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Poland: Approach to Paris Club

Summary

The Poles are putting final touches on their proposals for rescheduling and new credits, and may present them soon to Western governments. In the Paris Club--the group of Western government representatives which negotiates rescheduling of debts to official creditors-- Warsaw has the support of some neutral West European governments who might break ranks and initiate rescheduling talks. At this time, however, the governments are still unwilling to extend new loans to Poland unless they are offset by Polish payments. If negotiations begin, whether by the entire Paris Club or a part of it, they are likely to be complicated by the conflict between Warsaw's desire for new loans and the creditors' interest in receiving long overdue payments. Western banks are proceeding with their own rescheduling talks with the Poles. Warsaw's payment capacity is not large enough to satisfy the likely minimum demands of both governments and banks. [redacted]

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This memorandum was prepared by [redacted] East European Division, Office of European Analysis. It was requested by NIO/Economics for a SIG-IEP meeting. Research was completed on 2 February 1983. Comments and questions are welcome and should be addressed to [redacted] Chief, East European Division, EURA, [redacted]

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Paris Club: Gradual Erosion of Unity

As a sanction against the martial law regime, government creditors refused to reschedule 1982 obligations, and Warsaw has not repaid any of the debt service due last year. Although the group remained fairly unified through 1982, some West European countries have grown impatient with the stalemate. The Paris Club is now divided roughly into three camps on the rescheduling issue. []

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The US has refused to meet with the Poles to discuss rescheduling because the regime has not met the original political conditions. As for the European NATO countries, some appeared to be leaning toward rescheduling a few months ago, but disappointment over the lack of real change in Poland has eased these pressures recently. There remains considerable disagreement within the NATO governments. Foreign ministries are taking a harder line against meeting with the Poles, while economic ministries are generally anxious to resume rescheduling in order to receive payments. They have been frustrated by the Poles' failure to pay debt service to government creditors while banks have proceeded with rescheduling and received all payments the Poles are able to make. []

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The French Ministry of Foreign Affairs has prevailed in taking a strong stand in NATO and in public statements against rescheduling, although the Ministry of Finance has argued for negotiations. The US delegate to the Paris Club meeting in October noted that the chairman of the Paris Club--a Ministry of Finance official--encouraged opposition by other governments to

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Paris' position, possibly in an effort to undermine it. West German support for the US position firmed somewhat at the Paris Club meeting in October. The delegate from Bonn indicated that the change in government last fall was responsible for the tougher stand. [REDACTED]

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Among the major Allies, Great Britain seems most uncomfortable with the position against rescheduling. The British government's view, expressed consistently in NATO and the Paris Club, is that continued failure to discuss debt relief affords Warsaw a total, if informal, moratorium on debt to governments. The British want to meet with the Poles to discuss performance under the 1981 agreement and to consider rescheduling 1982 debt, but they have not pressed these views forcefully enough to threaten creditor unity. [REDACTED]

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Non-NATO government creditors--Switzerland, Austria, and Sweden--advocate moving forward quickly with the Poles. Before the Paris Club meeting on 11 January, Switzerland, supported by other neutrals, threatened to break ranks and reschedule separately. The Swiss delegate objected that Paris Club policy against rescheduling is based on political conditions set by NATO members. Rather than proposing a break with other creditors, however, he recommended at the meeting that the neutrals constitute an advance negotiating group that would be joined later by the remainder of the creditors. In any case, the group ruled against the neutrals in favor of continued unity along the lines of the US position. [REDACTED]

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The issue of Polish rescheduling remains alive, however, and

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the neutrals are likely to continue to search for ways to advance rescheduling. The Paris Club planned to discuss Poland again on 2 February. []

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Warsaw's Goals

The Poles hope that rescheduling will be a first step to the granting of new loans by the West. In a 6 January interview, Polish Deputy Premier Madej indicated that Warsaw's rescheduling terms will include requests for new credits to invigorate the economy. For rescheduling to carry immediate economic benefit for Warsaw, it would have to be accompanied by credits in excess of payments to Western governments. Poland probably will seek near-total debt relief from Paris Club members; the 1981 agreement with the governments covered 90 percent of principal and interest. The Poles also may request a multi-year rescheduling, possibly for 1982 through 1985. []

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Poland also is likely to use the resumption of rescheduling talks as an opportunity to dust off its IMF application, which was nearly completed when martial law was declared. A successful bid for membership could lead to some \$600 to \$800 million in IMF credits annually. [] Fund membership in turn might bolster creditor confidence. []

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Warsaw apparently is not ready to present its specific requests to the government creditors. The Director of the Foreign Department of the Ministry of Finance postponed an appointment scheduled for 24 January with the chairman of the Paris Club to respond to questions posed by the creditors last

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October.

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It is not clear whether the delay is just a short pause to allow plans to be completed, or whether Warsaw is stalling in order to exploit tensions within the Paris Club. [REDACTED]

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[REDACTED] Poland is playing on creditors' fears about possible cooperation with other debtors and Polish willingness to honor its debts. Clearer indications of Warsaw's strategy will be the urgency with which the Poles press to schedule a new meeting with the chairman of the Paris Club, and the proposals the Poles raise at the meeting. [REDACTED]

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Warsaw's Payment Capacity

If Warsaw meets its 1983 trade and borrowing targets, it would have \$1.9 billion available to pay debt service this year. The socio-economic plan for 1983 approved by the Polish parliament in December calls for a hard currency trade surplus of \$700 million, a surplus on services (excluding interest) of \$400 million, and new credits of \$800 million. The credit figure presumably includes short-term credits from banks as part of the

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1982 rescheduling agreement and more credits from a prospective similar agreement for 1983. Warsaw also is negotiating for government credit guarantees to finance grain imports. Since most of these credits have not been committed yet, we believe that the credit plan is overly optimistic and that actual debt service payment capacity thus is likely to be lower than Poland projects.

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If Western governments agree to reschedule, the regime will face a tricky problem in deciding how much to pay governments versus banks. Warsaw, as it has in the past, may agree to obligations it cannot meet. According to terms of previous agreements and current creditor motivations and expectations, Poland will not be able to pay the governments and banks even the minimum amounts that each group wants. (See table attached)

- Governments: Warsaw owes government creditors an estimated \$7.7 billion this year, including \$7.2 billion in unrescheduled obligations due in 1982 and 1983 and another \$450 million in interest on the 1981 government rescheduling agreement. Governments may insist that the interest payments on the 1981 agreement be honored as a down payment for further rescheduling. On the further assumption that terms for rescheduling 1982 and 1983 debt are the same as those in 1981, Warsaw would have to pay about \$720 million in unrescheduled debt service this year. In sum, under this rescheduling scenario Poland would have to pay \$1.2 billion to governments in 1983.
- Banks: Payments owed to banks this year total \$4.7

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billion. If government creditors are paid, the Poles would have at most \$700 million to pay the banks--enough to cover only Warsaw's interest and other charges under the terms of the 1981 and 1982 rescheduling agreements with the banks. Poland would be unable to pay any of the estimated \$1.1 billion in interest to banks on loans that have not yet been rescheduled. In practice, Warsaw could be expected to pay only part of each group's minimum requirements. [REDACTED]

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If Rescheduling Talks Resume

The Poles and their official creditors will have much catching up to do if and when meetings are resumed. Warsaw is far behind on interest payments on the 1981 rescheduling agreement with governments. Progress on rescheduling is likely to be slow, whether negotiations are with the entire Paris Club or a small group. Even the creditors most anxious to reschedule have not yet addressed terms of a possible rescheduling. [REDACTED]

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The creditors' desire to receive Polish payments is certain to clash with Warsaw's goal of obtaining large new credits. Even before martial law was declared, Western governments were reluctant to extend additional credits. Their reluctance is likely to be strengthened now by the fact that export credit agencies are financially strapped because of other reschedulings. Governments are not likely to see enough political and economic progress in Poland in the near term to meet Warsaw's requests. [REDACTED]

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[redacted]

A Canadian embassy officer informed a US official in late January that after months of negotiations with the Poles and heated debate in Ottawa, the Cabinet had just approved a \$100 million credit for grain--the first substantial new loan to Poland by a Western government since martial law. The credit, however, is contingent on payment by Poland of \$150 million to Canada. The British reportedly also are considering lending new money only if it is matched by Polish payments. These bilateral arrangements would not provide the net flow of hard currency that Poland wants, but they could impose further strains on Paris Club unity. [redacted]

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Position of the Banks

Western banks delayed rescheduling in the first months of 1982, but then proceeded with negotiations and signed an agreement in November. The Poles presented their 1983 plans to the International Economic Committee of the bank group in mid-January, and the first meeting to negotiate the next round of rescheduling was held on 27-28 January. The US banker who chairs the Committee told Embassy Warsaw that European banks seem willing to reschedule 1983 to 1985 debt in the next round, while most US banks want to reschedule 1983 debt only. [redacted]

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[redacted] European banks also favor relending a higher percentage of interest payments than do US banks. [redacted]

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[redacted] banks generally want governments to resume rescheduling so that government credits will be available to improve Warsaw's payment prospects. Like the Poles, these

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[redacted]
banks are probably overly optimistic about the volume of new
credits that the West would provide. [redacted]

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[redacted] without substantial new credits,
payments to governments required by rescheduling may make the
banks and governments rival claimants for Polish payments. [redacted]

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POLAND: PAYMENT PROSPECTS

(Million \$US)

Projected hard currency available to pay creditors in 1983 ^a	<u>1,890</u>
Earnings surplus	<u>1,100</u>
Trade	<u>700</u>
Services, Net (excluding interest)	400
New Credits	790
Payments Due in 1983	<u>12,406</u>
To Paris Club creditors--total	7,695
To banks--total	<u>4,771</u>
Minimum payments required under rescheduling agreements	<u>3,032</u>
To Paris Club creditors	1,171
Interest under 1981 rescheduling agreement	<u>450</u>
Due but not paid in 1982	<u>200</u>
Due in 1983	250
Unrescheduled obligations ^b	<u>721</u>
10 percent of 1982 debt service	<u>416</u>
10 percent of 1983 debt service	305
To banks	<u>1,861</u>
Payments under rescheduling agreements	<u>725</u>
1981 agreement	<u>268</u>
1982 agreement	457
Interest on unrescheduled loans	1,136
Estimated debt relief	<u>9,374</u>
From Paris Club	6,524
From banks	2,850

^a Official Polish projections^b Assuming rescheduling of 90 percent of debt service

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