Congress and the complaints from debtors around the world should no longer be dismissed as redneck intransigence and whining ingratitude. Maybe the world is trying to say something to its financiers.

Poland: Implications of IMF Membership
(C NF)

Warsaw's recent amnesty for political prisoners may revive Poland's application to join the IMF. Poland submitted its formal request in November 1981, but Western governments shelved it following the declaration of martial law in December 1981. Although Poland apparently does not have to reapply, entry could take at least a year. Moreover, snags in negotiating a stabilization program are likely to delay sizable IMF credits until mid-1986 at the earliest. The Fund will require tough adjustment measures, but—without a consensus on economic reform within Poland—we doubt Warsaw will implement the major changes needed to cure Poland's economic ills. (C NF)

Processing the Application

Even if Western governments reconsider Poland's application, it is unclear whether Warsaw will pursue membership at this time. Polish negotiators have repeatedly pressed for IMF membership in talks with the Paris Club of government creditors. These demands, however, may be just a bargaining ploy or may reflect only the views of some officials in the Ministry of Finance who favor membership. Some Polish political leaders apparently oppose closer cooperation with Western creditors, and debate within the regime over IMF entry is possible. (C NF)

Soviet opposition could stall Poland's application. Moscow reportedly approved Warsaw's request in 1981, probably calculating that IMF financial assistance would reduce the cost of propping up the economy. In recent months, however, Moscow has criticized—both directly and indirectly through allies such as Czechoslovakia—some East European countries for maintaining too many ties with the West. The Soviets could object to Poland's closer relations with the West via IMF membership. (C NF)

Poland's entry into the Fund is likely to take at least a year. Even Hungary's uncomplicated application took seven months in 1982. The IMF probably will not be ready for several months to send a technical team to Warsaw to hammer out the specifics of membership. Once there, the team is likely to encounter difficulties. Recent meetings of the Paris Club have proved arduous because of the intransigence and inconsistency of Polish negotiators. (C NF)

Poland could experience problems in paying the membership subscription. New members must pay 75 percent of their quota in domestic currency and 25 percent in gold or convertible currencies. Given our estimate of a $900 million quota, Warsaw would have to pay $225 million in hard currency—a sum the Poles may not have if they meet obligations under rescheduling agreements. Poland's subscription might be less and could be paid in installments. (C NF)

An IMF Program for Poland

Poland probably would draw IMF credits as soon as possible. We estimate Warsaw probably could obtain about $450 million without difficulty. This would include $225 million from the reserve tranche and $225 million from the first credit tranche, neither of which requires strict conditionality. Warsaw must only demonstrate a need and show an effort to solve the problems. Since the reserve tranche is Warsaw's own money, the net gain would be just $225 million. (C NF)

Another option for relatively "easy" money is the Fund's compensatory financing facility, which assists members after unavoidable temporary export

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Estimated IMF Assistance to Poland [a]

Type of Credit	Percent of Quota	Million US $	Conditions
Total		**1,675**	
Reserve tranche	25	225	Demonstrate foreign payments need.
First credit tranche	25	225	Demonstrate foreign payments need and show reasonable efforts to solve the problems.
Compensatory financing facility [b]	11	100	Demonstrate an unavoidable temporary export shortfall.
Standby	125	1,125	Adhere to relatively strong stabilization program approved by the IMF.

[a] Data for the first 12 to 18 months after IMF membership, based on quota of $900 million. The quota is determined by "the members' economic characteristics relative to those of other members of comparable size."
[b] Although a member could draw up to 50 percent of the quota without much difficulty, Poland is unlikely to qualify for more than $100 million.

This table is Confidential Noforn.

shortfalls. Up to 50 percent of a member's quota—$450 million in Poland's case—can be made available with only minimum conditions. Although the three East European IMF members—Hungary, Yugoslavia, and Romania—have used this facility, Warsaw could have difficulty demonstrating an export shortfall according to IMF procedures. Warsaw's longstanding, deep-seated economic problems would make for an unconvincing argument that the shortfall is "temporary and due to external factors." Thus, we estimate that Warsaw's drawings from this facility are unlikely to exceed $100 million in the first year or so of membership. (C NF)

Polish financial officials apparently are counting on more IMF loans than can be provided through the reserve tranche, first credit tranche, and compensatory financing facility. Warsaw's recent memorandum to the Paris Club, which projects IMF funding of $3 billion during the first three years of membership, evidently assumes the establishment of a standby credit program. Current IMF regulations on standby arrangements allow members to draw up to 125 percent of their quota annually—and even more under special circumstances—for three years. Assuming a quota of $900 million, Poland would be eligible for around $1.1 billion annually. (C NF)

Any standby arrangement with the Fund will not come quickly or easily. Poland's large arrears to Western governments and other nonbank creditors are likely to be the initial stumblingblock. The IMF might require Poland to settle these accounts before granting a standby credit, because arrearages violate the IMF charter. The IMF probably would not force Poland to pay all arrearages, but it might insist that Warsaw show readiness to settle unpaid obligations through rescheduling agreements. Warsaw probably would have to make downpayments of several hundred million dollars to implement the agreements. (C NF)

In addition to resolving the problem of arrears, the Fund will require Warsaw to pursue a comprehensive stabilization program that the regime so far has avoided. Poland's problems, as well as the increasingly tough attitude of the Fund, suggest that the two sides will have trouble agreeing on stabilization measures. In recent dealings with other East European countries, the IMF has demanded more restrictive policies, probably because earlier programs failed to keep Romania and Yugoslavia from rescheduling. Moreover, the IMF has come under attack by bankers for the softness of its East European programs. (C NF)

Although IMF programs are tailored to each member, recent standby arrangements concluded with other East European members point to the likely provisions of a program for Poland. The Fund program probably will include restrictions that prohibit the borrower from:
- Imposing or tightening restrictions on foreign payments and transfers for current international transactions.
- Introducing or modifying multiple exchange rate practices.
- Concluding bilateral payments agreements inconsistent with the Fund's charter.
- Imposing or tightening import restrictions for balance-of-payments purposes.

In addition, the Fund is likely to impose:
- Targets for hard currency trade and current account balances.
- Limits on net hard currency debt.
- A target for minimum hard currency reserves.
- Limits on net domestic assets of the banking system. (C NF)

Poland—benefiting from the advice of an IMF team—would have to outline policies to achieve the goals of the program. The initial program is likely to focus on improving Poland's debt-repayment capacity, and the Fund will call for greater domestic austerity—largely by slowing the growth of consumption and government expenditures—to shift resources to the external sector. Recommendations are likely to include reducing subsidies, hiking interest rates and prices, and tying wage increases to productivity. In the foreign sector, the Fund is likely to urge simpler trade and foreign exchange systems. (C NF)

The IMF probably will advise the Poles to rely more on market mechanisms than administrative controls. The Fund also is likely to suggest ways to reduce the inefficiencies of Polish economic planning. We doubt, however, that the IMF will succeed in dictating policies at odds with Warsaw's political objectives and economic institutions. The IMF's experience with the other East European countries demonstrates that the impetus for major changes must originate in Warsaw. (C NF)

We believe that Poland will have great difficulty agreeing to an IMF stabilization program. Some Polish officials—particularly in the Ministry of Finance—have argued that reform measures adopted in 1982 would go far toward meeting IMF demands. In our view, these reforms do little to ensure achievement of any reasonably stringent criteria. Although some Polish officials would like to use the Fund as a scapegoat for imposing austerity measures, the regime might not accede to IMF proposals if it felt social tensions would increase as a result. (C NF)

Even if Warsaw and the Fund eventually agree to a program, the regime may try to avoid full implementation. Warsaw might agree to policies to begin drawing funds, but then not adhere to the agreement. If performance criteria are not met, the IMF will have to decide how tough it wants to be. The Fund's mixed record with recent standby programs for East European members points to problems:

- The IMF has fared poorly in its dealings with Romania. Bucharest implemented some price and exchange rate adjustments, but the changes have not improved the economy significantly, largely because of the regime's tight controls over the economy. Prodding by the Fund for more adjustments resulted in a mutually agreed cancellation of the standby program at the beginning of this year, and the regime has not reapproached the Fund.

- Yugoslavia has resisted some IMF recommendations, arguing that they interfere with its sovereignty. Yet most differences with the Fund have centered on the pace, not the direction, of the adjustment effort. Most Yugoslav leaders agree that the IMF program is consistent with their long-term stabilization program, but they believe that the Fund wishes to do too much too quickly. Before the recent standby agreement, Belgrade

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threatened to "go it alone." Difficulties may yet arise with the Fund over implementing the program.

- Hungary's relations with the IMF, on the other hand, have been amicable. Budapest adopted adjustment measures and economic reforms long before joining the IMF. The Fund has praised Hungary's efforts and views its role as providing a financial cushion during the period of decentralization. (C NF)

Other Benefits of Membership

World Bank. Poland almost certainly will seek to join the World Bank along with joining the Fund. Membership would qualify Poland to bid on World Bank construction projects. Such contracts could provide some gains to the current account. More importantly, World Bank project loans could help modernize key sectors of the Polish economy, such as agriculture and energy. In its memorandum to the Paris Club task force, Warsaw projected World Bank loans at $500 million in 1986 and $1 billion in 1987. These amounts are overly optimistic. Hungarian borrowings from the World Bank, for example, averaged a little over $200 million annually in its first two years of membership. (C NF)

Improved Credit Standing. Foreign creditors generally are more receptive to rescheduling the debts of a country following an IMF stabilization package. The recent rescheduling packages for Yugoslavia and Romania have been made conditional on compliance with IMF programs. Moreover, IMF technical expertise has aided both sides during rescheduling negotiations. For example, the IMF was instrumental in helping the Romanian financial team overcome its inexperience during the early stages of the first rescheduling talks. (C NF)

The IMF could play an important role in debt reschedulings for Poland. Warsaw's seemingly insurmountable debt troubles suggest that the Poles will be unable to meet their rescheduled obligations. The rescheduling of earlier "reschedulings" would prove complicated and contentious, and the IMF could help ensure that Warsaw cooperates with its creditors. (C NF)

This article is Confidential Noforn.

(Set up) → POLAND INF

JERRY LEWIS
35TH DISTRICT, CALIFORNIA

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APPROPRIATIONS
SUBCOMMITTEES:
HUD-INDEPENDENT AGENCIES
FOREIGN OPERATIONS
LEGISLATIVE BRANCH
(RANKING MINORITY MEMBER)
CHAIRMAN,
HOUSE REPUBLICAN RESEARCH COMMITTEE

Congress of the United States
House of Representatives
Washington, D.C. 20515

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101 SOUTH SIXTH STREET
REDLANDS, CALIFORNIA 92373
714-862-6030
714-792-5901

BARSTOW, CALIFORNIA 92311
619-256-1523

August 21, 1984

13

Mr. Allen Wallis
Under Secretary of State for
Economic Affairs
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Allen:

Enclosed are some materials pertaining to Hungarian borrowing at the World Bank. These represent a small summary of a large file we have on the subject. We are still working on getting this lending reduced as well as on preventing a similar problem with Poland. Any help would be appreciated.

Sincerely,

Morris Goldman
Economic Counsel

MG:wcs
Enclosures

cc: Mr. Richard T. McCormack
Assistant Secretary for
Economic and Business Affairs

bcc: Paula Dobriansky
National Security Council

JERRY LEWIS
35TH DISTRICT, CALIFORNIA

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14

August 20, 1984

Mr. Tom Clausen
President, World Bank
1818 H. Street, N.W.
Washington, D.C. 20033

Dear Tom:

In June you were kind enough to send to me some additional thoughts regarding Hungarian eligibility for IBRD loans. The press of legislative business has delayed my response, however the August recess as well as Poland's possible admission to the IMF and the World Bank has prompted the continuation of our dialogue at this time.

Regarding the question of Hungary's per capita GNP and eligibility, I still have serious reservations about the Bank's position. The Congressional Research Service has examined this issue twice and finds questionable the Bank's calculations for Hungarian GNP (letter attached). The U.S. Treasury Department also has similar concerns. In this year's and last year's supplemental appropriations bills, report language on the Hungarian problem was passed by House and Senate conferees and by the House Appropriations Committee (language attached).

In reviewing studies sent to me by your staff (particularly Sec M83-112011), I find major inconsistencies. For example, on page 24 of this study, the purchasing power parity converted per capita GNP values are given for Hungary and five other countries. The World Bank figures indicate that Hungary has a lower per capita income than Greece, Mexico, Protugal, Uruguay and Yugoslavia. However, other studies such as in the CIA's Handbook of Economic Statistics reveal that Hungary has higher income levels than every one of these countries. I could understand some changes in absolute values due to your conversion factors, but a total reversal of relative rankings with respect to Hungary is not credible. Moreover, it is also difficult to accept that the Bank's absolute level of Hungarian income is roughly two-thirds below the CIA numbers.

As your Hungarian lending program is approaching $678,000,000, not a modest sum, I would question the wisdom of continuing such significant lending to a country whose eligibility for loans is in serious doubt. Hopefully, we will be able to fully explore this issue at a House appropriations hearing early next year.

A related issue involves President Reagan's August 3 mentioning of Poland's application for membership in the IMF. In anticipation of similar questions arising regarding Poland's per capita GNP, I have examined the CIA's and World Bank Atlas' numbers on Poland and it appears that Poland would be ineligible for IBRD loans (based upon 1980 data). Noting the questions about Hungarian income levels, I have asked exchange rate experts if similar issues apply to Poland. The preliminary answer

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is no as there appears to be more certainty regarding exchange rates vis a vis Poland's currency.

What I specifically would like to know from you is would the IBRD consider Poland eligible for a lending program given what is known about its per capita GNP? This is a critical question which will affect support for Poland's admission to the IMF as well as to the IBRD. Given our differing recollections regarding the answer to this same question on Hungary, I hope to avoid similar confusion in this instance.

Sincerely,

Jerry

Jerry Lewis
Member of Congress

JL:mgs
Enclosures

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SECOND SUPPLEMENTAL APPROPRIATIONS BILL, 1984

JULY 27, 1984.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. WHITTEN, by direction of the Committee on Appropriations, submitted the following

REPORT

[To accompany H.R. 6040]

The Committee on Appropriations submits the following report in explanation of the accompanying bill making supplemental appropriations for the fiscal year ending September 30, 1984, and for other purposes.

INDEX TO BILL AND REPORT

36-968 O

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CHAPTER XII

SUBCOMMITTEE ON FOREIGN OPERATIONS AND RELATED AGENCIES

CLARENCE D. LONG, Maryland, *Chairman*

DAVID R. OBEY, Wisconsin
SIDNEY R. YATES, Illinois
MATTHEW F. McHUGH, New York
WILLIAM LEHMAN, Florida
CHARLES WILSON, Texas
JULIAN C. DIXON, California
WILLIAM H. GRAY III, Pennsylvania
JACK F. KEMP, New York
MICKEY EDWARDS, Oklahoma
BOB LIVINGSTON, Louisiana
JERRY LEWIS, California

MULTILATERAL ECONOMIC ASSISTANCE

FUNDS APPROPRIATED TO THE PRESIDENT

INTERNATIONAL FINANCIAL INSTITUTIONS

CONTRIBUTION TO THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Committee is recommending no funds for either paid-in or callable capital based on the lack of an emergency need, or changes in circumstances since the FY 1984 appropriations were made.

The Committee is gravely concerned that the World Bank allocate its resources among members in an equitable fashion and that the level of a member's per capita GNP should continue to constitute a first necessary step in determining a member's eligibility for Bank resources. While recognizing the difficulties entailed in determining precise GNP calculations for centrally planned economies, the Committee is skeptical that Hungary's level of economic activity is such that it is eligible for Bank assistance. The Committee therefore requests that the Secretary of the Treasury put forth the question of Hungarian eligibility to the President of the World Bank, and that the Secretary advise the Committee on the outcome of his discussions.

CONTRIBUTION TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA VI)

The Committee is recommending no funds, based on the lack of an emergency need, or changes in circumstances since the FY 1984 appropriations were made.

The Committee strongly believes that IDA resources should be focused primarily on the neediest countries which do not have access to alternative sources of financing (for example, Sub Sahara Africa) as long as these countries are able to make effective use of these resources. We believe that countries eligible for Bank assistance, such as the People's Republic of China, which have access to

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and the ability to sustain nonconcessional financing should rely primarily on hard window borrowing. The Committee welcomes the fact that the IDA Deputies, in their draft report of the Executive Directors "generally agreed that the highest priority should be given to IDA flows to Sub Sahara Africa." While the Committee recognizes there are criteria other than credit-worthiness which affect loan decisions, it requests the Secretary of the Treasury to instruct the U.S. Executive Director to work to achieve increased IDA focus on developing countries without access to alternative financing.

CONTRIBUTION TO THE INTER-AMERICAN DEVELOPMENT BANK

The Committee is recommending no supplemental appropriations for the Fund for special operations, inter-regional paid-in capital, and callable capital, based on the lack of an emergency need, or changes in circumstances since the FY 1984 appropriations were made.

CONTRIBUTION TO THE ASIAN DEVELOPMENT BANK

The Committee is recommending no funds for paid-in capital subscriptions, based on the lack of an emergency need, or changes in circumstances since the FY 1984 appropriations were made.

INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

The Committee is recommending no supplemental appropriations based on the belief that no emergency need exists and that this request is simply a restatement of the FY 1984 budget request rather than a new supplemental need for funds.

BILATERAL ECONOMIC ASSISTANCE

AGENCY FOR INTERNATIONAL DEVELOPMENT

HEALTH DEVELOPMENT ASSISTANCE

The Committee is recommending no funds which have been requested for Agriculture, rural development and nutrition; Population planning; Health; Education and human resources development; and Energy and selected development activities development assistance, based on the lack of an emergency need.

However, the Committee is recommending $7,500,000 in Health development assistance to be used for the Miskito and other Nicaraguan Indians in Honduras.

The Committee is deeply concerned with the situation faced by the Miskito and other Nicaraguan Indians in Honduras as a result of hostilities which have displaced them from their homes. Of particular concern is the suffering of displaced Indian children, who are severly malnourished, who suffer from parasitic infestation and disease, and who must go naked for want of clothing.

The Committee directs that the Agency for International Development administer the $7.5 million and provide the necessary relief independently from United Nations relief agencies. In addition, this appropriation should not be used to provide any funds

98TH CONGRESS 1st Session | HOUSE OF REPRESENTATIVES | REPORT No. 98-308

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MAKING SUPPLEMENTAL APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1983, AND FOR OTHER PURPOSES

JULY 20, 1983.—Ordered to be printed

Mr. WHITTEN, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 3069]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 3069) "making supplemental appropriations for the fiscal year ending September 30, 1983, and for other purposes," having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 3, 7, 9, 12, 17, 37, 39, 52, 54, 55, 59, 60, 62, 63, 64, 81, 86, 90, 91, 100, 107, 109, 111, 112, 114, 116, 122, 124, 127, 135, 147, 177, 178, 179, 185, 187, 192, 194, 197, 198, 199, 202, 203, 206, 207, 208, 212, 213, 222, 223, 224, 225, 232, 237, 240, 242, 246, 250, 252, and 254.

That the House recede from its disagreement to the amendments of the Senate numbered 6, 10, 15, 18, 32, 33, 34, 36, 44, 45, 46, 47, 77, 82, 87, 95, 96, 97, 99, 104, 106, 108, 110, 113, 118, 120, 134, 136, 140, 142, 154, 155, 156, 157, 166, 167, 170, 173, 174, 175, 186, 191, 193, 195, 196, 214, 215, 216, 217, 219, 220, 221, 226, 227, 228, 229, 233, 234, 235, 236, 238, 243, and 244, and agree to the same.

Amendment numbered 61:

That the House recede from its disagreement to the amendment of the Senate numbered 61, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert *$3,488,000*; and the Senate agree to the same.

Amendment numbered 68:

That the House recede from its disagreement to the amendment of the Senate numbered 68, and agree to the same with an amendment, as follows:

22-981 O

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CHAPTER V

MULTILATERAL ECONOMIC ASSISTANCE

FUNDS APPROPRIATED TO THE PRESIDENT

INTERNATIONAL FINANCIAL INSTITUTIONS

INTERNATIONAL DEVELOPMENT ASSISTANCE

CONTRIBUTION TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION

Amendment No. 64: Appropriates $245,000,000 as proposed by the House instead of $125,000,000 proposed by the Senate.

The Conferees are aware of significant problems concerning the methods by which the World Bank calculates GNP per capita statistics, particularly for centrally planned economies. The Conferees direct the U.S. Executive Director to urge the World Bank to undertake a comprehensive study addressing these issues aimed at improving current calculation methods.

INTERNATIONAL MONETARY FUND

Amendment No. 65: Reported in true disagreement.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

Amendment No. 66: Reported in technical disagreement. The managers on the part of the House will offer a motion to recede and concur in the amendment of the Senate with an amendment as follows:

In lieu of the matter stricken and inserted by said amendment, insert the following:

$20,500,000, of which $4,500,000 is available only for payment to the International Atomic Energy Agency, and $16,000,000 is available only for payment to the International Fund for Agricultural Development

The managers on the part of the Senate will move to concur in the amendment of the House to the amendment of the Senate.

The conferees are deferring without prejudice funds proposed by the Senate for the Pan American Health Organization.

BILATERAL ECONOMIC ASSISTANCE

FUNDS APPROPRIATED TO THE PRESIDENT

AGENCY FOR INTERNATIONAL DEVELOPMENT

AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION

Amendment No. 67: Reported in technical disagreement. The managers on the part of the House will move to recede and concur in the amendment of the Senate. The Senate amendment provides $5,000,000 for development assistance for Belize. The Conferees are in agreement with language contained in the House report to the Supplemental concerning procurement practices of the Agency for

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Washington, D.C. 20540

May 23, 1984

Honorable Jerry Lewis
U.S. House of Representatives
326 Cannon Building
Washington, D. C. 20515

Attention: Dr. Morrie Goldman

During our telephone discussions, you posed several questions about the World Bank's use of Hungarian GNP per capita data as a basis for loan eligibility:

(1) Has the World Bank used internationally comparable and consistent figures for its calculation of GNP per capita for Hungary? Apparently not according to the latest Bank assessments you provided us relating to Hungary as well as other member countries.

> For its operational purposes, the Bank should aim at providing internationally comparable and consistent figures of the volume of goods and services available in any economy, such as represented by GNP. This requirement can be met only if the conversion factor reflects Purchasing Power Parities (PPP) like those calculated by the International Comparison Project (ICP). The Bank has not yet used such PPP-converted numbers for operational purposes. 1/

What appears to be indicated from the most recently, released Bank studies quoted above is that their Hungarian GNP per capita estimate will meet Bank criteria only after their figures reflect Purchasing Power Parity conversion.

(2) How do the World Bank figures for Hungarian per capita GNP, used for determining the country's credit eligibility, compare with alternative assessments?

1/ Economic Analysis and Projections Department, Economic and Research Staff, The World Bank. Methodological Problems and Proposals Relating to the Estimation of Internationally Comparable Per Capita GNP Figures. November 30, 1983, p. iii.

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As noted in our earlier memo to you 2/ the per capita GNP figure for Hungary for 1981 of $2,100 was below the threshold level of $2,650. Bank loan procedures use this threshold measurement as one of the measures in determining the credit eligibility of a country-loan applicant. Apparently on this basis several loans have been approved since Hungary joined the Bank.

However, Hungarian per capita GNP figures would be above the threshold figure if based on the criteria used in other per capita calculations of countries with comparable levels of development, or based on earlier, higher calculations by the Bank and other Western experts for Hungary, or based on the use of alternative and "reasonable" methods of calculation resulting in higher assessments:

a) Other countries that are usually adjudged to be less developed than Hungary, e.g., Romania, are assessed under current calculation by the Bank to have higher GNP per capita than Hungary, and above the threshold level.

b) Earlier calculations of Hungarian GNP for the Bank Atlas had estimates substantially higher for 1981 and earlier years that were above the threshold level.

c) Alternate methods proposed by outside experts for the Bank and in the professional literature available to us on the subject all come up with higher figures for Hungary's GNP, i.e., above the threshold level. The current CIA estimate for Hungarian GNP per capita is $5,950, well above the threshold. 3/

Sincerely,

John P. Hardt

John P. Hardt
Associate Director for
Senior Specialists

Enclosures:
1. Ways and Means Trade Mission
2. CIA Handbook Reference.

2/ CRS memo dated May 12, 1983.

3/ Subcommittee on Trade of Committee on Ways and Means, U.S. House of Representatives, Report on Trade Mission to Central and Eastern Europe. (Washington, D.C.: U.S. Government Printing Office) March 29, 1984, p. 94. CIA, Directorate of Intelligence, Handbook of Economic Statistics 1983, A Reference Aid, CPAS 83-10006, September 1983, p. 2. "Above $5,001 in 1982 U.S. dollars." Informal inquiries suggest that the CIA methodology may be revised for 1983. However, there was no indication that the CIA estimate of Hungarian GNP per capita would be cut in half.

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

A.W. CLAUSEN
President

June 1, 1984

The Honorable Jerry Lewis
Member of Congress
326 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Jerry:

I looked at your letter again over the holiday weekend and thought I would respond to the point you raised concerning Hungary.

Before Hungary became a member of the Bank there were indeed some estimates of its GNP that suggested it would not qualify for Bank loans. In fact some earlier estimates published in the Bank's Atlas were in this category. But long before the question of membership arose we became dissatisfied with these estimates which were derived from country data modified by applying a standard and, frankly, over-simplified methodology.

When Hungary became a member we, of course, took a careful look at the existing GNP estimates using the same methodology we apply to all our member countries. By that time Hungary had published, in collaboration with the French, GNP estimates which conformed closely to the concepts and accounting methods of the United Nations System of National Accounts. We converted these estimates by using average official exchange rates. Again, this same procedure is consistently applied to all our members. The resulting per capita estimates revealed that Hungary qualified for Bank loans under our regular procedures.

Subsequent to Hungary joining the Bank we discovered we had never discussed with our Board the methodology we used to calculate per capita GNP. Thus we agreed to have such a discussion and in preparation we undertook a review of our methodology and explored possible alternatives. We didn't particularly care which methodology the Board chose for the purpose of determining eligibility and terms of IDA and IBRD financing. But we insisted that, whatever the methodology, it be applied uniformly to all our member countries.

The study was conducted by our Economic Analysis and Projections Department with guidance from a steering group of senior Bank staff. An external and independent panel of experts was also established to assist in the study and to review the results. The study concluded that, among all the alternatives, the methodology already being used by the Bank and the one we applied to Hungary was the best available.

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In the ensuing discussions the Board agreed with the study's findings and endorsed management's firm intention to apply the methodology uniformly. The Hungary estimates are therefore calculated on the basis of careful and consistent application of the best methodology available to us. Based on these figures we have embarked on a lending program, not because of some arbitrary lending target, but because Hungary fully qualifies for Bank financing according to criteria endorsed by our Board and consistently applied to all our member countries.

The program in Hungary is modest--in FY84 two projects for $200 million were approved in comparison with total lending of about $11.0 to $12.0 billion. Moreover, as I have said in the past, at "worst" or "best" (depending on how one views the situation), Hungary will never be a significant or large borrower.

Thanks again for writing. I appreciate your sharing your concerns with me. Jim will also be in touch shortly.

Warm regards.

Sincerely,

A. W. Clausen
President

cc: Mr. James B. Burnham
Executive Director

JERRY LEWIS
35TH DISTRICT, CALIFORNIA

COMMITTEES:
APPROPRIATIONS
SUBCOMMITTEES:
HUD-INDEPENDENT AGENCIES
FOREIGN OPERATIONS
LEGISLATIVE BRANCH
(RANKING MINORITY MEMBER)

Congress of the United States
House of Representatives
Washington, D.C. 20515

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714-862-6030
714-792-6901

BARSTOW, CALIFORNIA 92311
619-256-1523

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May 15, 1984

Mr. Tom Clausen
President, World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Tom:

Over the past three years we have participated in a constructive dialogue on a number of international development and World Bank issues. In our discussions, there have been two items which continue to be disconcerting and I believe reflect negatively on the World Bank's credibility. These two areas are the World Bank's lending progams to Hungary and to the People's Republic of China.

Prior to Hungary becoming a member of the World Bank it was the consensus opinion, which you reaffirmed to me personally, that Hungary was too rich in terms of per capita GNP to qualify for World Bank loans. After reviewing a large amount of research on this question, it is clear by the preponderance of the evidence that Hungary is still ineligible for loans from your institution. Yet, the monthly operation summaries reveal that a significant Hungarian lending program is well under way. In view of the scarcity of capital available for development purposes, it would seem that a more effective allocation of World Bank resources could be made concentrating on the neediest countries.

A similar problem exists with the People's Republic of China. PRC is simply too credit-worthy to be receiving IDA credits. Consider these facts: PRC is among the world's top six foreign currency holders; it is buying foreign bonds at a rapid rate, and it invests heavily in foreign investments and development projects. The People's Republic of China is even directly investing funds in projects located in the United States and Japan. A country in such an envious financial condition has a very weak case indeed in applying for fifty-year zero interest loans.

I do hope that these two examples are not the result of the Bank attempting to maintain some arbitrary rate of loan growth. It would be most difficult to support further requests for IBRD and IDA funding, when existing resources are not being used efficaciously.

Sincerely,

Jerry

Jerry Lewis
Member of Congress

JL:mgs
cc: Mr. Jim Burhnam

~~CONFIDENTIAL~~

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FROM

SUBJECT: POLAND AND THE IMF

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PAGES 10

SENT TO:	DELIVER TO:	EXTENSION	ROOM
E.B	DAVE WIGG (NSC)	395-3543	365
	Kimmitt		
	Thompson		
	[redacted]		
	Robinson		
	Dobriansky		
	Matlock		

REMARKS:

~~CONFIDENTIAL~~

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[redacted]

17 August 1984

Poland: Implications of IMF Membership

Warsaw's recent amnesty for political prisoners may set the stage for resuming action on Poland's application to join the IMF. Poland submitted its formal request in November 1981, but Western governments subsequently shelved the application as part of the sanctions against Warsaw following the declaration of martial law. Although Poland apparently does not have to begin from square one, the application process will be lengthy and entry could be over a year away. Moreover, difficulties in negotiating a stabilization program are likely to delay the receipt of sizable IMF credits until at least mid-1986. The Fund will seek tough adjustment measures but--without political concensus on economic reform within Poland--will not be able to push Warsaw to implement the major institutional changes needed to solve Poland's economic ills. [redacted]

Processing the Application

Even if Western governments approve renewed consideration of Poland's application, it is not clear whether Warsaw will pursue membership at this time. Polish negotiators have repeatedly pressed for IMF membership in talks with the Paris Club of government creditors. These demands, however, may be just a bargaining ploy or may reflect only the views of some officials in the Ministry of Finance who are known to favor membership.

Some Polish political leaders apparently oppose closer cooperation with Western creditors, and debate within the regime over IMF entry is possible. [redacted]

Potential Soviet opposition also could stall Poland's application. Moscow reportedly approved Warsaw's request in 1981, probably calculating that IMF financial assistance could help reduce the USSR's costs of propping up the foundering Polish economy. But Moscow might be far less agreeable now. In recent months, Moscow has criticized--both directly and indirectly through close allies such as Czechoslovakia--some East European countries for maintaining too many economic and political ties with the West and may be reluctant to see Poland's relations with the West increase via IMF membership. [redacted]

If all parties give the application the go-ahead, Poland's entry into the Fund is likely to be at least a year away. Even with few problems, Hungary's application took seven months in 1982, and Poland's request faces more possible pitfalls. The IMF probably will not be ready for several months to send a technical team to Warsaw to hammer out the specifics of membership. Once in Warsaw, the team is likely to encounter difficulties in dealing with the regime. Recent meetings of the Paris Club have proved arduous because of the intransigence and inconsistency of Polish financial negotiators. [redacted]

Once the paperwork is completed, Poland could experience problems in paying the membership subscription. New members must pay 75 percent of their quota in domestic currency and 25 percent in gold or convertible currencies. Based on our estimate of a roughly $900 million quota, Warsaw would have to pay about $225 million in hard currency--a sum the Poles may not have if they keep current on obligations due under their rescheduling agreements. Poland's subscription might be less and could be paid in installments--if exceptional circumstances exist--but it probably could not justify paying much less than the current average of 22 percent.

An IMF Program for Poland

Poland presumably would seek to draw IMF credits as soon as possible after entry (Table 1). Although precise numbers cannot be determined at this stage, Warsaw probably could obtain about $450 million with little difficulty. This would include $225 million from the reserve tranche and $225 million from the first credit tranche, neither of which requires strict IMF conditionality. Warsaw must only demonstrate a balance-of-payments need and show reasonable efforts are being made to solve the problems. Since the reserve tranche is Warsaw's own money, the net gain would be just $225 million.

Poland's other option for relatively "easy" money is the Fund's compensatory financing facility. This facility helps members experiencing financial problems due to temporary export shortfalls largely beyond the member's control. Up to 50 percent of a member's quota--approximately $450 million in Poland's case--can be made available with only minimum conditions imposed by the Fund. Although the other three East European IMF members

Table 1

Estimated IMF Assistance to Poland[1]
(Within First 12-18 Months)

Type of Credit	Percent Of Quota	Amount (US$ Million)	Conditions for Poland
Reserve Tranche	25	225	Demonstrate balance of payments need.
First Credit Tranche	25	225	Demonstrate balance of payments need and show the Fund that reasonable efforts are being made to solve the problems.
Compensatory Financing Facility	less than 50	100	Demonstrate a temporary export shortfall due to circumstances beyond the members control.
Standby	125	1,125	Adhere to relatively strong IMF mandated stabilization program.
TOTAL		$1,675	

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1 Estimates based on assumed quota of $900 million. The exact quota is determined by "the members economic characteristics relative to those of other members of comparable size."

have used this facility, Warsaw may have difficulty deriving much benefit. Poland may be unable to demonstrate an export shortfall according to IMF procedures. And even if it can demonstrate such a shortfall, Warsaw's longstanding, deep-seated economic problems may prevent it from arguing that the shortfall is "temporary and due to external factors." Thus, Warsaw's drawings from this facility could fall far short of $100 million. [redacted]

Polish financial officials apparently are counting on obtaining more IMF loans than can be provided through the reserve tranche, first credit tranche, and compensatory financing. Warsaw's recent financial memorandum given to the Paris Club, which projects IMF funding of $3 billion during the first three years of membership, eviden..y assumes the establishment of a standby credit program. Current IMF regulations on standby arrangements allow members to draw up to 125 percent of their quota annually--and even more under special circumstances--over a three-year period. Assuming a quota of $900 million, Poland would be eligible for around $1.1 billion annually under this program. [redacted]

Any extended arrangement with the Fund will come neither quickly nor easily. Indeed, Warsaw may not begin drawing sizable IMF credits until six to nine months after entry. Poland's large arrears to Western governments and other non-bank creditors will likely be the initial stumbling block. The IMF might require Poland to settle these accounts before granting any sizable credits as arrears are technically a violation of the IMF charter. The IMF probably would not force Poland to pay all arrears, but it might insist that Warsaw show that it is ready to settle upaid obligations through rescheduling agreements. Such arrangements could prove difficult for Warsaw because it probably would have to make downpayments of several hundred million dollars to implement the agreements and pave the way for sizable Fund credits. [redacted]

In addition to resolving the problem of arrears, the Poles will have to accept IMF conditionality to qualify for a standby credit. The Fund will compel Warsaw to devise and implement the type of comprehensive stabilization program that the regime so far has avoided. The severity of Poland's problems, as well as the increasingly tough attitude of the Fund, suggest that the two sides will have trouble agreeing on stabilization measures. In recent dealings with other East European countries, the IMF has demanded more restrictive and austere policies, probably because its earlier Fund programs and advice failed to keep Romania and Yugoslavia from reschedulinn. Moreover, the IMF has been publicly criticized in the press by bankers for the softness of its East European programs. [redacted]

Although each IMF program is tailored to the particular concerns and institutions of its members, recent standby arrangements concluded with other East European members point to the likely provisions of such a program for Poland. The Fund program will include the restrictive measures found in all its programs that prohibit the borrower from:

- -- Imposing or intensifying restrictions on payments and transfers for current international transactions.
- -- Introducing or modifying multiple currency practices.
- -- Concluding bilateral payments agreements that are inconsistent with the Fund's charter.
- -- Imposing or intensifying import restrictions for balance-of-payments purposes.

In addition, the Fund will seek to impose:

- -- Targets for hard currency trade and current account balances.
- -- Limits on net hard currency debt.
- -- A target level for minimum hard currency reserves.
- -- Limits on net domestic assets of the banking system.

Annual or quarterly targets for these criteria would be negotiated with Warsaw. [redacted]

Poland--benefitting from the advice of an IMF staff team--also would have to outline policies to achieve the goals of the program and to meet the performance criteria. The initial program is likely to focus on improving Poland's debt repayment capacity, and the Fund will push Warsaw to impose greater domestic austerity--largely by slowing the growth of consumption and government expenditures--in order to shift resources to the external sector. Specific policy recommendations are likely to include reducing budget subsidies, hiking interest rates and prices, and tying wage increases to productivity gains. In the foreign sector, the Fund is likely to urge simplification of the foreign trade and exchange systems.

As the IMF seeks changes that will lead to a viable balance-of-payments position over the long run, it will advise the Poles that they need to rely more on market mechanisms than administrative controls. The Fund also will suggest ways which Warsaw should rationalize its cumbersome and inefficient planned economy. But the IMF will not succeed in dictating policies that are at odds with Warsaw's political objectives and economic institutions. The IMF's experience with the other East European countries demonstrates that the impetus for meaningful systemic changes must originate in Warsaw.

We believe that Poland will have great difficulty agreeing to such an IMF stabilization program. Some Polish officials--particularly in the Ministry of Finance--have argued that Polish reform measures adopted in 1982 would go far toward meeting IMF demands. In our view, these reforms will do little to ensure achievement of any reasonably stringent performance criteria. Although some Polish officials would like to use the Fund as a scapegoat for imposing tough austerity measures, the regime might not accede to very tough IMF demands if it felt social tensions would increase as a result. In this case, Poland most likely would try to concentrate on those IMF credit facilities that require easier conditionality.

Even if Warsaw and the Fund eventually agree to a program, the regime may well try to avoid full implementation. Warsaw might agree to policies in order to have a program in place and begin drawing funds, but then not adhere to the agreement. If performance criteria are not met, the IMF will have to decide how tough it wants to be. The Fund's mixed record with recent standby programs for East European members suggests difficulties can be expected.

-- The IMF has fared poorly in its dealings with Romania. Bucharest implemented some price and exchange rate adjustments demanded by the Fund, but the changes have not led to major improvements in economic performance, largely because they have not been accompanied by any reduction in the regime's tight administrative controls over the economy. Prodding by the Fund for more adjustments resulted in a mutually agreed cancellation of the standby program at the beginning of this year, and the regime has not approached the Fund for a new program.

-- Yugoslavia has accepted some IMF recommendations while resisting others. Some Yugoslavs have objected to Fund dictates on ideological grounds, arguing that the Fund's program interferes with Yugoslavia's sovereignty. Yet most differences with the Fund have centered on the pace, not the direction, of the adjustment effort. Most Yugoslav leaders agree that the IMF program is consistent with their own long-term stabilization program, but they believe that the Fund wishes to do too much too quickly. Before the current standby agreement was reached, Belgrade threatened to "go it alone" without Western financial assistance. Difficulties may yet arise with the Fund over implementing the current program.

-- Hungary's relations with the IMF, on the other hand, have been close and amicable. But Budapest had adopted adjustment measures and economic reforms long before joining the IMF. The Fund has praised Hungary's efforts and views its role as providing a needed financial cushion during the period of decentralization.

Other Benefits of Membership

Membership in the IMF can provide other indirect benefits to Poland, but these rewards may not be as great as Warsaw believes. [redacted]

World Bank. Poland almost certainly will seek to join the World Bank along with joining the Fund. Membership would qualify Poland to bid on construction projects financed by the World Bank in other member countries. Such contracts could provide some net inflows to the trade and service accounts over the longer term. More importantly, Warsaw also could tap the bank for various project loans to help modernize key sectors of the economy, such as agriculture and energy. In its memorandum to the Paris Club task force, Warsaw targeted World Bank loans at $500 million in 1986 and $1 billion in 1987. These amounts are overly optimistic, expecially since Poland is unlikely to obtain very favorable interest rates because of its high per capita income.

Hungarian borrowings from the World Bank, for example, averaged a little over $200 million annually in its first two years of membership. [redacted]

<u>Improved Credit Standing</u>. Foreign creditors generally are more receptive to rescheduling the debts of a country that is receiving IMF funds and following an IMF stabilization package. The recent rescheduling packages for Yugoslavia and Romania have been made conditional on these countries signing and adhering to IMF programs. Moreover, IMF technical expertise often has proven invaluable in aiding both sides during rescheduling negotiations. For example, the IMF was instrumental in helping the Romanian financial team overcome its inexperience and, at times, incompetence during the early stages of the first rescheduling talks. [redacted]

The IMF could play an important role in future debt reschedulings for Poland. Warsaw's seemingly insurmountable debt troubles suggest that the Poles will be unable to meet their rescheduled obligations when they come due. The rescheduling of earlier "reschedulings" undoubtedly would prove complicated and contentious, and the IMF would be needed to ensure Warsaw cooperates with its creditors in an equitable fashion. (C NF)

Finally, IMF membership might aid Poland's never-ending search for "new money," whether as part of rescheduling agreements or outside of these formal packages. Though unlikely to be large, new money might be more readily available if Poland were in the Fund. [redacted]

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Dobriansky

SYSTEM II
90892

file Poland
IMF

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

August 21, 1984

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~~SECRET~~

MEMORANDUM FOR MR. DONALD GREGG
Assistant to the Vice President
for National Security Affairs

COLONEL R. J. AFFOURTIT
Executive Secretary
Department of Defense

MRS. HELEN ROBBINS
Executive Assistant to the Secretary
Department of Commerce

DR. ALTON KEEL
Associate Director for National
Security Affairs
Office of Management and Budget

MR. THOMAS B. CORMACK
Executive Secretary
Central Intelligence Agency

THE HONORABLE HARVEY FELDMAN
Washington Representative to the United States
Representative to the United Nations
Department of State

MR. DENNIS WHITFIELD
Office of the U.S. Trade Representative
Winder Building

MS. TERESA COLLINS
Chief, Secretariat Staff, Executive Secretariat
U.S. Information Agency

BRIGADIER GENERAL GEORGE JOULWAN
Executive Assistant to the Chairman
Joint Chiefs of Staff

SUBJECT: NSC Meeting on Poland's IMF Membership, August 28 (S)

A National Security Council meeting will be held on Tuesday, August 28, 1984, at 11:00 a.m. in the Cabinet Room, to review our position on Polish IMF membership in light of Poland's recent implementation of the amnesty. Agency principal plus one are invited. (S)

Robert M. Kimmitt

Robert M. Kimmitt
Executive Secretary

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SYSTEM II
90892

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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August 21, 1984

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MEMORANDUM FOR MR. CHARLES HILL
Executive Secretary
Department of State

MR. CHRISTOPHER HICKS
Executive Secretary
Department of the Treasury

SUBJECT: NSC Meeting on Poland's IMF Membership, August 28 (S)

A National Security Council Meeting will be held on Tuesday, August 28, 1984, at 11:00 a.m. in the Cabinet Room to review our position on Polish IMF membership in light of Poland's recent implementation of the amnesty. You are to prepare appropriate issue papers for the meeting which are due at COB Thursday, August 23. (S)

Agency principal plus one are invited. (U)

Robert M. Kimmitt
Robert M. Kimmitt
Executive Secretary

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Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA RW, DATE 9/11/12

~~SECRET~~

Poland

MEMORANDUM

SYSTEM II
90892

IMF

NATIONAL SECURITY COUNCIL

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~~SECRET~~

August 21, 1984

ACTION

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: PAULA DOBRIANSKY

SUBJECT: NSC Meeting on Poland

Per your request, attached at Tab I is a memorandum from you to State and Treasury apprising them of the August 28, 1984, National Security Council meeting on Poland and tasking them to prepare appropriate position papers. At Tab II, for your signature, is a memorandum to other agencies inviting them to the NSC meeting.

JGM RWR DW

Jack Matlock, Roger Robinson and Dave Wigg concur.

RECOMMENDATION

That you forward the memoranda at Tabs I and II.

Approve____________ Disapprove____________

Attachments:

Tab I Memorandum to State and Treasury
Tab II Memorandum to other agencies to be invited

~~SECRET~~
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